



To:

The Rt. Hon. Patrick McLoughlin MP
Secretary of State
Department for Transport
Great Minster House
33 Horseferry Road
London SW1P 4DR

Sir Howard Davies
Chair Airports Commission
Sanctuary Buildings
20 Great Smith Street
London SW1P 3BT

Date: 7 September 2015

Dear Secretary of State,

I am writing in response to recent media coverage of the criticisms made by Gatwick Airport Ltd (GAL) of the analysis and recommendations in the Airports Commission's Final Report. The majority of the points made by GAL in the media were in reality also made to the Commission in the course of its work and we considered them carefully before we reached our conclusions. I thought it may therefore be helpful to provide an overview of this and to explain why we believe strongly that our work is robust to these criticisms.

GAL's criticisms fall into seven broad categories, with which this letter deals in turn.

Traffic Forecasts

The reliability of the Airports Commission's forecasts, which were derived using an enhanced version of the DfT aviation model, was regularly questioned by GAL throughout the Commission process and therefore commanded our close attention. This included commissioning additional advice from the OECD and from a leading academic expert, Professor Andreas Schaefer, as to the robustness of both our forecasting approach and the criticisms and alternative forecasts put forward by GAL. Their conclusions were unequivocal:

- In respect of the Commission's forecasts, the OECD found that: *"the various trends in the Commission's traffic forecasts ... are plausible, and that the various points raised by the consultees do not provide persuasive evidence that the airport allocation model is biased. The forecasts provide, in our view, a valid basis for the Commission to compare the impacts and relative merits of different options for investment in additional capacity at London's airports."*
- In respect of the DfT aviation model, Professor Schaefer found that: *"The scale, capability, and level of detail of the DfT aviation model system is impressive. I am not aware of ... any other country having such kind of*

apparatus available ... In addition, I found the overall modelling approach to be coherent and the model specifications to follow good practice.”

- In respect of GAL’s forecasting model, Professor Schaefer found that: *“it is not clear how the results were produced and what specific assumptions they are based on. Without more detail ... it is not possible to disprove that the ICF Model is based on a set of assumptions rather than rigorous quantitative relationships. Therefore it is my recommendation that the ICF Report results should not be used for decision-making.”*

We strongly disagree with the Gatwick’s view that the Commission’s forecasts underestimate the level of passenger growth that would be seen at an expanded Gatwick and overestimate growth at an expanded Heathrow. Even so, we have always acknowledged the risks associated with long-term forecasting. That is why we developed a scenario-based methodology, which enabled us to understand the implications for our analysis of different views of the future. In some circumstances an expanded Gatwick would perform more strongly than in our assessment of need forecasts, but these required extreme assumptions about economic growth or industry development. Heathrow expansion saw rapid increases in passenger numbers and services across the full range of scenarios tested.

In making its case, GAL also focuses on individual figures rather than looking at long-term trends. For example, it refers to the 2.7 million increase in passenger numbers seen in 2014 to support its argument that an expanded Gatwick would grow faster than we have forecast. In fact, the 2014 increase at Gatwick was unusual. The previous year, for example, passenger numbers increased by just 1.2 million and average growth between 2004 and 2014, even with spare capacity available, was less than 0.7 million a year. Similarly, the differences between the Commission’s and GAL’s short-term estimates of passenger numbers are of limited relevance, as we both see the airport’s single runway reaching capacity before 2020.

GAL’s final point is that the difference in forecast growth between an expanded Gatwick and an expanded Heathrow (8m vs 35m passengers over the 5 years to 2030) is inexplicable. We do not consider that this is the case. As set out above, with spare capacity available, Gatwick has grown at less than 1m passengers per year over the past ten years. The provision of significant new capacity, particularly in the morning and evening peak periods, could accelerate this, as our forecasts show, but would not fundamentally alter the underlying demand without broader changes in the economy or aviation industry. In contrast, Heathrow is one of the world’s most profitable airports from which to operate and has been capacity constrained for many years. As a result, it is reasonable to assume a high level of suppressed demand for runway slots. The willingness of airlines, most recently Vietnam Airways, to switch from Gatwick to Heathrow as soon as slots become available bears this out. The construction of a new runway would allow this suppressed demand to be met, leading to rapid growth in passenger numbers and services.

