



**BAR UK response to Airports Commission public consultation
Assessment of proposals for additional runway capacity
at Gatwick and Heathrow airports**

On behalf of its members, BAR UK is pleased to present its response to the Airports Commission public consultation on the assessment of proposals for additional runway capacity at Gatwick and Heathrow airports.

BAR UK is an airline trade organisation representing over 70 scheduled airlines undertaking business in the UK.

Our members are scheduled network airlines mainly operating into Heathrow, Gatwick and Manchester, with a smaller proportion also operating across regional UK airports.

The views put forward in this response have their agreement. Being an association, our responses are general in nature as we are unable to respond on specific competition issues, carrier economic data or to present views of an individual airline.

We have invited individual airline members to also make submissions.

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

The BAR UK airline community has closely followed the evaluation process of the three short-listed proposals. As part of our own evaluation, we have engaged with all three scheme proponents and provided the opportunity for each to present the merits of their scheme to our member airlines.

The BAR UK airline community is satisfied that the Airports Commission has conducted an extremely thorough, detailed and independent assessment of the UK's airport capacity needs and expansion options and we support the Commission's conclusions that additional runway capacity is required in the London airports system.

At this final public consultation stage we believe it is important to state that, throughout the entire Airports Commission process, the majority of BAR UK airlines have maintained their view that expansion at the UK's existing hub airport, Heathrow, provides the most compelling solution in answering the terms of reference presented to the Airports Commission by the UK Government - ***"To examine the scale and timing of any requirement for additional capacity to maintain the UK's position as Europe's most important aviation hub, and it will identify and evaluate how any need for additional capacity should be met in the short, medium and long term."***

Airline support for Heathrow as the UK's pre-eminent and only hub airport has developed over many years for a myriad of reasons, including proximity to key markets, hub interline potential, airline alliance communities, and the greatest surface connectivity to London Underground, road and rail networks.

Whilst all of London's airports are successful and the combined traffic totals place London firmly in the lead worldwide, Heathrow remains the powerhouse for the UK economy through supporting the long-haul passenger and cargo traffic that global evidence demonstrates is seldom sufficiently supported through non-hub or secondary airports, including Gatwick.

Since Heathrow is currently operating to its maximum aircraft movements, and has unfulfilled airline demand, it is important that the capacity solution addresses the trend where this unfulfilled demand is just as likely to be lost to another hub airport outside the UK, as to be allocated to other London or UK regional airports.

BAR UK airlines therefore support the principle that affordably expanding capacity at Heathrow, where current and projected demand exists - and addressing current resilience issues resulting from extremely high runway utilisation, provides the best return on investment to the wider UK economy, consumers and airlines together with the lowest financial and operational risk.

Airline preference between the two proposed Heathrow schemes will be largely dictated by cost, risk, operational and environmental aspects that we believe the Commission is continuing to thoroughly and professionally evaluate.

In contrast, the majority of BAR UK airlines believe that an expanded Gatwick provides a capacity solution that does not effectively address the terms of reference set by the UK Government. Whilst Gatwick is a very successful airport that has long played a vital role in the London airports system and presents its own case for expansion, BAR UK airlines believe that any expansion at Gatwick should not preclude expansion at the existing hub airport, Heathrow.

Despite the existing capacity restrictions and higher charges at Heathrow, long-haul network airlines and alliances have shown no propensity for moving services from Heathrow to Gatwick, or for any comprehensive operation split across both airports. Growth at an expanded Gatwick is therefore likely to be organic - and at a lower rate than at an expanded Heathrow where surplus demand over available capacity already exists.

The cost and commercial viability analysis by the Commission demonstrates that expansion at Gatwick will result in charges to airlines commensurate with those of Heathrow today, resulting in significantly increased costs for the predominantly low-cost and leisure point to point services that currently are the back-bone of Gatwick's success. Higher costs for a significant proportion of the most price sensitive market are likely to negatively impact consumer benefits - rather than provide increased long-haul connectivity or stimulate additional competition.

For that reason, funding of additional capacity at Gatwick would need the agreement of the airport's existing airline clients as similar, alternative capacity is unlikely to be found at other airports within the London airports system and would then potentially prejudice any airline wishing to retain a lower cost model.

In summary, BAR UK airlines believe that privatisation of much of the UK's key airport infrastructure, including Gatwick and Heathrow, has provided significant benefits to the UK economy with private investment driving recent airport infrastructure development without contribution from the UK taxpayer. However, the future cost of expansion of such key national infrastructure needs to balance the affordability by the airline industry and consumers, with the responsibility of central Government to the national interest. Since the airline investment in surface links at UK airports has already provided significant economic benefits, there remains an important role for State Aid for transport infrastructure outside the airport site. For example, at Heathrow the existing tube, rail and road connectivity contributes to approximately 11% of the Regulated Asset Base of Heathrow and future on site projects, including connecting HS2 and western rail access, are already planned for delivery by 2026.

The majority of BAR UK airlines therefore believe that there is compelling evidence that maintaining the UK's status as the most important hub in Europe can only be optimised through the provision of a hub airport with at least three runways - currently deliverable only through expansion at Heathrow.

Q2: Do you have any suggestions for how the short listed options could be improved, i.e. their benefits enhanced or negative impacts mitigated?

The BAR UK airline community does not collectively have any further suggestions on improving specific schemes.

