



The Air League

Submission to the Airports Commission Consultation on Short List Runway Options Dated
November 2014

Introduction

As the UK's leading independent authoritative group on all matters relating to aviation, the Air League welcomes this opportunity to respond to the Airports Commission latest consultation and its short list of options for new runway development.

We particularly welcome the Commission's recognition that up to two runways may be required and that two of the three options propose the development of additional runway capacity at London Heathrow as advocated by the Air League in its submissions to the Airports Commission.

Based on our own analysis, knowledge and understanding of the UK air transport market, particularly in terms of market size, yields and load factors, we believe that the first new runway should be at London Heathrow. Indeed the Commission's own economic analysis shows that the economic benefit of developing a new runway at Heathrow is twice that of a new runway at Gatwick.

With the Commission having established beyond reasonable doubt that there is a need for at least one new runway, the Air League believes the Commission must also address the question as to what practical and policy initiatives can be adopted to address the runway capacity shortfall and its adverse economic consequences to the UK's trade and global connectivity in the period before a new runway is available, probably not before 2030. We repeat our previous suggestions on this and related topics in answering Question 8.

The Air League's answers to the Commission's Questions 1 to 8 are given below. We have repeated the questions in bold type with our answers given in normal type. We have concentrated our responses on matters relating to air transport markets, economics and policy.

The Air League would be pleased to provide additional information or clarification of its submission, if required.

Q1 What conclusions, if any, do you draw in respect of the three short-listed options?
In answering this question please take into account the Commission's consultation

documents and any other information you consider relevant. The options are described in Section 3 of the consultation document.

The Air League believes that runway schemes for Heathrow should be taken forward as the primary options to be developed into a new Government Policy for UK air transport.

Of the two Heathrow options shortlisted by the Commission, the Air League believes the option for the Heathrow Airport Northwest Runway should be favoured. It appears to offer greater flexibility whilst adopting internationally accepted conventions on runway configuration, lateral separation and operation. We also have some concern with the operational management and ATC interoperability for missed approach and go-around with the proposed Heathrow Extended Northern Runway option.

The Air League welcomes the proposals for an additional runway at London Gatwick, but not at the expense of one at Heathrow first. Gatwick has needed another runway for many years. Although operating its single runway at 55 Air Transport Movements per hour may be efficient for the airport owner / operator, it has also resulted in increased airline block times, airline costs, delay and disruption and negated any real operational resilience at Gatwick. This point was well illustrated on the 29th of December 2014 when a Virgin Atlantic 747-400 bound for Las Vegas returned to the airport with a hydraulic problem, having spent four hours reducing its fuel load to below its maximum permissible landing weight. The aircraft then landed at Gatwick and caused the closure of the UK's second busiest airport at a peak time of year for 4 hours, with knock on cancellations and delays to other airlines and their passengers.

The Air League believes that the Commission needs to address as part of its findings operational resilience, including the establishment of realistic runway achievable and operable capacity levels and the potential designation of a UK master incident diversion airport, particularly in the interim, until new capacity is available. We make some suggestions in answer to Question 8.

Q2 Do you have any suggestions for how the short-listed options could be improved, i.e. their benefits enhanced or negative impacts mitigated? *The options and their impacts are summarised in Section 3 of the consultation document.*

Air Freight. The Commission does not appear to appreciate the significant impact of air freight, particularly on long haul airline economics. It makes passing reference to air freight for instance at paragraph 3.70 but does not appear to recognise its real economic importance to airlines. Some 10% of British Airways' revenue comes from air freight. For airlines such as Lufthansa it can be up to 30%. The revenues earned are fundamental to the overall economics of long haul airline operation and need to be recognised by the Commission in its appraisal process.

Although over 80% of air freight is carried in the hold of airline passenger aircraft (modern long haul wide-body aircraft can have 30% or more of both their volumetric and weight payload as “dead load” for air freight, mostly in the underbelly), the ability of an airline to be able to consolidate its freight operations, including specialist all freight operations is key to air line revenues and profitability. British Airways’ all freight operations were “forced out” of Heathrow to Stansted by the then BAA Heathrow management on questionable environmental and slot efficiency grounds; thereby splitting BA’s freight operations and increasing costs. Meanwhile its major competitors such as Lufthansa at Frankfurt and KLM / Air France at Schiphol and Paris have been able to benefit from single airport operations and use one freight shed and associated facilities. Heathrow Airport Limited (HAL) belated recognition of the importance of air freight and Heathrow’s role as UK number one port by value is welcome, but it should never have been overlooked.

In contrast to Heathrow, the loss of Gatwick’s long haul network means that its specialist purpose built cargo terminal is now all but redundant.

Slot Allocation Rules. The Commission needs to recognise the impact of Slot Allocation and associated internationally agreed rules on new entrants when new capacity is made available. This is crucial if the benefit of new capacity at the hub is to be maximised.

Regional Air Services and PSO. The short listed options should also look at and assess Regional links and how they might be protected under Public Service Obligation (PSO) designation. The Commission refers to this at paragraph 1.31 but then does not seem to take the impact and importance of such links further.