Regional Connectivity

GAL has argued that an expanded Gatwick Airport would be better for regional connectivity than expansion at Heathrow, but their argument misunderstands and misrepresents the Commission's analysis. They state that Gatwick is preferable because an expanded Heathrow – according to the Commission's forecasts – would serve only four domestic routes compared to the seven served currently and compared to eight at an expanded Gatwick.

There are three flaws in this argument. The first is that, without any additional measures to safeguard domestic connectivity, an unexpanded Heathrow would see domestic routes decline even further to just three. In contrast, expansion at Gatwick makes no difference to the number of domestic routes forecast at the airport, which would be eight with or without expansion.

The second flaw is that the argument assumes that a link to one London airport is the same as a link to another. Our discussions with stakeholders in the nations and regions revealed very clearly the importance that they attach to direct links to Heathrow because of the access provided to its substantial long-haul route network. A third runway at Heathrow would allow further expansion in that network as well as more than trebling the number of domestic passengers able to access it.

The third flaw is that the Commission's forecasts do not assume any additional measures are taken to promote domestic connectivity to the expanded airport. A number of such measures are, however, feasible and are recommended in our Final report. These include reduced passenger charges on domestic services and the use of Public Service Obligations to support a broad route network. Therefore, we believe that the level of domestic connectivity could be greater than that indicated by our forecasts alone. EasyJet's submission to our consultation indicated that it would consider serving around seven domestic destinations from an expanded Heathrow.

Economic Benefits

Contrary to GAL's assertions, the direct economic benefits of expansion at Gatwick and Heathrow are not 'virtually the same'. In both the 'carbon traded' and 'carbon capped' forecasts, the net social benefits of a new north west runway at Heathrow are roughly two-thirds higher than those of a second runway at Gatwick.

The Commission has acknowledged that if the costs of the schemes are incorporated into the calculation, the gap may be narrowed or reversed. But this is not primarily a public investment decision, but rather a decision as to which of a number of private sector schemes, in each case likely to be funded significantly by international investors, should be facilitated through the planning system. The Commission's view is that this should be the scheme which delivers the greatest benefits for the UK.



We have also been careful in our use of the more innovative modelling of wider economic impacts carried out by PWC. In particular, we have been clear that these results are based (for both Gatwick and Heathrow) on an assumption that investment in aviation capacity is likely to stimulate knock-on investment elsewhere in the economy, and for that reason have considered them as part of the strategic case and not as part of our cost-benefit analysis.

In doing so, and bearing in mind our expert advisers' notes of caution, the Commission considered carefully whether the monetised outputs of this modelling were consistent with its broader strategic analysis of the schemes' benefits and impacts. Our conclusion was that they were. Expansion at Heathrow delivered greater benefits for the UK's long-haul network, enabled more rapid growth in inbound and business travel and in the air freight sector and enhanced competition to a greater degree than expansion at Gatwick. Heathrow expansion also had a stronger impact on the surrounding local economies, generating more jobs more quickly than expansion at Gatwick. This overall analysis aligned well with the PWC results, which showed much stronger impacts across the UK economy from expansion at Heathrow – more than £140 billion over 60 years compared to c. £90 with a second runway at Gatwick.

Costs and Charges

GAL's argument that the lower costs of expansion at Gatwick should inevitably mean lower per passenger charges is entirely misguided. The level of charge is a function not only of the cost of the scheme, but also of the number of passengers paying for it. The higher levels of demand seen at Heathrow significantly reduce the charge required on a per passenger basis. GAL's proposed 'contract' to limit charges to £15 could at best be considered the starting point for a negotiation given its significant areas of omission (including any information on penalties should GAL fail to comply with the contract's provisions), and would in any case do nothing to alter the underlying commercial fundamentals of the project.