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

BAR UK member airlines believe that the Airports Commission has adopted the correct framework, input and analysis in order to present the next Government with the independent, comprehensive and balanced report required to make the optimal decision on expanding the UK's airport capacity.

Any decision will require trade-offs, and we believe that the eight assessment categories provide detail and weight to multiple requirements and viewpoints.

In maintaining the UK's status as the most important aviation hub in Europe, BAR UK member airlines support the Commissions appraisals as giving sufficient priority to strategic fit, economic impacts and commercial and operational viability. These considerations, for obvious reasons, are vital in ensuring that the airline industry is enabled to deliver the desired connectivity to global markets, and to allow the UK to maximise return on the significant investment in new infrastructure.

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

Future affordability by consumers and airlines will be vital in ensuring that the infrastructure is well utilised by the world's airlines.

The Commission has so far estimated the potential impact on airport charges for each scheme; however, more detailed evaluation is to be deferred to the CAA as the economic regulator.

BAR UK airlines believe that a much more comprehensive evaluation of airport charges, involving the CAA, needs to take place as part of the Commissions final recommendations. For example, in order to correctly determine the potential charges on a departing passenger, both the arrival and departure charges need to be evaluated since long-standing international convention means that airlines apply the combined airport charges to the departing flight sector only.

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

The 16 appraisal modules have been conducted in-depth.

1. Cost and commercial viability analysis

The BAR UK airlines acknowledge that all three short-listed schemes propose substantial increases in user charges in order to fund the capital expenditure. A major concern is that charges at Heathrow are already far higher than at competing hub airports in Europe, and that charges at Gatwick are also higher than at other non-hub airports, including Luton and Stansted.

The level of increases estimated by the Commission at up to 60% for Gatwick, and 100% for Heathrow could have a significant impact on the ability for airlines to realise the benefits of expanded capacity. In particular, the development of more marginal long-haul and domestic routes, thus undermining the Governments rationale of the terms of reference.

BAR UK airlines therefore stress that it is vital that the selected scheme is commercially viable to airlines and consumers, not just the airport operators, to avoid financing challenges and State Aid issues over a required Government contribution.

Since both airports are currently regulated by the CAA as having market power, then ongoing economic regulation must ensure that risks are allocated to the party best able to manage the risk such that the consumer benefits are not diluted through inefficiencies. Therefore, pre-funding of capital is strongly opposed by BAR UK airlines since this would distort the market by allocated costs to passengers who do not benefit from the investment, and in requiring additional investment by incumbent airlines where the benefits may accrue to new entrants who have not contributed to those costs.

2. Strategic fit analysis

We note the Commission's work on airline business models and how these are likely to impact the future traffic mix at an expanded Gatwick or Heathrow.

We believe that item **3.13** in the Consultation Document correctly states that ***"Gatwick currently has a mainly point to point business model, including a significant low-cost presence and these are the sectors in which the highest levels of growth have been seen over recent years."***

However, we do not believe that the evidence exists, in the UK or elsewhere, that the 'low-cost is king' scenario is feasible where ***"Expansion at Gatwick would support continuing growth in these sectors at the airport. In the low-cost is king scenario, which sees a significant shift into the long-haul market from low-cost carriers, Gatwick becomes a predominantly long-haul airport by 2040 in terms of both passenger numbers and destinations."***

It is predominantly a result of capacity across the UK's large number of commercial airports, (including 6 serving the Greater London area), that has enabled the UK's European dominance in the '*low-cost is king*' scenario – and this despite Heathrow being capacity constrained. It is arguable that if the London airports system had consisted of two major airports - with three or more runways each rather than the current seven runways across six airports, then the UK's aviation sector would look very different today.

It is already demonstrable that while Heathrow is currently constrained and with higher landing charges that Gatwick, there is no significant growth in long-haul network operations from Gatwick. It is extremely unlikely that long-haul network carriers currently at Heathrow would move operations to an expanded Gatwick, but would more likely continue with their current strategy to evaluate potential at other major hub airports. Higher density routes connecting to overseas hubs would likely consider Manchester rather than Gatwick for expanded UK operations beyond Heathrow. It is also relevant that the backlog for new aircraft deliveries is at an all-time high and therefore it is possible to identify the carriers for the majority of deliveries to at least 2020. Low-cost airlines do not feature noticeably in wide-body aircraft orders.

We believe that the reality of the market will be continuation of predominantly a mix of low-cost and point to point growth at airports other than Heathrow, with continued demand for network and point to point services from the UK's hub airport, Heathrow.

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

With reference to the noise analysis assessment, BAR UK airlines are aware of the sensitivity and adverse effects of aviation noise, particularly in respect of night flights.

Night flights are currently limited by regulation, and those flights permitted to operate within the night period are principally to enable specific long-haul services for carriage of passengers and cargo that are determined by narrow operational bands due to time zones. These services remain essential to the optimal operation of a hub airport. It is also important that a wider realisation exists that these flights provide a significant economic benefit, and it should be understood that these flights operate during the night period not simply as a result of existing capacity constraints.

Airline investment in the latest and future generations of quieter and fuel efficient aircraft is at an all-time high. Overall noise impacts are reducing and new aircraft, together with airspace and operational initiatives, will continue to accrue significant environmental benefits year on year until 2026 and beyond.

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

No further comments to above.

Q8: Do you have any other comments?

No further comments to above.

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