



AIRPORTS COMMISSION NATIONAL CONSULTATION

Submission from the National Connectivity Task Force

1. Introduction

- 1.1. This document represents the National Connectivity Task Force's (NCTF) formal submission to the Airports Commission's national consultation. It is supported by a series of Research Papers. We intend to publish a detailed Report for wider public circulation on all the issues covered in our submission on 4 March 2015.
- 1.2. The Task Force has focused on making the case for enhanced regional air connectivity being made part of any new South East runway recommended to Government by the Commission. In doing so, the Task Force has sought to demonstrate how, once this has happened, its value to local, sub regional and city economies in the UK's regions, nations and Crown Dependencies (RNCDS) can be optimised. As a consequence, we do not consider it within our remit to answer Questions 5, 6 and 7 as set out in the Commission's November 2014 Consultation Document. Nor, in view of the strictly independent, objective and evidence-based *modus operandi* that we defined for ourselves from the outset, do we as a Task Force intend collectively to form a concluded view about which of the short-listed schemes should be preferred. If our research has been thorough, and our reporting of it clear, we believe it will speak for itself. And of course individual members of the Task Force will be free to express their own personal opinions about the relative merits of one scheme or another.
- 1.3. As a collective, however, our intention is to focus on presenting to the Commission the substantial body of research that we have accumulated on the grounds that we believe it adds real value to the work the Commission itself has undertaken, and moreover it makes a compelling case for supporting enhanced regional air access, whichever runway scheme the Commission chooses. We are all certainly even more convinced than when we started our work, that enhanced regional access is an important strategic fit issue that should weigh materially in the Commission's thinking over the preferred location for a new runway. Having said which, all members of the Task Force recognise and respect that it is the Commission's role to

recommend, and that of Ministers in the new Government to decide, the selection of the preferred runway scheme

- 1.4. With the foregoing in mind, in relation to Question 1, this submission makes clear only that we:
- a. consider that a new runway should demonstrably benefit the whole of the UK and not just London and the South East;
 - b. believe that enhanced air accessibility from those RNCDs that do not enjoy the quality of road and rail access available to passengers living in closer proximity to Heathrow and Gatwick, should be facilitated, if necessary at some appropriate public expense;
 - c. consider that it is ensuring equitable access which should be an important factor in the overall decision making process; and
 - d. believe that connectivity should be judged not just on access from RNCDs to London but on connectivity through London to the rest of the world.
- 1.5. Questions 2, 3, 4 and 8 of the Consultation Document are, however, of far more direct relevance and this is where our attention has focused. In doing so we have addressed them collectively within a structure to this response that we hope will allow the Commission to more readily understand the development of our thinking and to provide a 'signpost' to the much more substantive body of work the Task Force has undertaken (See Appendix A).

Background

- 1.6. The concept of establishing a Task Force to look at regional connectivity to London and its airports was first set out in Heathrow Airport Ltd's (HAL) 13 May submission to the Airports Commission¹. Following informal discussions with the Department for Transport (DfT) and the Commission it was agreed that such a Task Force might usefully undertake work that would complement that of the Commission. In particular it might focus on how a new runway in the South East could help to:
- enhance air access from the rest of the UK to London and its surrounding areas;
 - offer effective connections to the wider world via a network of services to a range of continental and inter-continental destinations, at a level of frequency not available locally or at other regional airports not currently connected to either Gatwick or Heathrow;
 - optimise the economic benefits of that enhanced connectivity for regions, nations and the Crown Dependencies outside the South East of England; and
 - provide long-term security for these domestic routes

¹ HAL: XXX

- 1.7. Lord Shipley was asked to Chair the Task Force, supported by a small Secretariat and access to a research budget that HAL agreed to fund. Lord Shipley agreed to lead the Task Force on the clear understanding that:
- membership of the Task Force would not be remunerated;
 - it must be free to operate independently of external influences and set its own Terms of Reference (within the core remit defined above);
 - it should be enabled to devise its own research and external outreach programme; and
 - it should be able to make public a Report of its findings.
- 1.8. On this basis, and in consultation with the Chair, the Secretariat proceeded to identify potential members of the Task Force. In doing so, regard was given to a structure that would provide a mix of UK and international academics, travel industry experts, and business and transport sector representatives from the various parts of the UK outside London and the South East². Concurrently, the Task Force adopted a new name – the National Connectivity Task Force (NCTF) and set up a web site for external engagement.
- 1.9. Critical factors in drawing up the Task Force's Terms of Reference³ and research programme were:
- a *gap analysis* of what the Commission had asked the preferred scheme promoters to provide;
 - the *Commission's own internal analysis*, and
 - the *relevant literature* covering:
 - Economic growth and re-balancing
 - National transport infrastructure and regional accessibility
 - City growth agenda (core, secondary and tertiary)
 - Commercial and environmental sustainability of airports outside London and the South East.
- 1.10. The resultant research programme is set out in full in Appendix A and was completed at the end of January 2015. At all times the Task Force maintained an evidence based approach that would 'add value' rather than duplicate work that already existed, or prospectively would do so, elsewhere.
- 1.11. As part of its endeavours, the Task Force has also engaged with a range of stakeholders across the regions, nations and Crown Dependencies via a questionnaire survey made available online and through bi-lateral meetings with public bodies exercising relevant responsibilities. These include the DfT, the Civil Aviation

² The make up of the Task Force and the biographies of each of the Task Force members can be found on its web site www.nationalconnectivitytaskforce.co.uk/

³ Published on 2 December 2014

Authority (CAA), the European Commission, Devolved Administrations, Crown Dependencies, regional carrier and airport representatives, regional representatives for Eire and scheme promoters. The Task Force received presentations and discussed regional access issues with both HAL and Heathrow Hub but not with London Gatwick or British Airways both of whom declined our invitation.

1.12. Our conclusions and recommendations focus on providing the evidence-base to demonstrate that there is a compelling case for materially enhancing UK domestic air access via London in order to substantively improve access to the national Capital and the world's leading city⁴, the European single market and the global economy. This comprises:

- a. An overview of the current and future regional access market;
- b. An assessment of the cities, regions, nations and Crown Dependencies that require air access to London's major hub/gateway airports⁵ on accessibility and equity of opportunity grounds;
- c. The levels of slot allocation likely to be needed, either at Gatwick or Heathrow, when the new runway opens to sustain that network and maintain it 15 years later and which of those services are likely to be commercially sustainable or may require subsidy;
- d. The mechanisms – voluntary, executive policy and statutory – that offer scope to facilitate these ambitions, particularly in relation to the slot allocation and retention process;
- e. The relative performance of the principal runway options and different levels of regional service relative to key policy objectives and appraisal criteria, in the form of a headline Stage 1 STAG (Scottish Transport Appraisal Guidance) Appraisal⁶, supported by more in-depth connectivity, financial, economic, environmental and city development appraisals; and
- f. The principal features of a revamped regional air access policy that the Task Force believes are required to achieve its core objectives.

⁴ GAWC: Survey of advanced producer service firms in 526 global cities (2012-13)

⁵ A 'hub' airport is one offering substantial opportunities for making connections to wide a range of destinations and is typically associated with a network carrier under-pinning co-ordinated waves of arriving and departing aircraft. A 'gateway' airport by contrast, is primarily concerned with servicing point-to-point (often low cost) traffic across a large network of routes, mainly short haul, some long haul, but often with a material leisure bias. It may also act as a major spoke feeding the operations of several hub airports. On this basis, Heathrow is a hub (and a globally significant one), whereas Gatwick is a major international gateway airport

⁶ This was chosen over other Government methodologies because of its simple and transparent structure, its adaptability for the kind of issue the Task Force has been examining and its ability to offer insight in the absence of hugely detailed and expensive analysis and modelling which the Task Force did not have time to undertake in the time allowed by the Commission for its National Consultation.

2. Air access to and beyond London from the airports shortlisted by the Commission

Historical development

- 2.1. The market for regional air access to London over the last 20 years has been one of UK aviation policies most contentious issues since the Transport Select Committee first examined it back in 1998. As slot constraints at Heathrow (LHR) began to bite in the early 1990s and then in the mid-2000's during the morning peak at Gatwick (LGW), domestic services from the UK's regions nations and Crown Dependencies (RNCD's) began to be displaced from Heathrow to Gatwick and then eventually to other London airports where capacity remained more plentiful and charges were much lower. The loss of these services, and especially the onward connectivity offered at Heathrow, became an issue of major concern for stakeholders from areas of the UK without convenient access to Heathrow and/or Gatwick by car or train.
- 2.2. The introduction of Traffic Distribution Rules (TDRs) at Heathrow in the late 1970s and 1990s, represented early attempts at rationing access to slots. Airport user pricing became another. Other London airports began to make greater in-roads into the domestic air market, but only because excess market demand at Heathrow began to be 'priced-off' by raising the cost of access through an increased flat rate landing charge which affected the economics UK domestic services. The emergence of Low Cost Carriers (LCCs) at Luton and Stansted and eventually Gatwick offering a substantial fare differential for point-to-point passengers and then the introduction of APD on both legs of domestic routes, has all served to create increasingly difficult market conditions for airlines other than British Airways, the main network carrier at Heathrow, for example British Midland (bmi) and more recently Little Red.
- 2.3. As a result there are now only 7 UK domestic routes left from LHR instead of the 17 that were operating in the late 1980s and early 1990s. As a consequence Heathrow has lost its previously dominant position in the UK RNCD's to London air market, declining from an 80% share (c7.5mppa) at its peak to currently less than half of UK passengers into the city, even though that still represents around 4.5mppa. On most days (frequencies at weekends can vary materially compared with during the working week), currently, there are an average of 64 pairs of slots at Heathrow dedicated to domestic services. This is substantially down on the 100+ thus allocated during the peak of BA and bmi's rivalry and well below the same figure when places like Newquay and Plymouth, Carlisle and Dundee, Liverpool and Humberside, Prestwick and Inverness, Teesside (now Durham Tees Valley) and the three Crown Dependencies and even at one point Birmingham and East Midlands, formed part of Heathrow's air service network. It is worthy of note that *none* of these places have services to Heathrow today.

- 2.4. Within the same timeframe, it is Gatwick that has been the principal beneficiary from the displacement of domestic services from the national hub, moving from just over 10% in the 1980s to approximately 35% (or c3.5mppa) today. The share of London's 'third' airport, Stansted, rose to around 20% as the height of the LCC revolution in the mid 'noughties', before falling back to a much lower figure of 10% today. This is similar to Luton's contribution, with London City providing the balance.
- 2.5. Many commentators, the Civil Aviation Authority (CAA) and Airports Commission amongst them point to the diversion of international connecting traffic from the RNCD's to other European (and latterly Middle East – Dubai, Abu Dhabi and Doha), hub airports, it having been squeezed out of London's airports as a point of transfer. The biggest beneficiary is widely recognised as being Schiphol Airport in Amsterdam, where KLM and its Skyteam partners have made great progress in positioning Amsterdam as the de-facto hub for many UK regions and cities diverting traffic that otherwise could help to support a globally competitive hub in London and retain the jobs and economic activity it would generate in the UK. Schiphol currently has links to more RNCD's than Heathrow and Gatwick combined and 24 from across the UK in total.
- 2.6. However, given that our investigations indicate Amsterdam will reach capacity in 2017, and both Paris CDG and Frankfurt Airports by 2030, the concerns that many of the UK's RNCD's and core, secondary and tertiary cities have about their inability to secure adequate air connections to the UK's national hub and principal alternative international gateway airport (i.e. Gatwick), begin to take on a much greater resonance. Historic reliance on alternative hubs may simply no longer be an option for some of the UK's regional airports.
- 2.7. The analysis in NCTF Research Papers 1 and 3 ^{7,8} points, therefore, to the existence of a number of existing and potential regional airports (and RNCDs), that either today or prospectively in the future, will not have the umbilical cord of flights to Heathrow and/or Gatwick as a means of achieving the domestic and international connectivity they aspire to.
- 2.8. Of course, some are close enough to London that High Speed or Express rail services can provide a viable alternative, but others are not and are forced either to rely upon the secondary London airports (i.e. Stansted, Luton, London City and Southend) for air access to the capital, or to manage without direct air services at all. At a time when well-connected cities like Aberdeen, Edinburgh, Glasgow, Leeds Bradford, Newcastle and Manchester have continued to increase the traffic on their routes to London, and Heathrow in particular⁹, the growing gap between those cities which are well served by air and those which are not must raise equity concerns. This is particularly the

⁷ NCTF Research Paper 1:

⁸ NCTF Research Paper 3:

⁹ In Northern Ireland, passengers crossing the border to use Dublin Airport, where flights are cheaper due to the absence of APD, are impacting on London bound passenger volumes from Belfast airports.

case given the importance of the relationship between air connectivity and city and regional economic growth highlighted by Ghent University's NCTF Research Paper 10¹⁰.

- 2.9. This is illustrated by the fact that many regional airports, with no air services to London, have performed less well in terms of passenger throughput over an extended period than those who do have these services. The loss or lack of a London link seems to create challenges for some UK regional airports raising concerns for some about their long-term viability. Blackpool and Plymouth have recently temporarily or permanently ceased the hosting of air operations. Prestwick was only saved from closure by the intervention of Scottish Government. Dundee and Newquay have both needed Public Service Obligations (PSOs) to London to retain their London links, which are essential to the economic case for the on-going subsidy required for keeping them open.