For years, Heathrow’s hub status and overall network of destinations served has been eroded as airlines sought to maximise their returns by focussing naturally on the most profitable routes; actively encouraged by the BAA as its owner. Some 20 UK regional points have lost service to Heathrow as a result. Whilst Heathrow – New York offers over 30 services a day, there are no services from Heathrow to UK regional destinations such as Inverness, Newquay, Humberside, Prestwick, Teesside, Liverpool, etc. Any new runway capacity will be there to serve not just London and the South East of England but also, if developed at the Heathrow hub, to serve and facilitate the UK regions and maximise their global connectivity. The Commission should consider how such networks can be protected in the future and slot substitution limited.

Q3 Do you have any comments on how the Commission has carried out its appraisal?
The appraisal process is summarised in Section 2 of the consultation document.

We do not accept the premise (at Paragraph 3.18 for instance) that airports compete or that multiple hubs work. It is airlines that compete for passengers and freight, not airports.

The UK tried to develop a twin hub airport strategy in the 1970s and 1980s with active Government and CAA policy backing, including relevant bilateral support through Bermuda 2. Despite all that positive support, including establishing a dynamic and innovative Second Force Carrier in British Caledonian, the policy failed. As soon as capacity became available at Heathrow through the removal of Air Transport Movement restrictions or abandonment of Traffic Distribution Rules (1991), airlines migrated from Gatwick to Heathrow. As a result Gatwick's long haul network is now a fraction of that in the mid-1980s. Although it has recently secured a new Norwegian Airlines 787 service 3 / 4 times a week to New York, this is Gatwick's only service to the USA's largest international hub; by comparison, Heathrow offers some 30 frequencies a day to New York. BA stopped its direct NYC service from LGW in 2009 as the route failed to raise the yield required.

It is also interesting to note that Vietnam Airlines has announced it is to move its current service from Hanoi and Ho Chi Minh to London Heathrow, instead of London Gatwick, on 30 March 2015, with B777-200ER, according to the CAPA news digest of 9/1/2015; further reinforcing the dominance and attraction of London Heathrow as the UK's only viable hub airport.

The Commission should accept, as it does in part at paragraph 2.27, that air transport and airline economics is what drives the industry and that economy of scale is key; that means large single hub airports are the optimum way to develop global legacy air service networks.

Low Cost Carriers such as easyJet, the largest operator at London Gatwick, do not offer passengers secure, airline backed connecting products or services in the way that the legacy and Alliance airlines do with IATA supported Interline agreements. EasyJet recently confirmed that despite its move into more business focussed markets, it would not be pursuing guaranteed connecting products or services for its passengers. That is not part of its business model.

The Air League is also concerned at the Commission focus on the cost to airport operators or owners of delivery and fundability of each of the runway options at the Commissions own estimates of between some £12 billion at Gatwick to £19 billion at Heathrow, without highlighting the current cost and opportunity cost lost, of not having the new runway capacity to the airlines operating at Heathrow and Gatwick.

The issue should be being driven by the needs airlines on behalf of their passengers and shippers, not by airport owners or operators. But none on the Airport appointed Commissioners has an airline background.

IATA recently stated that its member airlines operating into Europe incurred additional operational cost through inadequate infrastructure of some \$3 billion a year; no doubt much of that is already incurred at London Heathrow. It also referred to its member airlines accepting \$180 billion of new aircraft deliveries (Source: IATA Press Release 16th December 2014). Meanwhile a Boeing Press Release of the 6th of January 2015 refers to it achieving

1,432 net commercial orders last year valued at \$232.7 billion. Such investment in new aircraft by the world's airlines does put the investment required for new runways to serve the UK hub in perspective, one that the Commission does not seem to have applied sufficient thought or weight to.

The capital cost of developing the new runways at Heathrow or Gatwick is equivalent to airline investment in between 25 and 40 Airbus A380 aircraft. Clearly there is no shortage of banks or leasing companies willing to fund aircraft investment. Equally infrastructure funds, sovereign wealth funds and pension funds looking for long term stable returns, continue to demonstrate a healthy appetite for investing in airport infrastructure once developed – as evidenced by Ontario Teachers at Birmingham and IFM's investment in Manchester and Stansted.

Q4 In your view, are there any relevant factors that have not been fully addressed by the Commission to date?

Covered in answer to Q3 above.

Q5 Do you have any comments on how the Commission has carried out its appraisal of specific topics (as defined by the Commission's 16 appraisal modules), including methodology and results?

Q6 Do you have any comments on the Commission's sustainability assessments, including methodology and results?

The assessments need to recognise the broader global achievement of the air transport industry. According to the latest IATA figures (December 2014), the world's airlines have doubled the number of city pairs served whilst halving air transport costs in past 20 years; whilst globally "national Governments gain substantially from \$125bn of taxation next year and from 58 million 'supply chain' jobs".

Similarly fuel use per Available Tonne Kilometre (ATK) is anticipated to fall a further 1.6% year on year, saving 12 million tonnes of CO2 emissions and \$3 billion of fuel costs.

