

Birmingham Airport

Response to Airports Commission consultation: Increasing the UK's long- term aviation capacity

February 2015



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Reply to: Jerry Blackett
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3rd February 2015

Dear Sir Howard,

All of the options for runway expansion are in the South East. However, the location of any new runway is a decision for the whole country, especially given the Airports Commission's responsibility to take a 'UK-wide perspective' and ensure value for customers.

Long-haul connectivity is a central driver of economic growth. It boosts trade and exports, encourages foreign direct investment and attracts tourism. We are therefore concerned that the Airports Commission has not appraised the impact of the shortlisted options on each region's economy and transport infrastructure. Research commissioned by Birmingham Airport suggests that increased demand at Birmingham Airport can add £400 million to the region and beyond by 2020. We want our long-haul airport to have the space to grow.

HS2 will be a game-changer for our region and make Birmingham Airport the UK's most accessible airport, relieving pressure on the congested South East. We are therefore also concerned that the positive impact of HS2 and new aircraft types has not been fully considered by the Commission.

Heathrow is an essential UK airport and must remain a world class airport for the sake of the UK and our region but, for the Midlands to grow, Heathrow must become complementary to Birmingham Airport, serving the routes only a hub can whilst leaving room for our long-haul airport to develop the new routes that our region needs. If Heathrow were to grow, through capacity increases such as a third or longer runway, this would limit our region's long-haul connections and, with it, our ambitions.

The UK needs a competitive network of airports for the sake of passenger choice, customer value and UK-wide growth. Gatwick is the only option offered by Sir Howard Davies that would inject new competition into the market, benefiting passengers at Birmingham, Heathrow, Gatwick and beyond. As the Airports Commission says, Gatwick expansion will 'enhance competition', 'putting downward pressure on fares and more choice for passengers'.

Heathrow is and will remain a world class hub airport. But Gatwick expansion, which will be less costly for taxpayers and less harmful to communities and the environment, is the most deliverable option; it will give our regions room to grow and it will mean better value for money for customers, whichever airport they fly from.

Yours faithfully

Ian Austin, MP for Dudley North

Aidan Burley, MP for Cannock Chase

Mark Garnier, MP for Wyre Forest

Marcus Jones, MP for Nuneaton

Jeremy Lefroy, MP for Stafford

Karen Lumley, MP for Redditch

Khalid Mahmood, MP for Birmingham Perry Barr

James Morris, MP for Halesowen & Rowley

Mark Pawsey, MP for Rugby & Bulkington

Gisela Stuart, MP for Birmingham Edgbaston

Neena Gill, West Midlands MEP

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Sir Albert Bore, Leader, Birmingham City Council

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Ilan Conlet and Monica Lewis, Braidwood School for the Deaf

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Karen Emerson, Leadership Development – The Leadership Trust

Richard Field, Field Day Consulting Ltd

Chris and Petra Gale, Xceeda Group Ltd

Rick Grain, Effigy Blinds Ltd

Jonathan Harris, The Birmingham Enterprise Centre – The Enterprise Foundation

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Dear Sir Howard,

We are writing to confirm our full support for Birmingham Airport's vision for a competitive UK aviation market, where each region is supported by its own long-haul airport.

Whilst all of the options for runway expansion are in the South East, the location of any new runway is a decision for the whole country, especially given the Airports Commission's responsibility to take a "UK-wide perspective" and ensure value for customers.

Long-haul connectivity is a central driver of economic growth. It boosts trade and exports, encourages foreign direct investment and attracts tourism. We are therefore concerned that the Airports Commission has not appraised the impact of the shortlisted options on each region's economy and transport infrastructure. Research commissioned by Birmingham Airport suggests that increased demand at the Airport can add £400 million to the region and beyond by 2020. As representatives of the Cross-LEP group in the Midlands, we want our long-haul airport to have the space to grow. HS2 will be a game-changer for our region and make Birmingham Airport the UK's most accessible airport, relieving pressure on the congested South East. We are therefore also keen to ensure that the positive impact of HS2 and hub-buster aircraft has is fully considered by the Commission.