The influence of UK geography

- 2.10. A number of geographical factors make the UK somewhat unusual in Europe in terms of national infrastructure design and functionality and this places an onus on maintaining a well-developed air network to London as well as cross-country between major regional cities. These include:
- The long thin morphology of the UK.
 - The distribution of its major population centres with a globally significant capital city at one end of the country.
 - Its island status, which requires over-water connections to many parts of its own territory as well as to its European neighbours and strategic Transatlantic destinations.
- 2.11. Like France, Spain and Portugal, the UK has long standing links to archipelagos (Spain - the Canaries and Balearics, Portugal- the Azores and Madeira, France – Corsica). The Scottish Islands, Isles of Scilly, Crown Dependencies and Northern Ireland all represent similar territorial assets for the UK. Of the 40 UK airports with more than 50,000 passenger throughput a year, 12 serve over-water locations (3 of them in Northern Ireland).
- 2.12. Unlike Germany or France, however, the UK does not have the topography or the wherewithal to put in place sophisticated, but expensive, surface transport alternatives such as a dense high-speed rail network. The idea that it should be possible to make day-return business trips from all parts of the national domain to the capital city and other major conurbations, is a common policy standard in most

¹⁰ NCTF Research Paper 10: Aviation's role in urban and regional development, Ghent University (January 2015)

EU and OECD countries, with the European Commission aspiring to a four-hour travel time from all part of the EU to Brussels. In some remoter places in the UK such journeys are difficult if not impossible to achieve, with significant parts of the UK falling into this category.

- 2.13. This makes sole reliance on surface modes (e.g. motorways, High Speed Rail and ferries) for national transport integration both impracticable and incompatible with a modern outward facing global economy. Evidence from the UK and elsewhere suggests that where local market and pricing factors are right High-speed rail (HSR) can offering a viable alternative to air services, when surface travel times are 2.5-3.0 hours or less. When rail journeys take 3.0-4.5 hours air competes strongly and captures significant market share. When above 4.0 hours air becomes the dominant mode, especially where business journeys include travel over water and mountains.

Case Studies of Relationship between Regions, Nations and Crown Dependencies and Air Access to London

North of Scotland

- 2.14. Scheduled services from Aberdeen International Airport, and particularly those to Heathrow, are fundamental to the business connectivity upon which the North of Scotland's principal economic sectors, but especially energy, are dependent. So much so that more people use Aberdeen Airport in a year than use its railway station¹¹. Similar importance is attached in the Highlands and Islands to Inverness' links to London, which are extensively used by key industries like tourism, food processing, whiskey and life sciences.
- 2.15. In a study for HiTrans and NESTRANS¹², detailed analysis of CAA 2013 passenger survey data indicated that 685,000 air passengers from Aberdeen's core catchment use flights from other airports in Scotland (and the North of England) to make their journeys. This amounts to slightly less than 25% of Aberdeen's overall market, but of these, only 17% were on business. In other words, the vast majority of *leaked*¹³ demand is from leisure passengers, probably looking for cost effective services to sun destinations, which are under-developed and therefore expensive from Aberdeen. On routes to London, where Aberdeen is well served – particularly by 8-9 frequencies a day (although until recently it was higher) to Heathrow - leakage levels are far lower.
- 2.16. Leakage from Aberdeen's catchment area also remains materially lower than that from neighbouring Inverness, where it is 44%, and many other regional airports in the UK. Of the 115,000 passengers flying to London from an airport outside the Highlands and Islands, 77% are flying to Heathrow which Inverness does not serve.

¹¹ Source NESTRANS

¹² HiTrans and NESTRANS: Air Links to London from the North of Scotland - Updated Evidence Note (July 2014)

¹³ Traffic from within an airports core catchment, that is using an airport outside its wider catchment area, to access end destinations; this usually requires significant surface access journey's to access the more distant airport

- 2.17. The ultimate destinations of passengers travelling onward beyond London from the North of Scotland reinforces the ‘business lifeline’ function of Gatwick and Heathrow for the region. North America and Europe are the principal global regions for connecting traffic from Aberdeen, with the Middle East, Far East and Africa also material. In Inverness’ case it is Europe, North America and to a lesser extent Asia-Pacific. Equally important is the impact of these connections for inbound tourism, a key regional economic driver.

Northern Ireland

- 2.18. Road and rail improvements to the Republic of Ireland where there is a porous land border with markedly different aviation tax regimes, seems to be modulating the reliance Northern Ireland has had on London as the gateway to its largest domestic market and the rest of the world. With threats to routes from south of the border potentially also threatened by IAG’s pursuit of Aer Lingus however concerns about air access to London are once again high on the political agenda in Northern Ireland.
- 2.19. The battle between its two Belfast Airports is also an interesting reflection of the importance of the London market to both. Belfast George Best Airport, just 3 miles from the centre of Belfast, is ideally placed for business travellers and has become the main connection with London Heathrow. Conversely, Belfast International’s longer runway and lower pricing means that it has become the preferred airport for Low Cost Carriers and therefore it is predominantly linked to Gatwick. Having said which, the Task Force does note with interest, however, easyJet’s submission on 30 January suggesting indicative route networks that include additional competition on the Belfast route from an expanded Heathrow.
- 2.20. Northern Irish airports saw a substantial downturn during the recession and a slower bounce-back than that enjoyed by Dublin. Significant terrestrial leakage to Dublin Airport from the north is becoming more established partly as a result of improved land links, but also exacerbated, locals suspect, because of the differential aviation tax regimes. There are concerns about the effect this will have on the economic prospects for the Province. It has also served to emphasise the significance of the link to London for inbound tourism, international connectivity and life-line services.

North of England

- 2.21. North of England passenger performance to London (outside of Manchester) is examined in some detail in the NCTF Research Paper 1¹⁴. Apart from Newcastle and Leeds Bradford the picture is one of increased use of road and rail and increased leakage from smaller to larger airports to access international services. At the heart of this are *push* factors such as the loss of services to Heathrow and Gatwick arising from slot shortages and *pull* factors such as quicker rail times following major public

¹⁴ Ibid

investment in the rail network - investment the NCTF notes is not forthcoming in the same way to the aviation sector.

Crown Dependencies

- 2.22. Since 1991, Jersey, Guernsey and the Isle of Man have all lost their Heathrow link, leaving Gatwick (and to a lesser extent London City) as their main UK access points. These domestic links are fundamental to the operation of the its dynamic international finance industry and tourism sector, which demonstrates there is (and will continue to be) substantial demand for an increased range of air services to meet both leisure and business needs, which dominate the economies of the Islands. In each case, these sectors make a positive net contribution to UK plc, even though their tax regimes are outside UK jurisdiction. The mainland also acts as a source of educational and specialist health services and thus the air links also have an important lifeline function.

The Potential Impact of HS2

- 2.23. Much has been made of the potential for HS2 to reduce demand for air services to London and its principal airports, particularly from the North of England and Lowlands of Scotland. But even when built, and that is still some time away, the evidence (considered at greater length in NCTF WP3¹⁵), all points to the impact being marginal and a number of cities still requiring air access to London, and particularly Heathrow, post HS2.
- 2.24. Point-to-point traffic from regional destinations within 2 hours surface travel time can be expected to shift quite substantively to HS2, but transfer traffic (and this already dominates some routes like Manchester) is not expected to migrate in the same way. It is likely, therefore, that Newcastle, Durham Tees Valley, Carlisle and Prestwick will all maintain ambitions to retain or secure a link into a national hub. In the case of Manchester, air service levels from Manchester, Leeds Bradford, Liverpool and Humberside will depend on final HS2 timetabling and how smooth connections are from HS2 for journeys beyond London.
- 2.25. Since the majority of the cost of HS2 seems likely to be heavily subsidised by the UK Government, taxpayers living in cities, regions and nations that are likely to benefit very little from its construction are likely to ask what they will get in return. For equity, as well as broader strategic and political considerations, the Task Force believes that there is a strong argument for some integrated thinking in Government to under-pin the regional airport case for positive consideration in the allocation of slots associated with new runway capacity in the South East.

¹⁵ NCTF - Review of Regional Accessibility Measures - Parameters and Comparison with Short Listed Competitors

Conclusions

2.26. NCTF Research Paper 2 on Regional Accessibility Parameters¹⁶ picks up this theme and sets out the case for categorising the UK's cities and regions, nations and Crown Dependencies into one of three categories, based on surface travel times (including interchange penalties), with regard to air access to London's national hub and international gateway airports.

2.27. These are:

- I. **London Satellite regions** that lie geographically close to London with good rail and road travel times (less than 2.0hrs) to London's airports. These regions will not require air access to a UK hub.
- II. **Other UK regions**, including many of the UK's largest regional cities, with overall travel times of +2.5hrs to London's airports. These will have competing and rail access, and the balance will shift in rail's favour in some places as HSR rolls out.
- III. **Peripheral regions**, the Western and Northern extremities of the UK with travel times of over 4 hrs to London Airports. These will require air connections as surface journey times will no longer be competitive.
- IV. **Cross Water/Islands territories**, these have little option but to rely on air access to London, and should be given high priority in the allocation of new runway slots.

¹⁶ NCTF Research Paper 2

3. What is the regional air access problem? Why does it need to be tackled?

Introduction

- 3.1. As highlighted in the preceding section, the UK's unusual geography and its location on the periphery of its principal economic market and trading bloc (the European Union), makes domestic and international air travel particularly important. As a consequence the UK has developed one of the largest air markets in Europe. Our concern, and that of many stakeholders we have spoken to via the Task Force's regional representatives or surveyed as part of our research, is one of equality of access to markets whether they be in the United Kingdom, Europe or elsewhere in the world.
- 3.2. The evidence gathered as part of our work indicates quite clearly that the failure to invest in the required runway infrastructure is now contributing to differential access to markets for businesses based in the UK's regions, nations and Crown Dependencies (RNCD's), inbound tourists and local populations living outside London and the South East. A research paper produced for the Task Force by Ghent University¹⁷ shows that this is impacting negatively on the competitiveness of the affected parts of the UK and therefore their relative economic performance to population centres and rural areas located within the orbit of London and the major South East Airports that serve it.

Benchmarking

- 3.3. We have benchmarked the situation in the UK against peer countries in Europe.¹⁸ Not only is the coverage of the available links to the national hub/gateway airports (i.e. LHR and LGW) more limited because of displacement to secondary airports¹⁹ by higher value international services, but those which do exist often have lower frequencies and scheduling limitations not commonly seen on the European mainland. This is partly because of the density, complexity and heavily privatised nature of the London Airport system, but also due to the greater appetite that the evidence suggests other European governments have to intervene in otherwise commercially driven markets to ensure equity of access and opportunity.

Maintaining global leadership

- 3.4. When it was converted to civilian use after the war, it was impossible to imagine what a fundamentally important national infrastructure asset Heathrow airport would

¹⁷ Ghent University: Ibid

¹⁸ Scandinavia, France, Spain, Portugal, Italy

¹⁹ In this case 'secondary' refers to other airports in the London system – so Stansted, Luton, London City and Southend

become. A paper prepared for the Task Force by Ghent University²⁰ makes clear the role that globally significant hub airports and the international connectivity networks they provide have on the location of major metropolis' in the World City hierarchy. It is no co-incidence that London has continued to retain its No1 position in the global urban hierarchy²¹, in part because of Heathrow's prominence as an international hub, and in part because of the complementary role that other airports in the South East system (including Gatwick) play.

- 3.5. Although Manchester aspires to take on such a role and Edinburgh and Birmingham Airports are developing their own substantial networks served directly - including to some long haul destinations - none of them come close (nor according to the Commission's own forecasts are they likely to do so). It is for this reason that the UK's regions, nations and Crown Dependencies must have guaranteed connections to London's hub and/or major gateway airport once a new runway is open, because without this they cannot be certain of equitable access to global markets.
- 3.6. Reliance on European hubs, which are themselves filling up rapidly is in our view as ill-advised as the excessive faith being placed in Dubai as an alternative to London's airports as a long-term gateway to Asia for the UK regions. Less than 15% of Dubai's traffic originates or terminates in Dubai; transfer traffic is highly responsive to price, changes in aircraft technology (e.g. twin-engine long haul aircraft such as the B787 and A350) and competition (Dubai has two rivals on its doorstep and others such as a large new airport at Istanbul are in the pipeline). The Task Force's members are, therefore, in favour of regional prioritisation so that regional passengers have the choice to be able to connect to Far East services at their own national hub airport rather than having to make long surface journeys to access them. Further, that this is key to ensuring trade, investment and employment benefits are captured in the UK not elsewhere.
- 3.7. These arguments have been rehearsed numerous times at Transport Select Committees over the last 20 years, but the UK Government has resisted any material change to its stance, even in the strongly pro-regional 2003 Air Transport White Paper²² and the Aviation Policy Framework²³ published in 2013. In that time, the regional access problem has deteriorated and we expect it to do so again if the Commission does not include recommendations to make provisions for enhanced regional air access in its final report to Government.

²⁰ Ghent University: Aviation's Role in Enhancing International Connectivity and Global City Positioning (February 2015)

²¹ Based on analysis by the Globalisation and World Cities (GaWC) network of academic institutions.

²² DfT; The Future of Air Transport – White Paper (Dec 2003)

²³ DfT: Aviation Policy Framework (March 2013)

Gap analysis

3.8. The gap analysis that the Task Force undertook as part of its supporting research programme identified the following principal shortcomings that bear upon the regional access problem:

- Direct international access for UK regions/nations is sub-standard compared to their European peers;
- There is an urgent need to connect secondary/tertiary as well as core cities in the UK regions and nations internationally;
- Access by other transport modes to London, or an equivalent hub, is extremely difficult from some parts of UK;
- HSR/HS2 will not be an adequate alternative for many parts of UK;
- Constraints on, and the cost of, access to LHR/LGW for regional services is a material issue; and
- Overall the London system will be full by 2030 if decisive action is not taken quickly.