IATA also see jobs in the global industry "should reach 2.45 million, productivity will be up 4.8% and Gross Value Added per employee almost \$109,000".

All of these factors will be relevant to the UK situation and need to be recognised by the Commission.

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

Q8 Do you have any other comments?

Mixed Mode and Northolt . The Air League is concerned that the Commission has focussed solely on the long term options and not addressed how we might address the runway capacity problem in the Interim for the next 15 years.

We have suggested the potential use of mixed mode at Heathrow to increase capacity, assuming that the requisite stands can be made available to match the increase in capacity of some 50,000 ATMs that such a development would permit.

An alternative interim strategy, possibly in conjunction with adoption of mixed mode, would be to utilise RAF Northolt's existing runway to provide renewed connectivity to UK regional airports that have lost access to Heathrow over the last 30 years. This would increase the ability of Heathrow to provide vital global connection to major parts of the UK, with the associated positive economic activity that would result. This could be achieved without any increase in movements at Northolt if the existing 12,000 permitted Business Aviation Movements were transferred to Biggin Hill, Farnborough or Oxford and substituted by twice daily connections to up to 10 UK regions such as Inverness, Newquay, Prestwick, Teesside, Humberside, Liverpool, Isle of Man, Guernsey and Dundee.

In its submission to the Transport Select Committee Inquiry into Regional Airports FlyBe has expressed its support for potential use of Northolt for UK regional services to access LHR global connections.

We understand that the Heathrow Airport Limited supported Regional Task Force has recognised the potential of Northolt to allow the UK regions to re-engage with vital global aviation connections at Heathrow.

The Air League suggestion for use of Northolt is gathering support and momentum and should be recognised by the Airport Commission.

Resilience

The UK operates a number of its runways at unprecedented levels. Gatwick's single runway is the busiest single IFR runway in the world.

This has problems for operational resilience and integrity. Any delay, disruption, adverse weather has a disproportionate impact on the operation of our major airports.

The Air League believes that in order to allow for some contingency in operations runway capacity should be set at 80% of the theoretical maximum. This would give resilience and

the ability of airline programmes and schedules vital “catch up” in the event of adverse weather or other incidents.

Slots

The Air League recognises that the Commission deliberations are governed by International agreements on slot allocation.

Indeed, the views of the airlines are governed by slot allocation rules. So not unreasonably for their shareholders, BA keen to buy up existing carriers with Heathrow slots, rather than advocate new capacity when half of new slots go to new entrants.

Some mechanism needs to be found to resolve this key issue. Consideration of an increase in the QC system could play an important role. By allowing an increase in movements for the quietest aircraft, particularly during morning arrivals, an increase in movements could be achieved. With noise footprints of the A380, 787, A350 and other types of this generation being significantly lower, movements could be increased in a manner that is sustainable for the local community whilst ensuring that economic advantage is maintained for UK plc.

Major Diversion airport designation. The Air League is concerned that (notwithstanding comments above) with both London Heathrow and Gatwick airports running at almost 100% of their theoretical capacity, their ability to deal with service disruption due to weather or operational incidents is nonexistent. The latest such incident was on 29/12/14 when a Virgin Atlantic 747-400 enroute to Las Vegas experienced a hydraulic problem but had not declared a Mayday, yet returned to London Gatwick and closed the UK’s second busiest airport for 4 hours, with all the attendant delay, cancellation, disruption and cost.

Whilst and until there is additional runway capacity at the major London airports, we believe that the UK should designate a major UK airport with a long runway and clear remote approaches for diversion in the event of emergency or a security alert. Airports such as Prestwick and Cardiff may be appropriate but would need augmented RFFS status to be funded either by the Government or by the airports that would potentially benefit from the lack of delay and disruption.

Investment. The issue that is at the heart of the Commission’s work is about airline investment not those by hedge funds or sovereign wealth funds in airports. It is not evident from the Commission’s latest Consultation that this reality is recognised.

Connectivity . Nowhere in this latest consultation is there any reference to the loss of UK origin or destined traffic to overseas airports such as Amsterdam, Dublin, and in the Middle East due to a lack of capacity in London in the right location. The CAA Survey alone shows that some 2 million connecting passengers a year from the UK are being diverted over Amsterdam Schiphol due to lack of UK connectivity over the hub and APD. The loss over

Dublin and places such as Dubai is probably greater. It is not what UK needs or deserves and is due to a lack of positive policy to support this vital industry.

Consensus. It is vital that if the Commission's recommendations are to be accepted that the proposals forward are accepted by more than one Parliament, possibly 3. It must create a policy that achieves cross party consensus like HS2 seems to have done

It is interesting to note that in December 2003 the then Government produced the Future of Air Transport White Paper. The Commissions work fully endorses the Conclusions of that White Paper that London Heathrow was the preferred location for a new runway.

It is worth considering that had Policy proposals been accepted then rather than currently debating where and when a new runway was required for the UK, we would probably be opening new LHR runway now. Nothing has changed in those lost twelve years save for even more stress on existing infrastructure and the erosion of market share and global status due to restricted capacity.

Air League – January 2015