Heathrow is an essential UK airport and must remain a world class airport for the sake of the UK and our region. But, for the Midlands to grow, Heathrow must become complementary to Birmingham Airport, serving the routes only a hub can whilst leaving room for our long-haul airport to develop the new routes that our region needs. If Heathrow were to grow, this would limit our region's long-haul connections and, with it, our ambitions. The UK needs a competitive network of airports for the sake of passenger choice, customer value and UK-wide growth. Gatwick is the only option offered by Sir Howard Davies that would inject new competition into the market, benefiting passengers at Birmingham, Heathrow, Gatwick and beyond. As the Airports Commission says, Gatwick expansion will "enhance competition", "putting downward pressure on fares and more choice for passengers." A strong network of competing airports will help to create a more balanced national economy.

Heathrow is and must remain a world class hub airport. But Gatwick expansion, which will be less costly for taxpayers and less harmful to communities and the environment, is the most deliverable option; it will give our regions room to grow and it will mean better value for money for customers, whichever airport they fly from.

Yours sincerely,

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1. Introduction and aim of this document

This paper represents the response by Birmingham Airport to the open consultation by the Airports Commission on ‘Increasing the UK’s long-term aviation capacity’. It forms part of the wider constructive engagement between Birmingham Airport and the Airports Commission.

Our evidence seeks to respond to a number of the questions put forward in the Airports Commission consultation document, highlighting the case for greater competition across the UK aviation network.

We understand that the Airports Commission’s objective to establish how the UK’s status as a leading global aviation hub can be maintained is predicated on the principle that aviation connectivity is fundamental to the success of the UK economy. We wholly support this principle and recognise that any recommendations you make for future aviation capacity will impact upon the national economy.

As ever, we would welcome any opportunity to discuss this evidence, and both the Midlands’ and Birmingham Airport’s significant contribution to the UK’s economic success, in person.

2. Birmingham Airport: The strategic context

Our vision for UK aviation is a network of long-haul national airports, each supporting the comparative economic advantage of that region to boost trade, foreign direct investment and tourism. As well as providing a much-valued service to ten million business and leisure travellers each year, Birmingham Airport is an essential component of the UK economy. By plugging the greater Midlands economy into global destinations, markets and jobs, it is part of the answer to a major national question, being asked ever-louder by business, government and citizens, about how the UK rebalances its economy.

Birmingham Airport is part of the answer to challenging questions about how we revive our great cities; bring opportunities to people no matter where they live; how we create vibrant, energetic, prosperous city-regions; and how we ensure that the United Kingdom can compete in a global economy, alongside China, India, and the other fast-growing parts of the world. China, for example, has announced that it intends to increase its number of airports from 175 in 2010 to 230 this year.

We would welcome a renaissance of the great cities such as Manchester, Leeds, Liverpool, Sheffield and Birmingham which powered the industrial revolution, and see them develop as centres for new digital technology, arts and culture, modern manufacturing, finance and world-class services, building on today's successes. As such, throughout the Airports Commission process, we have outlined a vision of a country with an economy balanced between London and the South East, and the great metropolitan centres in the Midlands and the North, with citizens served by a modern network of international airports, supported by integrated road, rail and light-rail systems.

Our vision for the UK feeds into a growing narrative, as highlighted by the recent works of Lord Heseltine and Lord Adonis, *No stone unturned: in pursuit of growth*, and *Mending the Fractured Economy*, respectively. These reports called for investment, wealth and opportunity to be distributed evenly throughout the UK's city-regions.

This trend has been moving the national political discussion during the time the Airports Commission process has been underway, and is therefore discussed further in Chapter 5 as a key development that has not been adequately addressed by the Commission.

2014 itself was an incredibly exciting year for Birmingham Airport. Celebrating our 75th anniversary year, we completed a number of major developments which are supporting growth and connectivity

Notably, as part of a £200 million site-wide expansion programme, we completed the extension of our runway for longer haul flights. Now open, airlines are able to offer long-haul services to the Far East, the West Coast of the US, South America and South Africa to and from Birmingham, allowing goods and passengers from the region to travel further, faster, and attracting inwards tourism and investment.

As a result of having greater runway capability, as well as a joint campaign with Government, we were able to receive the first direct flights from Beijing to a UK airport outside of London in July 2014. This charter service operated by China Southern Airlines was incredibly successful and highlighted the appetite for long-haul flights to and from the region. Indeed, there is evident growth in the long-haul market at Birmingham Airport, with more daily flights to New York, Emirates launching a third daily service to Dubai, and Air India now offering daily hub-buster flights between Birmingham, Delhi and Amritsar from December 2014. Furthermore, in the last year, Birmingham Airport has been able to secure BA code shares to New York and Barcelona.