3.9. The implications of ‘doing-nothing’ are potentially serious and in our view cannot be contemplated. This is because:

- HS2 and the HS3/Northern Powerhouse initiatives, will improve accessibility between northern English core cities and to London. They do not however solve the problem of substantially less international and particularly long haul connectivity in a way that an expanded Heathrow definitely would and a two runway Gatwick might, although far less effectively in terms of the kind and range of destinations served;
- The status quo cannot be assumed to remain; in the absence of new capacity the relative connectivity of the rest of the UK vs London will decline further. High speed rail will not resolve all of the issues;
- Reliance cannot be placed solely on the service networks available at larger regional airports such as Manchester, Edinburgh and Birmingham, because the range of destinations covered and the frequency of service are both more limited than those out of the major London airports. As we have touched on above, reliance on foreign hubs presents other practical and strategic issues, including long term risks to UK competitiveness; and
- Overall the position and performance of UK cities and regions will decline relative to their better served peers in Europe.

3.10. The answer to these shortcomings is that there must be new South East runway capacity and it must benefit the whole of the UK and not just London and the South East. If it cannot be provided at either of the two short-listed airports then, as an ‘interim’ measure, urgent consideration should be given to converting RAF Northolt into a regional satellite of Heathrow otherwise regional connectivity interests stand in significant danger of being materially damaged.

3.11. A Judicial Review of the basis upon which civil aircraft may use RAF Northolt concluded that the CAA are responsible for the safety of civil aircraft operating from there. The Judgement held that Government Airfields (which include Northolt):

“...may be deemed safe for use by civil aircraft without necessarily complying with the letter of all requirements which it is the policy of the CAA to impose on private operators who wish to run licensed aerodromes.”

- 3.12. In the event that the CAA requires airlines to assume, for example, a reduced runway length at Northolt or to operate in accordance with new procedures as a consequence of non-compliances with UK civil licensing requirements, aircraft operating public transport services to UK Regional Airports from Northolt could be restricted to turbo prop aircraft such as the DH Dash 8 Q400, Dornier 228 and 328, ATR 42 and 72, BAE Jetstream, Saab 340. These aircraft are typical of the types operated by European regional airlines from regional cities on thinner routes. This eventuality would not therefore affect Northolt’s ability to make a significant contribution to improving air connectivity on an interim basis between London as a city, Heathrow and the UK’s regions.
- 3.13. The case for an expanded portfolio of regional slots is compelling because:
- Hub connectivity improves global access and positively influences trading performance and inward investment;
 - It will create international growth opportunities for regional businesses that are currently available much more easily to their competitors in the South East;
 - International inbound tourists will be able to spread more easily beyond their gateway in London;
 - Access to a wide range of international services will support innovation/knowledge transfer networks and sectoral clusters to the UK’s RNCDs, and in turn attract/retain entrepreneurs and highly skilled/specialist labour;
 - It will contribute to economic re-balancing considerations and address regional differentials in GDP, GVA and productivity; and
 - It will reflect wider Government policy, encouraging national integration in a number of areas.
- 3.14. There is no doubt in the mind of the Task Force members that the inability of successive governments to adopt and implement a coherent strategic policy towards runway capacity in the South East has caused a fundamental market failure and that case for intervention is therefore overwhelming. It is the view of Task Force Members that this means embedding regional air access requirements in the core scope of the preferred South East runway scheme as a public obligation.

4. Current and prospective demand and capacity for regional air access

- 4.1. This section of the submission – similarly the equivalent chapters of the Task Force's Report – draws heavily upon work commissioned by the Task Force from RDC Aviation, which is reported in detail in Research Paper 3. RDC were asked to analyse current regional demand and then model the outcome of the improvements in regional connectivity made possible by the shortlisted runway options at Gatwick and Heathrow. The aim was to enable the National Connectivity Task Force (NCTF) to gain an in-depth understanding of regional air traffic demand enabling it to better understand how the regional, national and Crown Dependency destinations could potentially be served better in terms of frequency and seat capacity.

The characteristics of the current regional air access market

- 4.2. Using both MIDT and CAA passenger survey data from 2013, RDC were able to investigate not only the whole of the UK regional air market, but specifically the role of point to point traffic to, and passenger transfers at, London airports. Amongst the most interesting and relevant findings were that:

- Almost 81m air passengers travelled to or from the UK RNCDs in 2013; the nature of their journeys is shown in Table 4.1 below:

Table 4.1

Journey Type	UK Regional Passengers	Share of total
1. Point to Point	41,061,042	51.0%
2. Connect via London	3,166,966	3.9%
3. Connect via London and then secondary hub	562,973	0.7%
4. Surface leakage to London then fly	24,256,242	30.1%
5. Surface leakage to London then fly via a secondary hub	4,288,007	5.3%
6. Fly via another non London Hub	7,216,842	9.0%
Total (exc London/South East)	80,552,072	

- Combined journeys from the UK regions outside London and the South East to the capital by air and rail in 2013 amounted to 177m (120 million from the East of England alone), of which air's share was 4.2%, or 12.9% if the East of England is excluded. Outside the Crown Dependencies and Northern Ireland, where air has a 100% share of the market, peripheral regions, particularly Scotland, have the highest share of air passengers.
- Seven times more foreign business passengers and 3 times more UK business passengers use Heathrow compared to Gatwick

- Some 38 routes from Gatwick and 126 routes from Heathrow could be classified as business in 2013²⁴. The highest concentration of business routes is within Europe for both airports, with only Heathrow having a significant range of long haul business destinations, whereas those which do fly from Gatwick are primarily leisure orientated.
- Heathrow is connected to more of GaWC's World Cities than Gatwick and at a higher frequency. In total, Heathrow is connected to 52% of World Cities compared to Gatwick at 32%. Of the World Cities, 39% are served from Heathrow by a daily or better frequency service compared to 18% for Gatwick.
- The London Airport system is connected by non-stop flights to 60% of World Cities, more than when compared to Paris (56%), Amsterdam (50%) and Frankfurt (54%). When looking at the hub airport serving each of these cities however (LHR, AMS, FRA, CDG), London Heathrow has the lowest coverage at just 47%, indicating that a lack of capacity at LHR is stifling intra-World City connectivity via the UK's hub.

Capacity at alternative hubs

- 4.3. As outlined in section 2 of this submission, because other EU hubs have so often been promoted as the friend of the RNCs in the face of slot scarcity at Heathrow and in the morning peak at Gatwick, RDC were also asked to investigate capacity conditions at those airports and at the MEB4 (Dubai, Istanbul, Abu Dhabi and Doha). Their findings are shown in Table 4.2, which confirms the concerns expressed earlier about prospective capacity at Amsterdam, Paris and Frankfurt.

Table 4.2

Airport	Movement Cap estimate	% utilised	Estimate capacity reached
Amsterdam - Schiphol Airport	510,000	86.3%	2017
Paris - Charles De Gaulle Airport	700,000	68.3%	2032
Frankfurt International Airport	700,000	67.6%	2032
Abu Dhabi International Airport	300,000	45.0%	2025
Dubai Airport	543,120	68.1%	2018
Doha Airport	320,000	64.4%	2018
Istanbul - Ataturk Airport	474,000	85.7%	2015

- 4.4. Analysis of the 7-9am period at the peer European hubs makes even worse reading. It shows that Amsterdam is already operating at 92% runway utilisation during this time period, Paris (87%) and Frankfurt (95%), which means that there is even less opportunity for future development of new routes from the UK RNCs. Indeed, since the revenue to KLM is well below \$20 million annually from Norwich, Humberside, DTVA and Cardiff, they are considered to be amongst the vulnerable routes if KLM

²⁴ For the purposes of this analysis, it is assumed that a business route is one with >20% of passengers travelling for business purposes; and a leisure route is one with >80% of passengers travelling for leisure purposes.

begin to cannibalise short haul slots to develop new long haul services, just as BA has been doing at Heathrow for some time now as slot shortages have bitten.

Forecast methodology

- 4.5. The bulk of RDC's work focused on preparing a range of forecasts for enhancements to regional air networks at Heathrow and Gatwick under three key scenarios – Do Nothing, LGW 2+2 and Heathrow 3+1 (see paragraph 4.8 and use also in section 5).
- 4.6. The methodology adopted considered both point-to-point and international connectivity and developed slightly different approaches to the modelling of each.
- Domestic demand was modelled by combining aviation and rail data²⁵ for 2013 and combining them with population and GVA forecasts by region²⁶. The relationship between regional GVA per capita and Propensity for Travel (PFT) was used to predict future demand to London by year. Assumptions were made by RDC about future change in rail/air share to isolate air demand between UK regions and London.
 - CAA and IATA Airport IS data²⁷ were used to estimate total international trip demand by region in 2013. Population and GVA forecasts²⁸ were also derived for UK regions and a relationship between regional GVA per capita and PFT was established. This was used to predict future international passenger demand, upon which several other inputs²⁹ and assumptions³⁰ were made to estimate a change in share of traffic which could travel over London, and thereby estimate connecting air passenger demand to the UK regions. Allowances were made for growth in regional point-to-point and changes in surface leakages were made, reducing traffic connecting over other airports. An International PFT cap was also applied.
 - This demand was then fed through the different LHR and LGW options with assumptions of destinations made both by RDC, and by adapting the Frontier Economics work for LHR, which attempted to identify likely new destinations under the LHR 3+1 and LGW 2+2 models.
- 4.7. The modelling, which is based on a certain set of assumptions, discussed at length with the Task Force in one of its meetings and documented in Research Paper 3, makes a compelling case for regional connectivity and has proved a great help in revealing some of the important issues looking forward.

The results

²⁵ CAA, ORR and IATA forecast reports

²⁶ ONS, IMF, WEO and HIS Global Insights

²⁷ CAA passenger survey and IATA Airport Intelligence Services ticket issuance data

²⁸ ONS, IMF WEO and HIS Global Insights

²⁹ IATA Airport IS and CAA

³⁰ RDC

- 4.8. The modelling outputs for 2025 and 2040 at a regional level are provided in Appendix C to this submission together with the position in 2014. They can be seen at an airport-specific level in Research Paper 3 and are summarised briefly below. The forecast years were chosen to reflect (a) the likely date for the opening of a new runway (2025) and (b) the point at which that new runway is likely to have reached operational maturity and be near capacity (2040) assuming its current operating constraints.

The Do Nothing Scenario

- In the event that no new south east runway capacity is provided, it is likely that *growth will continue to be constrained* in terms of access to/from the regions and the London system for both passenger and freight services.
- *No new regional services* are likely to be launched/developed from LHR and LGW as both airport operators look to allocate remaining capacity to higher yielding international services.
- *Other London airports³¹ are likely to provide the best option for regional growth* in accessing London. However, as these airports are unlikely to develop connecting/hub operations of any significance, traffic growth is likely to be from point-to-point traffic only.
- *No new services would be expected to be launched from Wales or the East of England to Other London airports* due to alternative modes of transport being more suitable for access to central London.
- As a result, the *overall growth from the regions to/from London is expected to be the lowest* out of the three runway scenarios, and Other London airports are expected to increase their market share of total traffic.
- Traffic from the main regions to/from London airports is forecast to grow from 11.7m in 2013 to 13.3m by 2040 at an overall CAGR of 0.5%.

The LGW 2+2 Scenario

- In the event that new runway capacity is provided at Gatwick Airport, it is likely that future *regional service growth will be focused at that airport rather than Heathrow* (which will remain constrained and therefore see traffic growth in-line with the 'Do Nothing' scenario) and Other London airports.
- In the situation of Other London airports, it is likely that *additional capacity at LGW could result in some services shifting over*. Gatwick is a preferable airport for airlines to serve than LTN, STN, SEN and LCY particularly due to location and surface transport accessibility to/from the centre of London. It is also assumed that growth in point to point demand would be handled at Gatwick (of the same level forecast in a 3+1 scenario).
- However, Gatwick does not currently have, and *is not anticipated to significantly develop hub type operations with an airline*. The only hub carrier in the UK at present is British

³¹ Ibid – Footnote 19

- Airways (in cooperation with the OneWorld alliance) and in a 2+2 scenario it would be nonsensical for the airline to a) split hub operations (reducing the effectiveness of connections between flights) and b) relocate their hub operation to Gatwick (with the airport being unable to accept the relocation of all OneWorld operations). It is also unlikely that Gatwick would develop a hub operation from any other airline and thus far no alliances have indicated a willingness to do so.
- Therefore, in a 2+2 scenario, *Gatwick is unlikely to offer the same level of connectivity* as a 3+1 scenario – regional services would therefore have fewer connecting passengers in a 2+2 scenario.
 - Overall, *Gatwick is forecast to increase its market share within the London system for regional air services* as it a) entices services from Other London airports, b) attracts new point-to-point growth and c) generates some scope for increased levels of connecting traffic, particularly to Europe

The LHR 3+1 Scenario

- In the event that new runway capacity is provided at Heathrow Airport, it is likely that *future regional service growth will be focussed at that airport* rather than Gatwick (which will, by 2025, be constrained and therefore see traffic growth in-line with the 'Do Nothing' scenario) and Other London airports.
- In the situation of Other London airports, it is likely that *additional capacity at LHR could result in some services shifting over*. Heathrow is a preferable airport for airlines to serve than LGW, LTN, STN, SEN and LCY particularly due to location and surface transport accessibility to/from the centre of London. It is also assumed that growth in point-to-point demand would be handled at Heathrow (of the same level forecast in a 2+2 scenario).
- *Heathrow already has the strongest connectivity* offering of UK and EU airports for the UK regions it serves. As discussed in the 2+2 scenario, it is likely that Heathrow is the best option for British Airways and OneWorld expansion due to their existing presence at the airport and Star Alliance carriers that are co-located there.
- The provision of additional runway capacity at Heathrow is therefore likely *to increase the level of services offered to international destinations* (especially long haul services) and therefore offer greater connectivity options for passengers from UK regional airports than the Do Nothing and 2+2 scenarios.
- Overall, *Heathrow is forecast to increase its market share within the London system for regional air services* as it a) attracts services from Other London airports (including Gatwick), b) encourages new point-to-point growth and c) commands the largest share of connecting traffic.