Deliverability and Financing

A range of issues, including the need to tunnel and widen the M25 and to deliver other transport improvements, as well as to relocate an existing Energy-to-Waste plant, are highlighted by GAL as indicating that the Commission must have underestimated the delivery challenges associated with the north west runway proposal at Heathrow. In fact, each of these was identified and considered by the Commission, as was the additional evidence on this topic submitted by GAL to our consultation, before we reached our view that it would be feasible for the scheme to be delivered by 2026. It is important to note, however, that this is not a prediction; any scheme of this kind is subject to a range of delivery risks and uncertainties. While earlier delivery would undoubtedly be of benefit, the Commission's assessment of need was for new capacity to be available by 2030. Our deliverability analysis gives us confidence that this would be the case.



GAL's comparison of the level of spend required to construct Terminal 5 with that to deliver a new runway is over-simplistic. Alongside constructing T5, Heathrow Airport Ltd had to continue to invest in and operate its existing infrastructure. These additional costs are taken into account in our assessment of commercial deliverability. Furthermore, GAL provides no evidence for why a higher rate of expenditure would not be feasible. Heathrow Airport Ltd have significant experience in managing major development projects on an operational airfield which would be of direct relevance to the construction of a new runway and its supporting infrastructure.

Air Quality

GAL argue that our analysis of the air quality issues around Heathrow is based on an incorrect interpretation of the law. We do not agree. We considered carefully the legal arguments put forward by GAL in their submissions to our consultations, before reaching a view that those arguments were themselves unsound and, if we had accepted them, would have left us open to challenge.

Our air quality analysis was carried out by one of the UK's leading consultants in this field with oversight and quality control offered by another, and with the support of Helen ApSimon, Professor of Air Pollution Studies at Imperial College and a member of DEFRA's Air Quality Expert Group. The allegations of incompleteness and inconsistency made by GAL were dealt with in full in the report on the responses to our air quality consultation. In our Final Report, we acknowledge the air quality challenges facing the UK, including the requirement on the Government to achieve the EU limit values in London. Our analysis demonstrates, however, that the impacts of expansion at Heathrow would be a manageable part of this broader issue, which we believe the Government can feasibly devise and implement appropriate measures to address. In our view, therefore, limited weight should be placed on the suggestion that air quality represents a significant obstacle to expansion.

Noise

GAL accuse the Airports Commission of having 'largely ignore[d]' Gatwick's lower noise impacts compared to those of Heathrow. That is nonsense. We have been aware from an early stage of our work of Gatwick's relative advantage in respect of noise impacts, and this is brought out clearly, for example, in the Executive Summary of our Final Report:

Although an expanded Gatwick would see more people affected by noise than today, its overall noise impacts would still be much less significant than those around Heathrow. In terms of the total number of people affected, an expanded Heathrow would see more than 550,000 people within the 24-hour 55 LDEN contour in 2030 compared to just over 22,000 at Gatwick. That reflects Gatwick's more rural location, which presents challenges in respect of the airport's effects on tranquility, but does not outweigh its overall noise advantage.

Similarly, GAL has accused us of failing to properly assess the number of people who might be newly affected by noise as a result of expansion at Heathrow. In fact,



we have carried out such an assessment (and, perversely, it is our own figures that GAL has quoted in its advertisements on this point). What is important, however, is the overall noise impact – including those who experience an improvement in the noise environment as a result of expansion as well as those who experience a worsening. For the Heathrow scheme, the population for whom noise levels would reduce as a result of the redesigned flightpaths made possible by expansion could be very substantial – well over 200,000 people. Therefore, it is these net figures that we concentrate on in our analysis and reports.

I hope this is helpful in providing reassurance that our analysis is robust to the arguments made by GAL in their recent releases to the press.

I am copying this letter to Philip Rutnam and Sir Jeremy Heywood. I would be grateful if it could be circulated to the members of the Economic Affairs (Airports) Subcommittee.

Yours Sincerely

A handwritten signature in black ink, which appears to read 'Howard Davies'.

Sir Howard Davies, Chair