We know demand is growing. 2014 was our busiest ever year, handling 9,707,449 passengers, an increase of 6.5% compared to 2013. This included a 7.2% boost in long-haul traffic. By 2020, we are forecast to handle 15 million passengers a year. Competition, aviation innovation, new aircraft types and new rail links are making this possible, thereby answering customer demand for choice and direct flights.

Business demand is also growing. Birmingham Airport is located at the heart of the manufacturing

powerhouse of the UK. West Midlands exports are the fastest growing in the UK (£27billion in 2013), with the highest growth to long-haul destinations. Indeed, our region has the largest trade surplus with North America, and is the only region to have a positive balance of trade with China.

However, the region offers more than just manufacturing, with expertise in financial services, engineering, research and development, science, technology, education and the arts. These skills support high-value goods in the transport, automotive, aerospace, defence and machinery industries which are reliant on overseas markets requiring long-haul flights. Our region is also the destination for over a quarter of all foreign direct investment that comes into Britain. The Midlands is therefore a powerful engine of growth at the heart of the country, and needs global connections to succeed.

As a result of our growth and our commitment to the region, Birmingham Airport is one of the West Midlands' largest employers, supporting some 6,500 jobs on site. In addition to catering for the growing demand, the runway extension and development of the airport is also a driver for new growth, both in terms of long-haul flights, connecting flights to feed the long-haul network and increased demand for cargo freight movement. This passenger growth, enhanced by the longer haul connectivity we are now able to provide, is estimated to help generate an additional 4000 jobs on site and an additional 4000 jobs in the immediate supply chain – an announcement that was welcomed during a visit by the Prime Minister in 2014.

It is not only business leaders and entrepreneurs who increasingly rely on Birmingham Airport. Within a few years, investment in the railways, especially high-speed rail, will mean millions of passengers can make a meaningful choice between airports in London, Manchester or Birmingham. Improvements to road and rail will bring 80 million air passengers, currently using other airports, within one hour's travel time of Birmingham Airport.

As markets develop, there will be greater demands for long-haul flights and this is being mirrored by the airlines serving their customers. Notably, aeroplane fleets are set to double by 2030 with 69% of long-haul aircraft on order by carriers being 'hub-busters' – allowing more direct and lower cost services.

The Airports Commission's Interim Report recognised Birmingham Airport as one where demand may require a second runway at some point in the future. However, the short-listed options were focussed on increasing capacity in the South-East. Birmingham is in the perfect position, economically and geographically, to soak up the increasing demand as it occurs, and in the significant period ahead of any new runway being built in the South East.

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

All of the options for runway expansion are in the South East. However, the location of any new runway remains a decision for the whole country, especially given the Airports Commission's original remit and responsibility to take a 'UK-wide perspective'. We note that such a 'UK-wide perspective' would not be satisfied by a simple focus on airports most distant from the South East, but would require a proper assessment of the impact of the options on the economies all UK regions, which we do not believe has adequately taken place (see following chapter).

Like the Airports Commission, we understand that long-haul connectivity is a central driver of economic growth, as it boosts trade and exports, encourages foreign direct investment and attracts tourism. It is within this context that we have argued for a network of strategic long-haul international airports across the country, bringing choice and competition to the benefit of passengers and businesses linked to the UK aviation market.

For the Midlands, recent research commissioned by Birmingham Airport suggests that increased demand at the Airport can bring an additional £400 million to the region and beyond by 2020. In fact, Birmingham Airport's runway infrastructure can support 27 million passengers a year and, when filled, this could add over £1 billion to our economy. We therefore want to ensure the Airports Commission's decision does not adversely impact on Birmingham Airport's room to grow. It is imperative that the Airports Commission takes Birmingham Airport's future, and the growth of other regional airports, into account in its final decision.