4.9. The tables overleaf summarise the implications of the forecasts:

- In terms of future slot requirements relative to today, Table 4.3, and then:
- In Tables 4.4(a) and 4.4(b) the percentage of new slots and total slots those additional slot amount to with a new runway at Heathrow and Gatwick respectively.

Table 4.3

Extra Runway Scenario	Case	2014	2025	2040
LGW 2+2	Low	59	107	133
	Base	59	106	140
	High	59	120	161
LHR 3+1	Low	64	121	136
	Base	64	130	155
	High	64	140	175

Source: NCTF Research Paper 3³²

Table 4.4(a)

LHR 3+1 Base Case	No. Regional Slots PA	% of Available Slots		
		2014	2025	2040
Existing	19,968	4.2		
New (On Opening)	20,592		9.4	
All (On Opening)	40,560		5.8	
New (Mature)	28,756			13.1
All (Mature)	48,360			6.9

Table 4.4 (b)

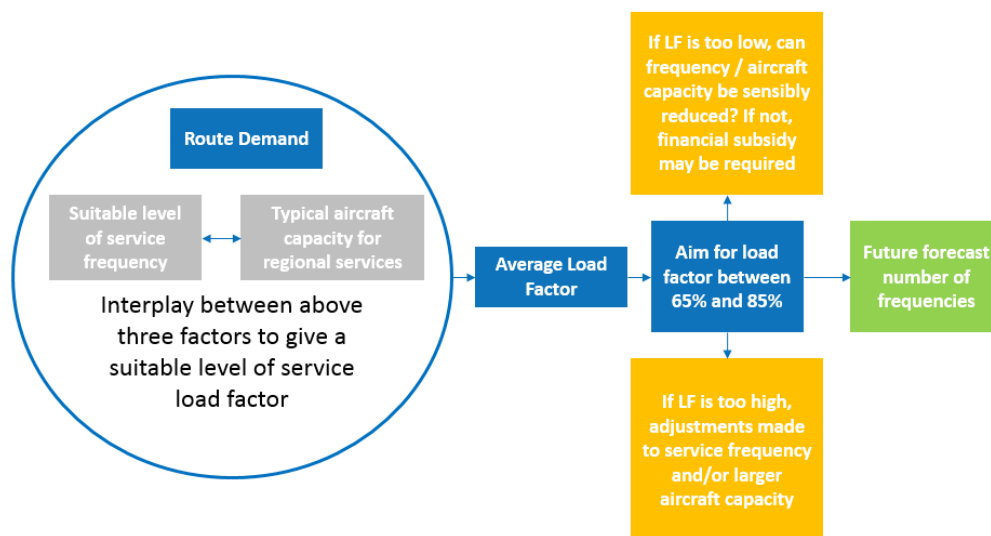
LGW 2+2 Base Case	No. Regional Slots PA	% of Available Slots		
		2014	2025	2040
Existing	18,408	6.6		
New (On Opening)	14,664		5.2	
All (On Opening)	33,072		5.9	
New (Mature)	30,336			10.8
All (Mature)	48,744			8.7

³² Ibid: RDC Feb 2015

Connectivity analysis

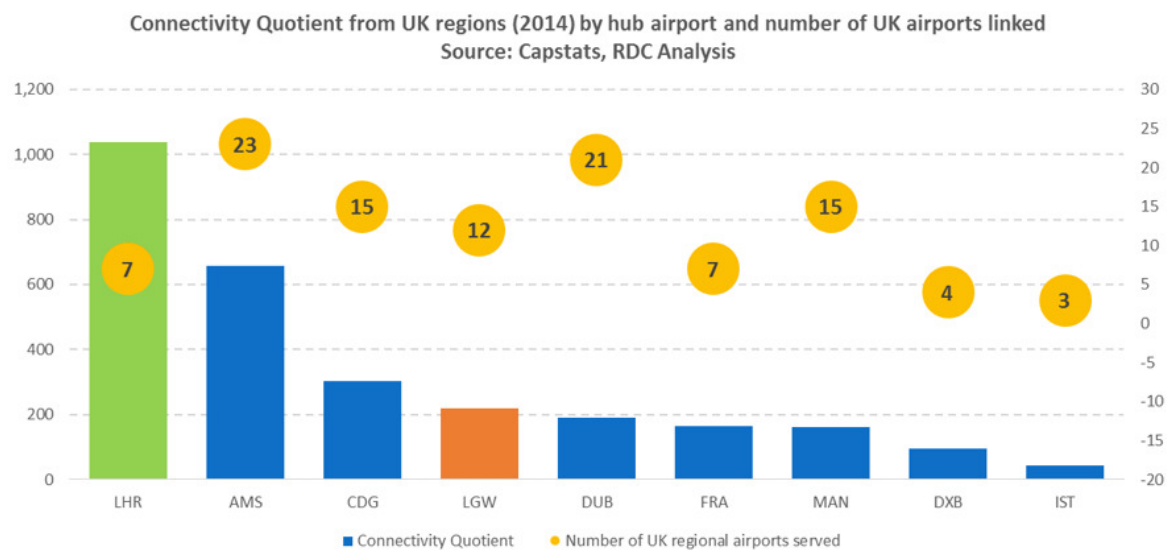
4.10. Finally, to assess the all important connectivity implications of the different forecast outcomes RDC's analysis used the following approach:

Figure 4.1



4.11. The study then determined connectivity quotients where higher values indicated greater connectivity.

Figure 4.2



4.12. Present connectivity scores were compared with future forecast scenarios and their impact on connectivity was calculated. The detailed results can again be seen in Research Paper 3, but in summary they show that currently, even though fewer airports are connected to Heathrow, connections are more frequent and Heathrow has more possible connections than Gatwick. The overall impact is connectivity around 5x that of LGW at present. The London Airports were also compared with overseas hubs.

4.13. The analysis then compared forecasts for the two expansion options:

The 3+1 scenario is expected to produce greater connectivity benefits than the 2+2 scenario by 2025

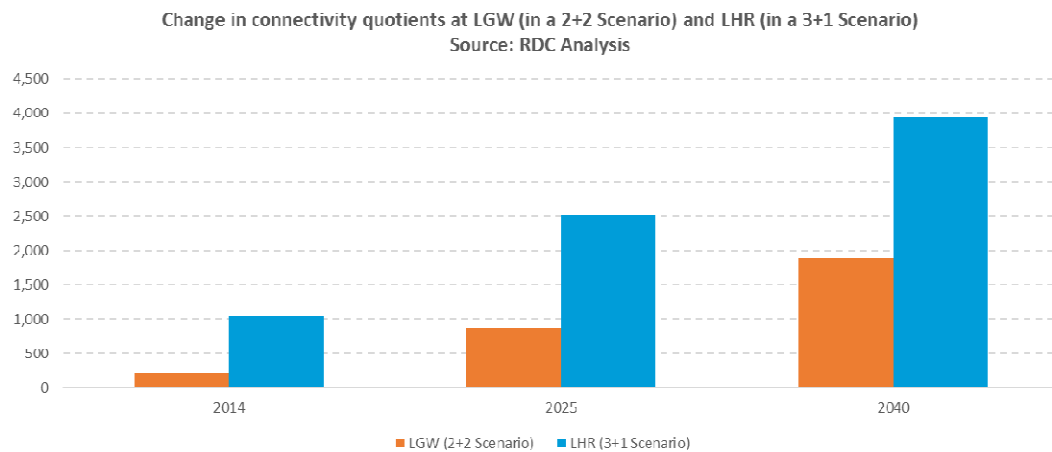
- Under both 2+2 and 3+1 scenarios, connectivity would increase at both LGW and LHR, though LHR would still retain the greatest level of connectivity from regional airports to global destinations.
- The connectivity quotient at LGW is forecast to increase by 660 points compared to LHR increasing by around 1,900 points compared to current scores, compared to 2014.

The 3+1 scenario is expected to produce greater connectivity benefits than the 2+2 scenario by 2040

- Under both 2+2 and 3+1 scenarios, connectivity would increase at both LGW and LHR, although LHR would still retain the greatest level of connectivity from regional airports to global destinations.

- The connectivity quotient at LGW is forecast to increase by around 1300 points compared to LHR increasing by 1,440 points compared to 2025.

Figure 4.3



4.14. Figure 4.3 illustrates the change in Connectivity Quotients over time. It indicates the 2+2 and 3+1 scenarios

- The 3+1 scenario would provide a better level of regional connectivity than the 2+2 scenario.
- In 2025 in a 2+2 scenario, regional connectivity over LGW would be lower than that which is currently seen at LHR and would grow to be 82% higher than LHR's current factor by 2040.
- In 2025, in a 3+1 Scenario, regional connectivity over LHR would be 142% higher than LHR's current factor and would be 279% higher by 2040.

5. What are the strategic options and how do they compare?

Future regional air access scenarios

- 5.1. To provide some structure to our thinking about future policy relating to our central focus - the importance of air services in providing access to the UK capital and onward to a wide range of global destinations from its collective regions, nations and Crown Dependencies (RNCs) – and the need to enhance these, the Task Force undertook a strategic STAG Stage 1 style appraisal methodology for a range of potential runway scenarios. Our aim in doing so was to seek to identify objectively, rather than subjectively, which option prospectively offered the best solution to our core objective.
- 5.2. In framing the scope of our appraisal, we were conscious of the need to remain focused on the questions the Airports Commission set in publishing its national consultation in November 2014, namely the three shortlisted South East runway options they confirmed in December 2013. We did however look at a possible variant that we do not think the Commission has considered hitherto and which may be of interest.

Do Nothing

- 5.3. In the ‘do nothing’ case, it is assumed that no consensus can be reached within Government about which of the runway options the Commission has short-listed and that the outcome remains based on current infrastructure and operational parameters. This transcribes directly to the ‘do nothing’ forecasts discussed in the preceding section. Under these circumstances, the Task Force believes that RAF Northolt should be made available for scheduled airline services from airports around the UK. Whether these services may be operated by regional jet aircraft or restricted to turbo prop operations will depend upon the outcome of CAA investigation. Whatever the type of aircraft deemed able to operate from Northolt (see 3.11 above), significant and substantial improvements in regional connectivity could be achieved by making use of this underutilised national asset.

Second Runway @ London Gatwick

- 5.4. This option assumes Heathrow remains capacity constrained at its current 480,000 ATM movement cap and a new runway is opened at Gatwick in 2025. RDC Aviation’s 2+2 forecast has been used to evaluate this scenario.

Second Runway @ London Gatwick + Northolt Converted to Regional Satellite @ Heathrow

- 5.5. This is the ‘variant’ option mentioned above. While the Commission has ruled out Northolt as a long term solution for runway capacity, the Task Force remains

concerned about regional connectivity without (or with diminished) access to Heathrow. In the event that Gatwick is recommended, then, there may yet be a requirement for some additional regional capacity at RAF Northolt, amounting to 40-50 pairs of slots a day (25-30,000 ATMs pa vs 17,500 declared by the RAF today) to safeguard access to the UK hub. This would be exclusively for use by turbo-props or modern, quiet regional jets and would be connected to nearby public transport stations for point-to-point passengers and to Heathrow by dedicated Executive Bus Shuttles for those transferring to connecting flights at the main airport.

Heathrow Runway 3 - Low Regional Growth and Slot Allocation.

- 5.6. This is the first of three Heathrow focused runway options, which in essence look at different levels of future regional access demand how assumed intervention, such as slot ring-fencing, might enhance Heathrow's role as a national hub. In this case the focus is on low growth in line with RDC's low 3+1 forecasts and minimal or light touch approach to regional slot allocation.

Heathrow Runway 3 - Base Regional Growth and Slot Allocation.

- 5.7. This scenario adopts a middle ground position on growth assumptions and slot ring fencing and translates directly to the Base Case 3+1 scenario forecast.

Heathrow Runway 3 - High Regional Growth and Slot Allocation.

- 5.8. Finally, this scenario encompasses the most optimistic set of assumptions about demand growth and the level of slot intervention that might be contemplated, and relates directly to the 3+1 high case forecast outputs

Impact assessment studies

- 5.9. The six scenarios outlined above have then been used as the framework for a series of appraisal studies designed to inform the STAG 1 Appraisal process outlined below. They also offer some useful insights into the relative merits of enhanced domestic networks and onward connectivity at Gatwick, Heathrow or, in the worst case scenario, not at all.

- 5.10. The areas we have focused on in our more detailed appraisal work are:

- a. Measures of connectivity enhancement;
- b. Sub-national economic impacts;
- c. Carbon impacts;
- d. City and regional development impacts; and
- e. Other environmental impacts

- 5.11. The first of these is reported in Research Paper 3 by RDC Aviation based on comparisons of connectivity quotients relative to today for the LGW 2+2 and LHR 3+1

forecasts they have modelled. These results receive fuller scrutiny in the Task Force's Report. The second is described in a little more detail in the sub section below:

Economic Appraisal

5.12. Cambridge Econometrics (CE) were commissioned to provide an assessment of the sub-national UK (local authority and district-level) impacts of an increase in air connectivity resulting from the opening up of additional capacity at either Gatwick or Heathrow to regional airports across the UK. CE examined the three primary mechanisms through which connectivity can affect economic activity³³:

- reducing business costs, and therefore boosting productivity;
- increasing a firm's potential market, which could lead to gains in productivity and employment; and
- enabling increased agglomeration, which can, depending on the type of activity, boost productivity and employment.

5.13. The methodology used and the important qualifications to the way in which the outputs should be viewed are discussed in Research Paper 15. They provide a transparent basis for quantifying the distinct and incremental benefits of allocating some of the new capacity provided by a new runway for services to the UK's RNCs.

5.14. The results of the cross-sectional analysis for the Heathrow 3+1 Case forecasts are shown Tables 5.1 and demonstrate how a change in air connectivity affects 'direct' employment in a way that spreads well beyond the initial site of the investment.

5.15. In both cases the employment benefits assessed are material, exclude indirect and induced multiplier effects and are in addition to those already identified by the Airports Commission in its appraisal work; the 're-distribution' of the effects, is also a significant bonus.

5.16. It should be noted that these projections exclude the direct (and mostly temporary) jobs created by the infrastructure investment, because they analyse instead the change in employment across all sectors as a result solely of the additional connectivity.

5.17. In the analysis for Heathrow, some 67% of the additional employment generated by the increase in connectivity occurs outside of London and the South East suggesting that there is the possibility of some important economic re-balancing effects.

³³ Economic activity is measured through its effect on business only. Additional consumer benefits (e.g. increased house prices through living in a better-connected area, are not part of this study). It should also be noted that most of the benefits of increased connectivity are long-term in nature, meaning that benefits will take time to manifest.

Table 5.1: Direct Employment Growth – LHR R3 Base Case

% Difference from 2014, Base Scenario Heathrow	Employment, 2025	Employment, 2040
Wales	0.87	1.05
Northern Ireland	0.50	0.82
North West	0.35	0.76
South West	0.52	0.68
Yorkshire & the Humber	0.42	0.67
North East	0.32	0.65
Scotland	0.28	0.52
East Anglia	0.26	0.30
East Midlands	0.14	0.25
West Midlands	0.06	0.17
London	0.00	0.00
South East	0.00	0.00
UK	0.23	0.38

5.18. The equivalent figures associated with a new runway at Gatwick are shown in Table 5.2 below:

Table 5.2: Direct Employment Growth – LGW R2 Base Case

% Difference from 2014, Base Scenario - Gatwick	Employment, 2025	Employment, 2040
Northern Ireland	0.30	0.64
North East	0.24	0.62
Scotland	0.25	0.52
Wales	0.13	0.52
South West	0.21	0.47
Yorkshire & the Humber	0.14	0.45
East Anglia	0.12	0.20
North West	0.04	0.17

West Midlands	0.04	0.11
East Midlands	0.02	0.08
London	0.00	0.00
South East	0.00	0.00
UK	0.09	0.23

5.19. Given the time and resources available to the Task Force, CE were not asked to determine the direction of causality between these variables (i.e. whether changes in connectivity lead to changes in economic activity or vice versa). However Ghent University³⁴ demonstrates that there is, at least in some EU regions, some preliminary evidence of changes in air connectivity driving economic activity.

5.20. In addition to the impacts in Table 51 and 5.2, CE has also assessed the potential benefits of a ‘step-change’ in output from specific sectors. The rationale behind this is that, in the most-time sensitive sectors, a cross-sectional analysis would underestimate the impact of access to the new markets outlined above. Examples are explored in the Task Force’s Report and in CE’s more detailed Working Paper.

Other Impacts

5.21. Given Sir Howard Davies regular highlighting of the issue in his speeches, the Task Force also wanted to examine whether there were any material carbon effects associated with enhanced regional air access. Amec Foster Wheeler Environmental has evaluated this issue in two papers: One looks at modal comparisons; the other examines whether there are any carbon cap implications of additional regional services. They have been combined into the single Research Paper for convenience³⁵ and conclude that there are no impacts of material significance.

5.22. The city and regional development appraisal draws on analysis from several Research Papers, two of which (Research Papers 9³⁶ and 10³⁷) support this submission, as does Research Paper 17, providing a high-level overview of environmental impacts at the originating airports – the impacts at Heathrow and Gatwick are encompassed in the Commission’s own analysis.

³⁴ Derudder: Causality in the regional development/air transport-nexus (2014)

³⁵ AMEC Foster Wheeler: Implications for Climate Change, Meeting a Future National Carbon Emissions Target and Local Environmental Quality (February 2015)

³⁶ NCTF Research Paper 9: Potential Impact of New South East Runway Capacity on Inbound Tourism in the UK’s Regions and Nations (February 2015)

³⁷ Ibid

STAG Appraisal of options

Introduction

5.23. This section provides a high-level appraisal of options. It is based on the general principles of STAG (Scottish Transport Appraisal Guidance) Stage 1 appraisal³⁸. That is, an initial appraisal rather than a more detailed (STAG 2) exercise. Here the STAG approach has been modified slightly to reflect the specifics of the issue being addressed (i.e. capacity at main London airports and regional access to it). A series of options were developed as part of the NCTF's work. These have been appraised using the qualitative and quantitative information generated by the NCTF work packages.

5.24. This used the STAG seven-point, qualitative assessment scale across three sets of measures:

- **Transport planning objectives:** these are objectives adopted for the purposes of a specific transport appraisal exercise.
- **General transport appraisal criteria:** that would apply to most if not all transport appraisals.
- **Established policy directives:** these are the policies of the devolved administrations and the UK Government. Thus, they are independent of the appraisal itself.

Options

5.25. The options were agreed by the Task Force in December 2014. Each one relates to the same time period: i.e. from 2025 to 2040. They are set out at Table 5.1.

TABLE 5.1: OPTIONS	
Option	Description
Do Nothing	No new runway at either Gatwick or Heathrow
1a	Second runway at Gatwick
1b	As per 1a but with Northolt converted to a satellite linked to Heathrow
2a	Third runway at Heathrow – Low Regional Growth and Slot Allocation
2b	Third runway at Heathrow – Base Regional Growth and Slot Allocation
2c	Third runway at Heathrow – High Regional Growth and Slot Allocation

5.26. There are a total of six options. Option 1b is a variant of 1a with its inclusion of a temporary Northolt satellite operation, which could become permanent if Heathrow

³⁸ The STAG Appraisal methodology was used because it was considered by the Task Force to be best approach for the issues under consideration and better suits the level of analysis the Task Force has been able to undertake in the 3 month period allowed by the Airports Commission for its national consultation.

is not able to build a new runway. Similarly Options 2a, 2b and 2c are all variants associated with a third runway enhancing Heathrow as a UK national hub, with varying degrees of Government intervention to secure slots for regional services.

- 5.27. Under the 'Do Nothing' option capacity at Gatwick and Heathrow, the rest of the London airport system and at other UK airports, remains as now. It is based on current market dynamics with no government intervention to favour regional access.

Established policy directives

- 5.28. The analysis sets out the policy directives relevant to this appraisal. It is based on a review of various documents of the devolved administrations (N Ireland³⁹, Scotland⁴⁰, Wales⁴¹ and the UK Government⁴²).
- 5.29. In their varying ways they highlight the importance of connectivity, whilst also highlighting the need to reduce the environmental impact of transport. Our main Report sets out these policies in more detail and highlights the most relevant aspects for this analysis.

General transport appraisal criteria

- 5.30. The five general transport appraisal criteria that have been used are set out in the relevant annex with some being quantitative in nature and two qualitative. Thus, the five general transport appraisal criteria used here follow STAG closely.
- 5.31. In each case the options have been appraised using the following seven-point assessment scale:

✓✓✓	strong positive impact
✓✓	good positive impact
✓	some positive impact
/	neutral
x	slight negative impact
xx	negative impact
xxx	strong negative impact

³⁹ N. I. Department for Regional Development's Ensuring a Sustainable Transport Future & Northern Ireland Regional Development Strategy

⁴⁰ Scottish Government Economic Strategy & Scottish National Transport Strategy (NTS)

⁴¹ One Wales: Connecting the Nation-The Wales Transport Strategy

⁴² DfT's 2013 Aviation Policy Framework; HM Treasury's 2014 National Infrastructure Plan; The 2014 Budget (RACF); HM Treasury policy statement on Reducing The Deficit And Rebalancing The Economy; The 2008 Climate Change Act

TABLE 5.2: APPRAISAL AGAINST TRANSPORT PLANNING OBJECTIVES							
Option/ Objective	a. Increase range of UK cities and regions not directly served by Phase 1 of HS2 ‘directly’ connected to London and its major airports	b. Reduce range of cities and regions forced to rely on overseas hubs	c. Facilitate day’s business in London from all parts of the UK	d. Secure access by one-stop connections to all major global destinations (except Australasia/Pacific) within 24 hours	e. Connect key regional export and tourism markets-directly or indirectly via London	f. Increase regions’ share of UK economic output	g. Avoid significant increase in regional population exposed to noise or CO2 emissions
Do Nothing	x	x	/	/	x	x	/
1a	✓✓	✓	✓✓	/	/	✓	/
1b	✓✓	✓✓	✓✓✓	/	✓	✓✓	/
2a	✓	✓	✓	✓	✓	✓	/
2b	✓✓	✓✓	✓✓	✓✓	✓✓	✓✓	/
2c	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	/

TABLE 5.3: APPRAISAL AGAINST GENERAL TRANSPORT APPRAISAL CRITERIA					
Option/Criterion	Economy	Environment	Integration	Financial	Operational Feasibility
Do Nothing	xx	/	/	✓	✓✓
1a	✓✓	/	✓	x	✓✓✓
1b	✓✓	/	✓	xx	x
2a	✓	/	✓✓	/	✓✓✓
2b	✓✓	/	✓✓✓	x	✓✓
2c	✓✓✓	/	✓✓✓	xx	✓

TABLE 5.4: APPRAISAL AGAINST ESTABLISHED POLICY DIRECTIVES				
Option/Directives	Northern Ireland Assembly Government Policies	Scottish Government Policies	Welsh Assembly Government Policies	UK Government Policies
Do Nothing	xx	x	x	x
1a	/	✓	✓	✓
1b	✓	✓	✓	✓
2a	✓✓	✓✓	/	✓✓
2b	✓✓	✓✓	✓	✓✓
2c	✓✓✓	✓✓✓	✓✓	✓✓

A full commentary on the scoring and various options is provided in our main report

Devolved Administrations

Wales

- 5.32. Within an economic strategy which is now focused on creating the conditions to enable business to thrive, with a strong emphasis on investing in infrastructure, skills and innovation, the Welsh Government has give priority to seven broad economic sectors, one of which is tourism and another advanced manufacturing. Both of these have strong links to aviation and aerospace and the Welsh Government has identified several clusters across the country (including two enterprise zones), based on them that are located at or near airports. This places these industries at the forefront of the Welsh attempts to attract private investment and create new jobs. Consequently any initiatives that will improve air connectivity to them merit positive recognition.
- 5.33. The economic priorities reflected above have also found their way into Welsh Government policies on transport, and particularly the role of air services in supporting business and tourism. The benefits for Wales appear fewer than for Northern Ireland and Scotland in terms of air connectivity. This reflects the fact that surface journey times from Wales to London would limit the size of the air travel market (and thus the number of beneficiaries of a London-Cardiff service). It is unlikely that a Cardiff-Heathrow service would be established without significant Government intervention (i.e. Option 2c). However, Wales would still benefit from a greater range of international destinations being served from Heathrow, even if these had to be accessed by surface transport rather than a flight from Cardiff.
- 5.34. Surface access improvements that are already committed – such as Western Rail Access, Great Western Main Line electrification and Crossrail – will also make significant improvements in journey time and access to London (and Heathrow) from Wales. This again is reflected in the scoring in the preceding tables.

Northern Ireland

- 5.35. In terms of national economic strategy, *Economic Strategy Priorities for Sustainable Growth and Prosperity* imposes two over-arching goals on the Northern Ireland Executive (NIE):
- Rebalancing the economy towards higher value-added private sector activity; and
 - A more immediate rebuilding phase to address the impact of the global downturn on the local economy and labour market.
- 5.36. The measures adopted to contribute to this include:

- strengthening competitiveness through a focus on export led economic growth; and
- devolution of full powers regarding Air Passenger Duty (APD).

5.37. The Department for Regional Development's *Ensuring a Sustainable Transport Future* has three Strategic Objectives that are relevant to the options under appraisal. The relevant ones here are:

- improve connectivity within the region as part of 'Support the Growth of the Economy'. The document states that: "*Connections to the Republic of Ireland, the rest of the United Kingdom and beyond are important for business and tourism.*"
- the aim of the overarching Northern Ireland Regional Development Strategy to "*strengthen links between north and south, east and west, with Europe and the rest of the world*".

5.38. Both of these would strongly support improved connectivity (by air or rail) to Heathrow and Gatwick. Finally there are three Strategic Objectives for Reducing the Environmental Impact of Transport that also bear on the appraisal:

- reduce greenhouse gas emissions from transport.
- protect biodiversity.
- reduce water, noise and air pollution.

Scotland

5.39. The Scottish Government, too, has long recognised the value of air connectivity. The Scottish Government Economic Strategy published in 2011 has six strategic priorities. These are:

- Supportive Business Environment.
- Transition to a Low Carbon Economy.
- Learning, Skills and Well-being.
- Infrastructure Development and Place.
- Effective Government.
- Equity.