Case Study: Effects of added competition and choice on air fares to India

In August 2013, Air India launched an additional service from Birmingham Airport to Delhi. Previously, Air India had operated solely at Heathrow, with fares remaining relatively high (an average fare of \$312 one way). The introduction of the Birmingham service saw Air India's average

fare decrease to \$252 one way. Furthermore, British Airways' Heathrow fares fell from \$1,155 before the Birmingham flight was introduced to \$1,039, generating the greatest benefits for the consumer. Indeed, this trend in prices has continued, as competition and choice have put a downward pressure on fares to the benefit of consumers. It is important to note that within three weeks of the flights going on sale, load factors in excess of 80% were experienced by the airline.

It is important to note from the outset that Heathrow is an essential UK airport and must remain a world class airport for the sake of the UK and our region. However, for the Midlands to grow, Heathrow must become complementary to Birmingham Airport, serving the routes only a very large airport can support whilst leaving room for our long-haul airport to develop the routes to new and growing markets that our region needs. If Heathrow were to grow, this would limit our region's long-haul connections and, with it, our ambitions for the Airport, the region's businesses and passengers.

The UK needs continued competition and a network of airports. Of the three short-listed options by the Airports Commission, only expansion at Gatwick would provide this competition, benefitting passengers at Birmingham, Heathrow, Gatwick and beyond. As the Airports Commission says, Gatwick expansion will 'enhance competition,' 'putting downward pressure on fares and more choice for passengers.' Our experience has shown that greater choice and competition benefits the passenger and should therefore be encouraged by the Airports Commission. We understand from point 2.28 in the consultation document, that: 'the Commission is keen to strengthen further its evidence base on the competition effects of expanding aviation capacity and will continue to develop this work'. The impacts of competition are critical to this process and Birmingham Airport would be glad to engage in the Commission's understanding of this issue.

As a case study of this, it is interesting to note that the additional Air India flights launched in August 2013 at Birmingham Airport led to significant downward pressure on prices, thereby benefiting passengers across the UK.

Having considered the three options left by the Airports Commission, it is our belief that Heathrow is and must remain a world class airport, but in terms of future expansion, Gatwick is the most compatible with the widely held goal of rebalancing the UK economy, and it is also the most deliverable – it is a cheaper, faster and simpler scheme that will maximise the UK's connectivity, whilst giving our regions room to grow.

However, the Airports Commission should note that the recommendation of a further runway in the South East cannot and should not represent the whole story. In a recent article for the *Financial Times*, Sir Howard wrote that 'London's constrained capacity comes with a cost'. As the Commission has previously identified, Birmingham Airport has the capacity to accommodate this demand in the future, most significantly in the interim period before any new runways are built in the South East.

Birmingham Airport's ability to accommodate this demand will be greatly influenced by the Airports Commission's final decision, as well as its other recommendations for moving passenger demand, especially around surface access improvements. It is a concern that the Commission has not adequately considered this interim period and the options available to the Commission, and as such, we discuss these points further in Chapter 5.

4. Do you have any comments on how the Commission has carried out its appraisal? (relating to questions 3, 4 and 5 in the consultation document)

We welcome the open and consultative approach that the Airports Commission has taken throughout this process. As a principle, we support point 2.84 of the latest consultation document. Namely, that:

‘Responses to these questions will help the Commission to test and strengthen its analysis prior to reaching any final recommendations, and to ensure that the conclusions in its final report are based on as robust and comprehensive an evidence base as is practicable.’

With this in mind, we commissioned Oxera to look into the modelling used for the regional economic impact assessment. Given the Airports Commission’s remit to take a ‘UK-wide perspective’, this particular element of the Commission’s work should be a crucial determinant in any decision.

As a result of Oxera’s analysis, we have a number of concerns about the work undertaken by PwC. On analysing PwC’s methodology and results, and comparing them to the Airports Commission’s own forecast, Oxera conclude that:

- PwC’s model divides the UK into three geographical regions (London & the South East, The Rest of England, and the Rest of the UK), rather than the more well-known English regions, Wales and Scotland. While this regional breakdown in the model is unusual, it appears to reflect the aim of the analysis. However, this breakdown could conceal variation in benefits, with some regions losing out. A more relevant question for analysis which could have been asked by the Airports Commission is therefore where the losses and gains are accrued and how they are distributed.