5.40. Two of them are particularly relevant here. Firstly, Supportive Business Environment, which encompasses policy areas such as:

- International Trade and Investment;
- Supporting Business Growth, including the attraction of inward investment; and
- Assisting seven key growth sectors: Creative Industries; Energy; Financial and Business Services; Food and Drink; Life Sciences; Sustainable Tourism; and Universities – all of which have high propensities to fly.

5.41. Secondly, Infrastructure Development and Place. This strategic priority includes transport-related actions. The relevant ones here are:

- Focusing investment on making connections across, within and to/from Scotland better, improving reliability and journey times, seeking to maximise the opportunities for employment, business, leisure and tourism; and
- Ensuring Scotland is well connected with the rest of the world by working closely with the air, rail and sea transport industries. This is to actively promote new international routes, services and sustainable infrastructure.

5.42. In terms of aviation, the Scottish National Transport Strategy states that:

- To remain competitive in international markets (inward investment and tourism) it is important to ensure that Scotland has direct air access;
- The aim is also to reduce and minimise the impact of airports on the environment; and
- There is a requirement to make the best use of existing capacity where possible.

5.43. There is also a need to respect the rights and interests of those affected by airport development, but within these constraints, support for enhanced air connectivity – direct or via a London hub or gateway airport is unequivocal.

UK Government

5.44. The options including new runways would support UK policy on the provision of sufficient airport capacity and ensuring a wider geographical distribution of economic growth. In addition the Heathrow options would further support policy objectives of the UK remaining one of the best connected countries in the world and maintaining its hub capability.

5.45. Options 2a, 2b and 2c are scored the same (i.e. good positive impact) in meeting UK Government policy objectives. Options 2b and 2c would also offer Heathrow access to a greater number of UK airports. In policy terms however this is offset by these options requiring at least modest Government intervention, which would be out of line with current Government policy and would require intervention to direct services to a specific London airport (i.e. Heathrow) rather than simply to one in the London area.

Overall

5.46. The Heathrow options have the highest ratings. This is particularly so for Northern Ireland and Scotland. The impacts are less in Wales due to its

relatively short surface journey times to/from London but improved journey times from rail enhancements such as Western Rail Access cannot be ignored.

- 5.47. The impacts are also less in terms of fit with UK Government policy. That is because they would require government intervention in Options 2b and 2c in order to secure Heathrow access for a much wider range of UK airports.

Conclusions

- 5.48. The analysis in general seems to support the view that significant policy intervention does increase the transport benefits for the UK RNCDs. A 'do nothing' or 'light touch' intervention offers reduced benefits, but does offer some benefits to the regions as demand remains strong and the market should, to some degree, respond accordingly.
- 5.49. Strategic fit with regional and home nation policies, that incidentally were developed in the absence of additional runway capacity, still deliver increasing benefits with additional policy intervention. It is conceivable that home nation policies would become more ambitious with the increased prospect of additional global reach.
- 5.50. The universal concern with regard to controlling and reducing total and transport emissions is tempered by the awareness that for some areas:
- air is the only realistic option for some of the regions under consideration;
 - hub access will be required either to London or other international hubs, and exporting the emission is not reducing it; and
 - regional aircraft will produce less emissions than those that they exclude.
- 5.51. The 1b option for Gatwick is improved by additional intervention to bring Northolt into play.
- 5.52. The 2b option for Heathrow offers the most attractive regional outcomes having regard to incremental benefits against incremental costs.

6. Possible mechanisms for guaranteeing regional air access

Introduction – Changing Mind Sets

- 6.1. A long history of Government inertia and single-mindedness on air access to London has left a legacy of doubt and confusion amongst regional stakeholders about what might actually be possible in terms of positive interventions to facilitate enhanced regional connectivity. Government policy has, for many years, interpreted intervention to prioritise domestic connectivity as a distortion of the market and have been unprepared to do so. This, we believe, is a question of interpretation rather than legislative limitation on what Government could do to intervene. This is a view shared by many of those engaged during the Task Force's work, who would like to see:
- An increase the network of RNCD airports connected to London and the South East by air; and/or
 - the frequency service; and/or
 - competitiveness with which they are served.
- 6.2. We do not accept that the current position represents a fair and equitable one, especially once a new South East runway becomes operational in 2025. Nor do we accept the concept that there are fundamental legal/regulatory barriers to changing the current policy in this area. There are clear examples elsewhere in Europe – most notably in Scandinavia, France, Italy and Spain, where different interpretations of relevant EU Regulations on Slots⁴³, Public Service Obligations⁴⁴, Resident Discount Schemes⁴⁵, Traffic Distribution Rules⁴⁶ and State Aid⁴⁷ have been adopted to facilitate improved regional access. These are discussed in more detail in the annexes to this report. We also however have informal confirmation from EU officials that our skepticism is well-founded and that in the context of a Regulatory framework where the European Commission puts some emphasis on subsidiarity in terms of interpretation, there is actually plenty of scope to achieve many of the ambitions for enhanced regional connectivity that have been set out in the previous section of this submission.

⁴³ Council Regulation (EEC) No 95/93 of 18 January 1993 on common rules for the allocation of slots at Community airports
Amended by: Regulation (EC) No. 894/2002 of 27 May 2002 ; Regulation (EC) No. 1554/2003 of 22 July 2003; Regulation (EC) No. 793/2004 of 21 April 2004; Regulation (EC) No 545/2009 of 18 June 2009 along with the associated UK Airports Slot Allocation Regulations 2006 (SI No. 2665) (together “the slot regulations”)

⁴⁴ Regulation (EC) No 1008/2008 of the European Parliament and of the Council of 24 September 2008 – specifically Articles 16,17 & 18

⁴⁵ As applied with variations in Portugal, Spain, Italy, France and the Highlands and Islands of Scotland

⁴⁶ Air Traffic Distribution powers (set out in section 31 of the Airports Act 1986) provide the Secretary of State with the authority to make rules for the distribution of air traffic between airports

⁴⁷ Guidelines on State aid to airports and airlines (2014/C 99/03)

Developing a new policy approach

- 6.3. The first step, therefore, is to set out a new, clear and un-ambiguous national policy that ‘all’ parts of the UK, not just London and the South East, must be beneficiaries of the additional capacity created by construction of an additional runway at Heathrow or Gatwick. Furthermore, that the Government accepts the case for targeted and timely intervention in the market, where necessary, to achieve this. This also needs to be reflected in the Secretary of State’s periodic instruction to the CAA under the 2012 Civil Aviation Act, so that the delivery of an enhanced network of regional air services to London’s major airports becomes a core objective for them too.
- 6.4. The second step is to consider which of the tools available to do this are the most appropriate, and the least likely to create competitive distortions and therefore unwanted adverse consequences. We discuss these mechanisms, and the issues associated with each of them, in more depth in an annex to this report, but have concluded that those discussed below are each capable of making some form of contribution in the context of an overall framework of support.

Potential delivery mechanisms

Planning Obligations

- 6.5. The Task Force believe some form of ‘planning obligation’ could and should be placed on the developer of the new runway, that would require a certain proportion of slots to be allocated, or at the very least made available on release, for domestic services to regional destinations (rather than to air operators), whether of the extant or new entrant variety. This is not unlike a property developer who would expect to be subject to section 106 planning conditions or to make contributions to a Community Infrastructure Levy (CIL)⁴⁸ and could in our view be achieved through a tailored condition imposed on the consent granted to the National Strategic Infrastructure Project (NSIP) for the runway, or via a legally binding undertaking secured in a Hybrid Bill process⁴⁹. The aim would be to ensure a pre-determined portfolio of slots, in the form of active or dormant capacity within the scheduling regime, is maintained for as long as possible after the new runway is opened.
- 6.6. We accept the premise that under the current EU Regulations, grand-father rights accorded to an airline which operates a regional route in accordance with the ‘use it or lose it’ rule. This means that slots initially allocated for regional domestic connections could eventually be re-assigned to another different purpose. This is providing various conditions associated with

⁴⁸ The Community Infrastructure Levy is a planning charge, introduced by the Planning Act 2008. It came into force on 6 April 2010 through the Community Infrastructure Levy Regulations 2010.

⁴⁹ There is for instance scope for decisions of planning authorities under the Town and Country Planning Act 1990 to restrict an airport operator’s discretion to exercise its powers under the slot regulations (eg restricting the number of ATMs at Heathrow to 480,000 pa)

their use (e.g. slot time, code of aircraft, terminal assignment) continue to be observed. This is exactly what has happened to the slots to be handed back to BA following the withdrawal of Little Red domestic services, and is what a number of Irish airports fear will occur if IAG acquires Aer Lingus and its slot portfolio at Heathrow. Nevertheless, we consider that a provision giving priority to the replacement of any slots thus lost within new capacity subsequently released as the new runway builds up to full capacity over a ten year period, would give a substantive opportunity for domestic services to become established and allow time for regional access provisions to be given far greater weight in the next or subsequent versions of the EU slot regulations.

Local slot rules

- 6.7. A non-statutory, but equivalent provision, could be achieved on a voluntary basis through the Local Rules put in place by the Slot Committee at each of the airports concerned. We are not convinced however, and neither are regional stakeholders, that the commercial interests of the dominant airlines at both airports (who accordingly have voting majorities on the Committee), are compatible with such an approach, especially once any routes they themselves would like to serve have commenced.
- 6.8. There are indications from within the EU Commission that a revised EU Slot Regulation could be brought forward under the Latvian Presidency of the EU, may assist in this area by giving greater priority/weight to regional interests. This is certainly what the EU Parliament recommended to the Commission having debated the issue last year. But it seems unlikely that this will translate into a formal legislative presumption allowing the ring-fencing of slots for regional domestic services given the level of industry opposition it would generate. Having said which, it has been suggested by EU officials that if the UK asked for such a provision in the Regulation this might find considerable support amongst other member states.

RACF, TDRs and PSOs

- 6.9. This leaves the option of direct Government intervention, in the form of support for route start-up (such as that being currently promoted through it Regional Air Connectivity Fund (RACF)⁵⁰, Public Service Obligations (PSOs) or Traffic Distribution Rules (TDRs)⁵¹ being employed to ensure the less commercially viable destinations, service frequencies and timetabling are delivered.
- 6.10. The RACF seems unlikely to still be in operation by the time a new runway opens and the timescale envisaged for state aid to be phased out in the aviation sector may mean that few regional airports other than in SGEI⁵²

⁵⁰ Initial application process guidance Start-up aid for airports with fewer than 5 million passengers per annum – DfT 2015

⁵¹ For example The 1991 UK Traffic Distribution Rules regarding whole plane cargo services

⁵² Services of General Economic interest

qualified cases will continue to be eligible by 2025. If it does still remain possible, it certainly offers a useful market-sensitive approach to commencing services that should in the long term become commercially self-sustaining, as a number in the networks forecast in Research Paper 3 are.

6.11. TDRs have been used hitherto in the UK⁵³ in a negative resolution formula, to prevent slots being used for sub-optimal purpose. It is possible to adopt a more pro-active formulation similar to the measures approved by the Commission for allocating services between Malpensa and Linate in Milan⁵⁴, but we recognize, however, that this may face of strong industry opposition.

6.12. Use of PSOs for such purposes is a well-established practice elsewhere in Europe, and offers an appropriate approach for ‘thinner’ more marginal services that are:

- unlikely to be capable of sustaining more than one carrier (i.e. there is not the opportunity to sustain a competitive environment); and
- where financial subsidy may or may not be required.

6.13. France, Spain, Italy and Scandinavia all have long standing PSO programmes focused on regional access to their national hub or major gateway airports. Under the Gatwick second runway and ‘Base Case’ and High Growth Scenarios envisaged for a Heathrow third runway, it is likely that a modest network of some 10-15 PSOs could be put in place when the new runway is brought on line and then monitored to see whether:

- there is actually a market of any importance that needs to be supported;
- that it continues to need on-going support rather than become commercially self-sustaining; and that
- other circumstances affecting overall regional connectivity do not change materially, thereby undermining the fundamental accessibility and economic case for protecting air access to London (for example, the opening of HS2 or the development of connections to one or more alternative hubs at attractive frequencies).

6.14. PSO's are an instrument of EU policy that covers the EU as a Single European market. PSO's therefore need not be concerned only with intra-member state flights – they also leave open the possibility of for example of Irish regions also accessing the Southern UK hub when the new runway is brought online.

⁵³ As above - The 1991 UK Traffic Distribution Rules

⁵⁴ 2001/163/EC: Commission Decision of 21 December 2000 on a procedure relating to the application of Council Regulation (EEC) No 2408/92 (Case TREN/AMA/12/00 — Italian traffic distribution rules for the airport system of Milan) – after contention, amendment and eventual adoption

- 6.15. In the context of the scale of interventions in other transport modes designed to enhance accessibility and social equity (e.g. the railways, trams and buses), levels of Government support required to maintain the PSO network is likely to be negligible and should be funded centrally as its primary purpose is one of national integration and enhanced international connectivity for all UK regions, nations and Crown Dependencies.