- The Airports Commission’s own forecasts suggest that business travel at regional airports would be better off under a Gatwick expansion. The Airports Commission’s latest forecasting report says that, in 2050 and under a carbon traded scenario, business travel at regional airports is between 0.4 and 1.7 mppa higher for a Gatwick expansion compared to a Heathrow expansion.¹ Despite this, the PwC results suggest that a Heathrow expansion would generate more GDP in the regions.
- The magnitude of the wider economic impacts to the UK in the PwC model appears very large in comparison to the user benefits. Typically, we would expect wider benefits of around 25% of user benefits. PwC estimates these as in excess of 500% in this case.
- There are a number of assumptions, relationships and results coming from the model that appear questionable, such as the assumption of a constant and fixed ratio of inbound and outbound flights at Heathrow and Gatwick respectively, which seems unrealistic and inherently favours a Heathrow expansion.
- To elaborate on this point further, the Airports Commission instructed PwC to assume that today’s ratio of in- and outbound passengers at Heathrow and Gatwick would remain constant at both airports, post-runway expansion. However, this assumption favours Heathrow expansion – in terms of its forecast boost to the economy – as Heathrow currently has a higher share of inbound passengers than Gatwick, and inbound passengers generate positive economic benefits (eg. tourism spending in the UK). This assumption, which PwC was instructed to make, is flawed as Gatwick expansion would be transformative, making it similar in size to the existing Heathrow site, likely resulting in it capturing a greater share of the inbound market.

Significantly, Oxera conclude that that the most intuitive deduction about economic impacts, taking the Airports Commission’s traffic forecast as given, is that Heathrow expansion would be more likely to exacerbate rather than mitigate regional imbalances, by drawing more business into the London area.

1. www.gov.uk/government/uploads/system/uploads/attachment_data/file/374660/AC05-forecasts.pdf Tables 6.13 and 6.15).

5. Are there any relevant factors that have not been fully addressed by the Commission to date? (relating to question 4 in the consultation document)

The Airports Commission has rightly endeavoured to take a comprehensive approach to its investigation. However, due to the lengthy process, there have been a number of significant developments that have occurred in the interim which significantly shape the environment in which the Commission is making its recommendations.

This chapter emphasises the importance of the devolution debate that is growing in both the media and in the narratives of the main political parties, whilst also highlighting a number of significant developments that have not been given the prominence that they deserve by the Commission.

Importance of devolution and our city regions

Devolution of power to the regions is the country's direction of travel. In the West Midlands, proposals for a combined authority and a new £350million deal, announced in July 2014, to create jobs and economic growth in Birmingham, Solihull and the surrounding area are crucial developments. Other recent positives include the coming together of six Local Enterprise Partnerships in the West Midlands on transport investment; the West Midlands Integrated Transport Authority; and the Midlands Connect initiative, which brings together a cross-LEP partnership in the West and East Midlands to develop proposals for strategic transport investment in the region.

Commenting on this progress, Deputy Prime Minister Nick Clegg MP said in January 2015:

'I'm delighted to see that the steps we've taken in Manchester, in Sheffield, has led to an appetite amongst some of the local authorities coming together in the West Midlands to emulate something like that themselves, and build on this growth deal by having more power devolved in the future to the West Midlands as well.'

'The growth deal is significant but in many ways its greater significance is that it is a big step towards even greater devolution in the future.'

This is a view that is growing in significance across all the main political parties. As such, the Airports Commission should support our region's own transport, and not take the country backwards by putting all our eggs in the Heathrow basket.

Understanding the political will to support our city regions is essential for the successful implementation of the Airports Commission's proposals. Rather than promoting expansion at Heathrow, which would limit the aspirations of our great cities' airports and has been shown to be politically impossible in the past, we urge the Commission to recommend the option which allows for greater competition – thereby supporting our city regions around the country.

HS2

HS2 will be a game-changer for our region and make Birmingham Airport the most convenient for 19 million people – becoming the UK's most accessible airport. In travel times for London, Birmingham Airport will be closer than Luton and Stansted, the same as Gatwick, and only 15 minutes further than Heathrow Terminal 5. As the most significant transport infrastructure project in the UK since the motorways were built in the 1950s and 1960s, the positive effects of the scheme should be properly considered as it helps to relieve pressure on the congested South East.

In point 1.20, the Commission notes that:

'The case for such expansion [at Birmingham Airport] was predicated on the improvements in surface access to the airport that would be provided by HS2, but the Commission's analysis found that even with such improvements available capacity at the airport was not forecast to be filled until the mid-2040s.'