Interim measures

- 6.16. Responses to our questionnaire survey and meetings with, and representations from, a number of important regional stakeholders have shown that there is a strong groundswell of opinion supporting early action being taken in advance of new runway capacity coming on line. It is also worth considering the ‘Do Nothing’ scenario set out in the preceding section of this document, in which the absence of any political consensus around a new runway sees construction delayed.
- 6.17. The approach we advocate in these circumstances is a pragmatic one based around a four-pronged approach:
- Promote access to other London Airports to serve point-to-point traffic, by making it a **priority within the RACF funding process**.
 - **Fund and allocate using PSOs and TDRs**, a small number of additional regional slots for important absent regional links (for example Inverness, Liverpool and Newquay), while preserving existing regional services, perhaps by introducing frequency capping on routes with over say 15-18 services a day, or destinations within 3 hours (airport to airport) by High Speed Rail.
 - **Develop Northolt** as a domestic regional satellite for use by services from the UK and Ireland that currently are not connected to Heathrow until a new runway is built. Our evaluation of this ‘interim’ role for Northolt and the scope and impact of the operation we envisage there is set out in an accompanying Working Paper⁵⁵. Although controversial, and not without difficulty (a recent court case has prospectively restricted the scale of civilian operations at RAF Northolt and a full civilian transition would be expensive and not privately fundable with a concession of less than 20 years), it has the big advantage of being under-utilised, within the Government’s control to deliver and enthusiastically supported by many regional aviation interests and stakeholders.
 - In the absence of any other response that would help to ensure that UK RNCs do not become second class citizens in terms of global air connectivity while waiting for new South East runway capacity to come on line, it may be necessary to **temporarily support enhanced access to overseas hubs**, particularly those offering global connectivity such as Paris, Frankfurt and Amsterdam in Europe and the MEB3 Group (Dubai, Abu Dhabi and Doha) and prospectively Istanbul in the Middle East, and to secondary hubs offering complementary networks to world markets of particular importance to regional business (e.g. Dublin and Shannon for Transatlantic destinations; Helsinki for the Far East; Brussels,

⁵⁵ NCTF Working Paper 13

Gatwick and Manchester for Europe and Africa and Munich/Zurich for central and Eastern Europe and the former CIS states). Once a new runway is open, however, then Government measures to encourage UK originating traffic using overseas hubs to interline 'at home' may be appropriate for a short transition period.

- 6.18. There may also be the scope in the short term to incentivise an airline to take advantage of the slots at Heathrow that BA continues to be obliged to make available for use to serve Aberdeen and Edinburgh as part of a divestiture ruling on its takeover of bmi. Once flown for 3 years that airline could exercise its grandfather rights and use them to serve other routes, including unserved markets like Inverness and Newquay. The conditions are set below:

"As a general rule, the slots obtained by a prospective entrant must be operated on the city pair(s) for which they have been requested from IAG and cannot be used on another city pair unless the prospective entrant has operated them during at least six full consecutive IATA seasons ("the Utilisation Period"). The prospective entrant would be deemed to have grandfathering rights for the slots once appropriate use of the slots has been made on the city pairs at issue, for the Utilisation Period. Once the Utilisation Period has elapsed, the prospective entrant would be entitled to use the slots obtained on the basis of the Commitments exclusively to operate services on any route connecting London with any other part of Europe (including Aberdeen and Edinburgh), or on London-Moscow, London-Cairo and London-Riyadh.

- 6.19. We are aware of current airline interest in the use of these slots, but the same challenges would appear to face any new carrier as Little Red. The issue for the airport is, therefore, whether within the terms of the divestiture agreement and competition law they could assist a new carrier to make serving the routes concerned more of a going concern until such time as they could use them for other purposes.

Affordable pricing

- 6.20. It would be remiss in this section of our response, not to mention an issue that has arisen a number of times during our work, notably the importance of affordable pricing of access to Heathrow and/or Gatwick for regional services, not just slot availability. With current levels of domestic APD and regional services being more marginal in terms of airline economics than those to longer distance markets, the charges levied at the main airports on regional aircraft do need to be tailored to what is affordable if operators are to come forward to serve them.
- 6.21. We are aware of on-going discussions between runway scheme promoters and groups representing regional airport interests about designing suitable charging regimes for regional services, and these should be welcomed and encouraged. The Commission should also be pro-active in recommending such provisions are adopted in subsequent regulatory reviews by the CAA

and taken forward by the Regulator. They have already indicated to us that there is no reason in principle why this cannot be achieved. The key issue appears to be with whom the financial burden should lie.

7. Feedback from external engagement

7.1. Our approach to external outreach has taken four principal forms:

- i. Use of the Task Force's regional representatives, who form half of its membership⁵⁶, to identify existing literature/representations on air and other forms of access to London from stakeholders within their region relevant to our work. Several relevant reports cited in our main report were identified in this way;
- ii. Invitations to the short-listed scheme promoters to present to us, enabling the Task Force to understand better how they intend dealing with regional connectivity issues – two of the scheme promoters accepted our invitation, London Gatwick Airport did not;
- iii. A questionnaire survey, focused on our core connectivity and benefits optimisation agenda and targeted at our key audiences (i.e. the aviation, travel and tourism industries, regional and local economic and transport agencies and representatives of the business communities), to which we received 120 responses and a dozen more substantive accompanying submissions; and
- iv. Bilateral meetings with a number of influential stakeholders with a relevant national remit (these include the CAA, Flybe, devolved administrations and Crown Dependencies)

7.2. Throughout our external engagement activity, all members of the Task Force and the Secretariat have been at pains to emphasised the narrow focus of our agenda and our avowed intention to inform and add value to the Commission's work rather than duplicate it. We have been re-assured in this by discussions with the Commissions Secretariat and our own perusal of the Commission's written output that we have been able to identify work that has not yet been explored in detail.

7.3. The survey did provide some surprises, often connected with strength or virtual unanimity of opinion on certain key questions such as

- the importance of being connected to a UK hub (95%) vs an EU Hub (45%)
- the significance of such air access in under-pinning the economic change agendas in more peripheral UK regions and nations; and that
- 80% of those who responded wanted to see interim measures implemented soon rather than simply wait until a new runway is built

7.4. There was also recognition that:

- air access to London and its airports is particularly important for attracting visible and invisible trade (particularly where the associated markets are international rather than mainly domestic) and for facilitating exports/imports;
- the sectors with the greatest need for access to a national hub/gateway are tourism, R&D, tertiary education, business services (including finance) and hi-tech manufacturing;

⁵⁶ For details see <http://www.nationalconnectivitytaskforce.co.uk/>

- in addition to London and the South East, priority global regions to which enhanced business connectivity is required are Western Europe, Northern Europe & Scandinavia and North America, other parts of Europe and the Asia-Pacific region in that order, with the Middle East, Africa and South America also significant for oil and gas and other specialist markets.

7.5. Other evidence of interest includes:

- 55% of respondents said public funding of infrastructure that would help enhanced air connectivity (as compared with other infrastructure) should be a 'high priority', and only 5% referred to this as a 'low priority'; and
- 55% of respondents regard freight as an important component of the case for improved regional access and the 15% who did not.

- 7.6. Our analysis of regional air freight in NCTF Research Paper 5, has highlighted that the majority of air freight from the UK flies from Heathrow and the majority of regional freight is trucked to Heathrow. Given some of the barriers to air-to-air trans-shipment, such as cost and capacity, for all but the most specialist niche markets using Heathrow (e.g. seafish from Glasgow) we consider this is likely to remain the case. In view of these practical realities, aligning policy with the opinion captured in the survey, about the importance of improving air access for regionally sourced freight, is likely to require a focus on improving truck as well as air links. This is because Heathrow's crucial value to the regions in relation to freight, is the range of global destinations it serves with bellyhold capacity.
- 7.7. We are somewhat skeptical that Gatwick's plans to create a one million tonne freight operation if it is chosen as the site of the new runway, will ever become reality because of the LCCs operating model, which specifically excludes carrying freight, and new wave narrow-body jets – neither of which are compatible with bellyhold cargo. That said, we applaud the scale of their ambition and hope they will ensure regional needs are build into its design and business model.
- 7.8. Our discussions with EU officials in DG's COMP and MOVE, and with their counterparts in DfT and CAA, were helpful in clarifying a number of areas of uncertainty and in helping to focus our attention on difficult and contentious issues. They also left us with the overriding impression that there is a genuine willingness to try to seek solutions that will be beneficial to the UK's RNCDs, and that the case for enhanced regional connectivity is broadly understood, and with certain caveats, accepted.
- 7.9. This is most certainly the case in the Devolved Administrations and Crown Dependencies, who are amongst the strongest supporters of finding mechanisms for targeted intervention to facilitate increased air access to London. In every case, their preference is for Heathrow, although they recognise their wishes alone will not determine the matter.
- 7.10. There were also discussions with a number of parties about the difficulties of deriving a package of measures that would satisfy RNCD interests, whilst

keeping certain London-centric and larger Core City commercial interests placated within the room for manoeuvre currently offered by relevant legislation and long standing policy positions. It is for this reason, and in recognition that this is an area where a new Government will need to show leadership, that our primary focus has been on outlining the objectives Government should be working to achieve, rather than specifying in detail how it might get there. We are convinced that there are, or will be, mechanisms available shortly to do so, but the key to unlocking these is to build a measure of consensus and then demonstrate political willpower.

8. Task Force conclusions [and recommendations]

8.1. In summary, our principal conclusions [and recommendations] are as follows:

- I. That there is a compelling evidence-base to support the case for provision being made to substantially enhance UK domestic air access to London, as part of any new runway being approved in the South East of England. The value of this will not only be to materially improve access to the national Capital and its dynamic and prosperous economy, but also the international connectivity offered at its hub and/or major gateway airport(s) to the European single market, the world's leading cities and the global economy.
- II. In the face of the 'transformative' nature of the additional capacity a new runway would bring to the South East airport system there should be a comprehensive re-think of DfT's long-standing policy 'tradition' of:
 - relying solely on laissez-faire market forces above all else,
 - advocacy of long-distance surface travel to larger UK airports; and
 - pressing the case for UK regions nations and Crown dependencies to rely on overseas hubs for global connectivity rather than a UK national hub or expanded London gateway.

This policy stance, which has now existed for some 15-20 years, was developed in a time of severe slot shortages at Heathrow and the need to maximise allocative efficiency in the use of a small incremental releases of new or returned slots in bi-laterals. It cannot continue to be defended in the face of some 200,000 additional slots being released onto the market over a 5-10 year period. Moreover, to do so, would be completely at odds with broader Government policy priorities on economic growth and economic re-balancing.

- III. We understand the legislation and case law surrounding airport slots, PSO's, Traffic Distribution Rules and state aid are complex and in some areas far from clear cut, but we do not believe they represent a fundamental impediment to progress. Ultimately there are levers that can be pulled commercially, in the regulatory environment and policy terms to deliver what is required. The Commission must urge the Government to find a way to do so.
- IV. There has been a complete failure of Government policy to maintain normal market conditions in the South East airport system. A lack of strategic decision making over a protracted period about the location of additional capacity in the region has resulted in a substantial supply-side market failure. This in turn has consolidated structural disadvantages in terms of:

- the access to global connectivity available from many parts of the UK outside London and the South East;
- the relative frequency of services on domestic routes to London that can be sustained by major regional cities compared to smaller secondary and tertiary ones, where markets are smaller and service provision more limited despite the need for better accessibility being greater.

V. There are strong national interest, strategic planning, economic and equity grounds for Government intervention. These are based not just on the need to support the bringing forward of new capacity, but also to ensure that a proportion of this new capacity is ring-fenced for use in enhancing the connectivity of the UK's regions, nations and Crown Dependencies. This demands pro-active intervention in the form of:

- Clear Government policy and regulatory framework within which private sector interests and wider regional stakeholders interact constructively to ensure enhanced connectivity is put in place.
- Support for regulatory changes at an EU and UK national level (e.g. revisions to the Slot regulations due out during the Latvian Presidency) and to relevant Statutory Instruments and Guidelines published by DfT and the way in which the CAA's duties and priorities are defined by the Secretary of State⁵⁷.
- Fresh interpretations of relevant legislation taking advantage of the subsidiarity in this area that the EU Commission are clearly keen to offer and support for state aid notifications where these are required.
- Potentially small amounts of well-targeted central Government financial support (e.g. through the Regional Air Connectivity Fund for route start-ups and PSOs requiring on-going financial subsidy).

VI. Enshrine standardised measures of accessibility such as the ability to do 4-6 hours business in London and return home in a day, or to reach global cities across all continents except Australasia and the Pacific regions, one-stop, within 24 hours). These should be placed at the heart of Government policy relating to air access from the UK's regions, nations and Crown Dependencies.

VII. Work-up a package of short-term measures and associated costs/benefits for implementation from early 2016 to help provide a bridge helping to transition regional air access to London and its airports through the period where a new runway is being built as a minimum without any material deterioration in current levels of access and ideally with some marginal improvements. These might include:

- Incentivise an airline to take advantage of the slots at Heathrow that BA continues to be obliged to make available for use to serve Aberdeen and Edinburgh as part of a divestiture ruling on its takeover of Bmi; once flown for 3 years that airline could exercise its grand-father rights and use them

⁵⁷ Under the terms of the 2012 Civil Aviation Act

to serve other routes, including unserved markets like Inverness and Newquay

- Continuation/expansion of RACF to facilitate links to a London Airport where a city or sub-region that merits one, still does not have one
- Similarly supporting new or expanded services to other large UK core cities with major regional airports of over 10mppa, including Edinburgh, Birmingham and Manchester.
- Encouraging regional connections to alternative international hubs at viable business frequencies to take advantage of the capacity and connecting opportunities while they still exist there.
- Use of PSO's to help ensure links are provided where there is a viable market not adequately served by HSR or another airport with 45 minutes drive;
- Use of RAF Northolt, which represents an opportunity to immediately allow a substantial improvement in regional connectivity to London, the South East and Heathrow; this potential should be released without delay.

VIII. Longer term, before the new runway opens, the Government and preferred scheme promoter, should make a public commitment to:

- retain established (first tier) routes and frequency – i.e. from those regional airports currently connected to Heathrow/Gatwick respectively;
- add commercially viable (second tier) services;
- examine the opportunity to support non-commercial (third tier) routes on a case-by-case basis judged on accessibility and economic benefit grounds.

The scale of *new* slot pairs potentially required at both airports can be found in Tables 4.3 (48-92 @ LGW and 57-111@LHR), equating to 5-10% of *new* slots created by an additional runway at Heathrow and c5% of them at Gatwick. The exact number eventually allocated would then depend on whether airlines could be found to fly them and the extent of any start-up support on offer to help them become established.

IX. Recognise the importance of London airports and Heathrow in particular as a gateway to the world for air cargo from the UK regions, nations and Crown Dependencies. Having done so, ensure that appropriate measures are taken to materially enhance connections to/from London's major airports for air freight from the UK's RNCD's in the form of improved air/road trucking links. Primarily this will need to be to Heathrow around which the UK's air freight industry is congregated and which, through its bellyhold focused operations, will almost certainly continue to dominate the UK's air cargo market whichever location is chosen for a new South East runway.

X. If the preferred additional runway location is at Heathrow, the focus should be on creation of a national hub on one site; if it is a second runway at Gatwick, the latter will become a much larger SE gateway but with a focus on point-to-point and a short-haul connecting role. In this eventuality, there will remain a strategic requirement to promote regional links to other hubs to meet equitable global access

considerations or to develop Northolt as a regional satellite capable of providing acceptable access to Heathrow's long haul network.

- XI. The Government should work with the preferred scheme promoters, the CAA, EU Directorates and other relevant interests, to establish and publish a co-ordinated legal, policy and operational framework that will apply to regional air links in the UK and its Crown Dependencies. This should enshrine the provision of additional slots, and therefore access to onward global connections, to the preferred runway scheme, either as conditions attached to a National Strategic Infrastructure (NSIP) approval or via undertakings given during the passage of a hybrid bill.
- XII. Require the local/regional partners and/or devolved administrations/Crown Dependency Governments of all eligible regional airports to work with their airport operator to prepare Air Connectivity Action Plans. These should set out specific project and funding proposals, and an associated timetable, for ensuring that the benefits of the enhanced connectivity access to a new runway will provide is maximised, sectorally, spatially and socially. It will be important to ensure they are integrated with, and promoted by, regional and local transport and spatial plans, economic and tourism strategies and Government growth fund/city deal bids.
- XIII. We consider there to be a continuing need for a specific body to be tasked with the role of promoting enhanced regional air connectivity to London and its major airports and to oversee and co-ordinate delivery of incremental or new regional services and the aforementioned Action Plans. This organisation will require direct engagement with Whitehall, the CAA, aviation and travel industry stakeholders and business and tourism representatives across the UK. Its funding should be provided by the favoured scheme promoter, meeting bi-annually until 18 months before the runway opening and quarterly, thereafter. There should also be a series of regional committees constituted to meet as required, to bring forward issues, proposals and funding requests for endorsement by the overarching national body and ultimately approval by relevant Government Departments.

Appendices

Appendix A: Research Programme

WORK PACKAGE	TITLE	PHASE OF PROGRAMME
0	Preparation of WP Briefs	Phase 0
1	Draft DP6 response	Phase 0
2(a)	Review of other short-listed scheme proposals for regional access	Phase 1(a)
2(b)	Historic Trends in Regional Access to London	Phase 1(a)
3	Regional accessibility parameters – implications for rail vs air access requirements*	Phase 1(b)
4(a)	Analysis of current and future market for regional air services to a UK/EU hub*	Phase 1(b)
4(b)	Analysis of prospective capacity at other European Hubs in 5, 10, 15 years time*	Phase 1(b)
5	Regions to London/Transshipment Air Freight Market*	Phase 1 (b)
6	Benchmarking regional access to hubs in peer EU states	Phase 1(a)
7	Overview of Relevant Legislation, Case Law and Policy	0
8(a)	Mechanisms for ‘ring fencing’ slots at a hub for regional access†	Phase 1(a)
8(b)	Mechanisms for ‘retaining’ slots at a hub for regional access once allocated†	Phase 1(a)
9(a)	External Questionnaire*	Phase 1(b)
9(b)	Lessons from Other Major Infrastructure Projects	Phase 1(b)
9(c)	Aligning with Regional Tourism Strategies	Phase 1(b)
9(d)	Aviation’s Role in City and Economic Development	Phase 1(b)
9(e)	Aviation’s Role in Enhancing International Connectivity and Global City Positioning	Phase 1(b)
10(a)	Review of Carbon Cap Implications Associated with New Runway*	Phase 1(b)
10(b)	Rail vs surface mode comparative environmental impacts*	Phase 1(b)
11	Northolt Interim Satellite Feasibility Study*	Phase 2
12	Develop interim measures options (inc Northolt)*	Phase 2
13	Stakeholder Mapping	Cancelled
14	Develop strategic options for regional air access*	Phase 2
15	Connectivity impact *	Phase 3
16	Legal/regulatory compliance review†	Phase 3
17(a)	Financial impact assessment*	Phase 3
17(b)	Economic impact assessment*	Phase 3
18(a)	City and regional development impact*	Phase 3
18(b)	Environmental impact*	Phase 3
19	STAG Appraisal*	Phase 3
20	Prepare Final Report and Supporting Working Papers*	Phase 4

Notes: * Key WPs; † Includes discussions with DfT/EU Commission.

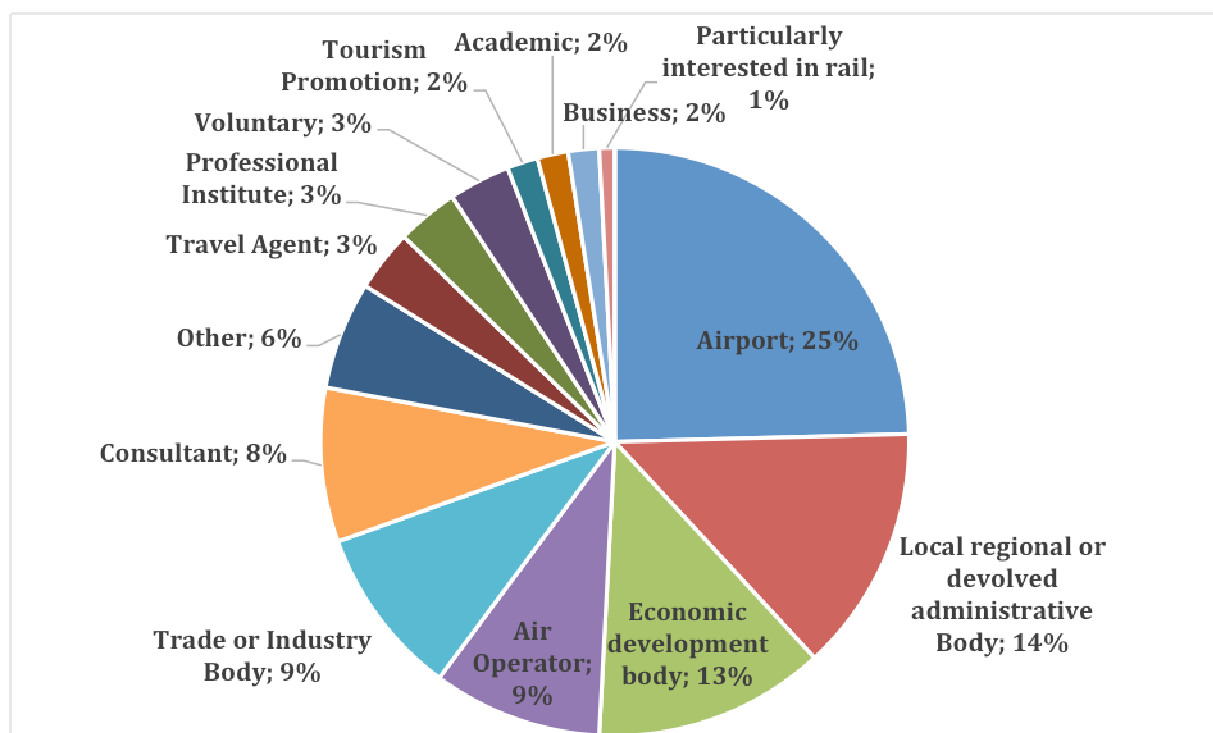
Appendix B: Details of External Engagement Activity

The Questionnaire Survey

The Task Force's Members and its Secretariat compiled a target stakeholder email list from across the country and invited them to undertake an online survey that explored many critical aspects of the topics under review. In addition an open invitation was extended to anyone accessing the Task Force's website, a number of relevant Linked-in groups and a press notice was issued notifying a wide range of media of its existence.

The survey ran from 13th November 2014–20th January 2015, and received 120 responses. Some recipients forwarded the online link to colleagues and some interested members of the public also got to hear of the survey and responded. The classification of respondents can be seen in the pie chart below and offers a good mix of representatives from our target market.

Self-classification of the Survey's Respondents



The questionnaire results, which have been used as a snapshot to either confirmed or question evidence from other sources, are reported in Working Paper YY.

Written Representations

Substantive written material and submissions have been received from:

- The Guernsey Government and Airport
- Jersey Government
- Friends of Liverpool Airport
- Heathrow Hub
- London Luton Airport
- Newcastle International Airport

- Cranfield University
- Aberdeen International Airport Consultative Committee
- London Chamber of Commerce
- Shannon, Ennis, Limerick and Galway Chambers of Commerce

Bilateral Meetings

The Chairman or Secretariat have held NCTF related meetings or discussions with:

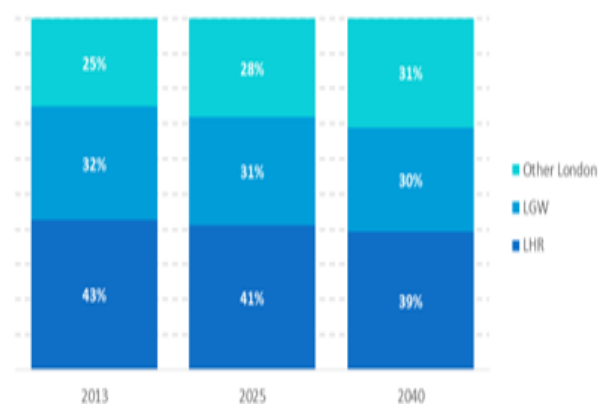
- European Commission – DG Comp and DG Move
- The Department for Transport
- The Airport’s Commission Secretariat
- Transport Scotland
- The Welsh Government
- Department of Enterprise, Trade and Investment – Northern Ireland Executive
- The three Crown Dependencies
- The CAA
- Promoters - Heathrow Airport and Heathrow Hub
- Core Cities Group
- Flybe
- British Airways (informally an Airport’s Commission Conference)
- Tourism Ireland and Tourism NI
- Northern Ireland Forum for Travel & Tourism Industry
- George Best Belfast City Airport and Belfast International Airports
- Naomi Long MP for East Belfast
- Cranfield University

Appendix C: Scenario Regional Forecasts

“Do Nothing” forecast by region – total London passengers

Source: RDC Analysis

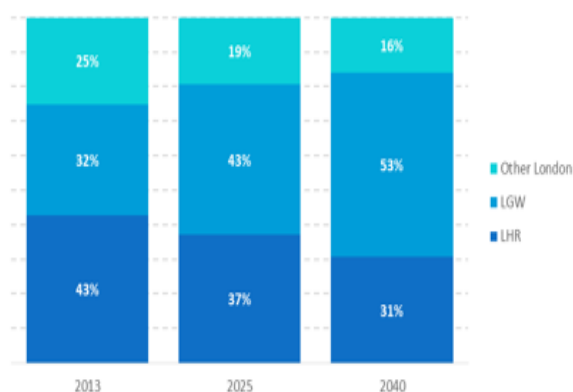
	2013	2025	2040	13-40 CAGR
Crown Dependencies	1,006,778	1,052,874	1,066,521	0.2%
East of England	0	0	0	-
North East	563,120	643,777	665,430	0.6%
Northern Ireland	2,212,841	2,637,578	3,216,588	1.4%
Scotland	6,642,207	6,725,895	6,877,301	0.1%
South West	100,057	122,731	126,243	0.9%
Wales	0	0	0	-
Yorkshire & North West	1,195,941	1,242,875	1,284,531	0.3%
Total	11,720,944	12,425,730	13,236,614	0.5%



“2+2” forecast by region – total London passengers

Source: RDC Analysis

	2013	2025	2040	13-40 CAGR
Crown Dependencies	1,006,778	1,064,988	1,107,629	0.4%
East of England	0	36,503	40,772	-
North East	563,120	723,050	933,850	1.9%
Northern Ireland	2,212,841	2,893,444	3,910,693	2.1%
Scotland	6,642,207	7,125,840	7,823,220	0.6%
South West	100,057	179,505	206,334	2.7%
Wales	0	19,985	29,018	-
Yorkshire & North West	1,195,941	1,709,102	2,965,138	3.4%
Total	11,720,944	13,752,419	17,016,656	1.4%



“3+1” forecast by region – total London passengers

Source: RDC Analysis

	2013	2025	2040	13-40 CAGR
Crown Dependencies	1,006,778	1,084,349	1,153,811	0.5%
East of England	0	44,699	50,135	-
North East	563,120	777,751	1,047,229	2.3%
Northern Ireland	2,212,841	3,067,426	4,412,270	2.6%
Scotland	6,642,207	7,493,079	8,465,452	0.9%
South West	100,057	214,921	257,351	3.6%
Wales	0	22,350	58,899	-
Yorkshire & North West	1,195,941	2,084,913	3,836,878	4.4%
Total	11,720,944	14,789,488	19,282,026	1.9%