We are concerned that the positive impact of HS2 on passenger choice has not been fully considered by the Commission. The benefits of HS2 allow Birmingham Airport to be seen as a viable alternative to Airports in the South East. With the inevitable time lag associated with runway developments in the South East, this significant surface access improvement should be highlighted as facilitating Birmingham Airport's crucial role to play in the UK aviation market.

The role of the B787 and A350

It is also our belief that the Airports Commission has not yet properly considered the implications of the changing shape of aviation. Indeed, in point 2.22, the Commission wrote:

'An important aspect of the appraisals is that they are not centred on one view of the future. This is because the future development of the aviation sector, and of the wider UK and global economy, is inherently difficult to predict.'

Whilst future predictions of the shape of an industry and the global economy should always be taken with caution, we can already recognise trends that have occurred since the start of the Airports Commission process. As identified earlier in this response, aeroplane fleets are set to double by 2030 and 69% of long-haul aircraft on order by carriers are 'hub-busters' – allowing more direct and low-cost services. It is clear that manufacturers and airlines do not believe the future of aviation lies in the reliance on hub airports. Rather, and as we have often heard from our stakeholders, passengers and businesses want to be able to fly direct and the market is beginning to accommodate for this.

The Commission has rightly identified the importance of new aircraft, like the Boeing 787 and the Airbus A350, coming into operation in Sir Howard Davies' article for the Financial Times. However, the implications of this move by airlines have not been properly developed. As the ability for lower-cost carriers to enter the long-haul market increases, so does the demand for point-to-point services. Indeed, we have seen over the last fifteen years,

the major impact that low-cost carriers have had on travel patterns, so we should expect that the next fifteen years will bring further change and, with new aircraft, the ability of low-cost airlines to provide customers with increased direct long-haul services. This combination means we should plan for a future market where each region has its own long-haul airport – a future that is more likely if competition is supported by the expansion of Gatwick.

Environmental factors

At Birmingham Airport, we strive to ensure that communities in our locality are not unnecessarily and adversely affected by aviation operations. A key priority for Birmingham Airport is to ensure the interests of the local community are adequately represented by airport policy, and we have invested heavily in community engagement and liaison, in particular around noise issues. As we conveyed to the Airports Commission in response to the Aviation Noise Discussion Paper, Birmingham Airport welcomes the inclusion of aviation noise in the Airports Commission considerations for assessing the need for additional UK airport capacity. We are therefore concerned that the proposals put forward for Heathrow expansion do not properly take into account the disruption that could be caused to local communities and beyond.

Heathrow is already the noisiest airport in Europe, and a new runway at Heathrow would see 320,000 additional people affected by noise. By comparison a second runway at Gatwick would affect less than 5 per cent of the households affected by Heathrow today. Furthermore, local communities and those much further afield would be adversely affected by the disruption of the M25 envisaged in Heathrow's plans.

Noise and other disruptions have been acknowledged by the Airports Commission. However, we are concerned that the implications have not been. This includes both the risks of failing to complete a Heathrow scheme as a result of community opposition, and the risks to the wider airports sector of developing a scheme that would have such significant negative effects.

6. Conclusion:

The need to balance aviation in the UK

Our vision is for the people of the UK and international visitors to be served by a choice of world-class long-haul national airports, within comfortable travelling times from their homes and destinations. We see this as essential to the future prosperity of the nation, as well as the success of individual companies. We want to rebalance aviation in the UK away from an over-reliance on London's congested airports, as part of a broader renaissance of British city-regions.

There is a significant opportunity for large regional airports to positively contribute to UK aviation which will assist in rebalancing and redistributing the economic benefits that cities with well linked air services bring.

At Birmingham Airport, we will continue to play our role supporting regional industry and passengers, and ensuring we are well-placed to make the most of significant developments such as HS2.

Of the short-listed options, the Commission should consider which Airport's expansion will allow for competition and choice in the UK aviation sector, encouraging the rebalancing of our economy and supporting the political trend towards devolution. It is our belief that Gatwick is the only option offered by the Airports Commission that will afford this. We therefore call upon the Airports Commission and the Government to move forward in a manner which promotes connectivity across the country and does not undermine it in favour of focusing on a single hub.

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