House of Commons
Transport Committee

The future of aviation

First Report of Session 2009–10

Report, together with formal minutes, oral and written evidence

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The Transport Committee

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1 Introduction

Background

1. Aviation plays a crucial role in the UK economy and in the lives of many residents and visitors. Approximately 225 million passengers and 2 million tonnes of freight passed through UK airports in 2008. These numbers have grown dramatically over the past few decades. Despite the decline caused by the recent recession, passenger demand is forecast to double again by 2030. This raises issues about the adequacy of capacity of some airports, particularly in the southeast of England, and the environmental consequences of a growth in aviation.

2. In January 2009, the Government announced its intention to support a future planning application for a third runway at London Heathrow airport, following public consultation on the proposal. A planning inquiry into an application by BAA Airports Ltd to construct a second runway at Stansted airport was due to be held in 2008 but was deferred as a result of the decision by the Competition Commission to require BAA to sell Gatwick, Stansted and other airports by 2011. Both these runway proposals are consistent with the Government’s 2003 White Paper, The Future of Air Transport.

3. UK residents are taking the opportunity to travel by air increasingly often, with demand stoked by falling fares. However, decisions on whether and how to meet the growth of air transport have proved highly controversial. For people living near to busy airports, there are economic opportunities but there may also be quality of life impacts—notably noise, air pollution and traffic. At the global level, the prospect of greenhouse gas emissions from aviation continuing to increase is at odds with efforts to tackle climate change.

Our inquiry

4. Our inquiries into aviation issues over the past few years have included the passenger experience, financial protection for air passengers, air freight, the Civil Aviation Authority and BAA. Earlier this year we also published our Report on The use of airspace.

5. Given the prominence of the issue of airport expansion and the length of time since the publication of the Government White Paper in 2003, we decided that a wide-ranging inquiry was needed. The severe financial difficulties, very publicly faced by many airlines, add a further dimension to the issue.

6. In December 2008 we announced our intention to conduct an inquiry into:

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2 HC Deb, 15 January 2009, cols 357–358
3 BAA sold Gatwick airport to Global Aviation partners in October 2009.
4 Department for Transport, The Future of Air Transport, Cm 6046, December 2003
a) the value of aviation to the UK economy, the roles of London and regional airports and competition from airports abroad;

b) the adequacy of the current airport infrastructure and how it should be developed;

c) the extent to which rail might provide an alternative to short-haul flights;

d) the social and environmental costs of aviation and the implications for aviation of the Climate Change Act;

e) the impact of taxation on the aviation sector and protection of passengers in the case of an airline collapse, and

f) the impact on aviation of changes to security.

7. Almost 100 organisations and individuals submitted written evidence and we took oral evidence from over 30 of them. We are grateful to all those who contributed and assisted us. The evidence is published with this Report. We also wish to thank Brian Graham, Emeritus Professor of Human Geography at the University of Ulster, who was our specialist adviser for the inquiry.6

8. In connection with this inquiry, we visited Washington DC in October 2009. The visit provided us with much valuable information and insights into aviation issues from a US perspective, particularly in relation to the state of the aviation industry, the impacts of heightened security and approaches to climate change policies. We are most grateful to all those who assisted us. A note of our visit is provided at Annex 1.

2 Government policy on aviation

Context

9. The context for the aviation industry and for Government aviation policy is one of increasing trade liberalisation and market pressures. In the UK and in many other countries, state ownership of airlines and airports, traffic distribution rules, fares regulation and other such government controls have long given way to market-led approaches.

10. The UK is part of the EU Single Aviation Market and the EU has overall competence in many areas relating to civil air transport. Outside the EU, access to overseas airports and business remains restricted by national Governments but agreements, such as Open Skies between the USA and the EU, have reduced barriers. Aviation policy and regulation in the UK is generally a reserved matter which rests with the Department for Transport and the

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6 Professor Graham declared the following interests: Retired as Professor of Human Geography, University of Ulster, 2008. Now Emeritus Professor. Adviser on air transport matters to Department of Regional Development (DRD), Northern Ireland, 2001–06. Director, Air Route Development (NI) Ltd (Invest Northern Ireland company administering N. Ireland air route support scheme), 2005-08. Chair of Mid-term and Final Evaluations of ‘Opportunities for Meeting the Environmental Challenge of Growth in Aviation (Omega)’, Manchester Metropolitan University, 2008-09.
Civil Aviation Authority (CAA). The role of the Devolved Administrations in relation to aviation is largely restricted to land use planning and surface access issues.7

11. The UK has significant competition between airlines and between airports. Low-cost carriers have expanded rapidly and taken considerable market share from full-service scheduled carriers and, even more so, from charter airlines, although their impact on the overall rate of passenger growth is less clear.8 Regional airports compete to attract new airlines and services. Competition is regulated to ensure that airports do not engage in anti-competitive practices.9 Unlike road and rail transport, air transport is largely private sector-funded. Most airports are privately owned; other costs, such as air traffic control, airport security and the Civil Aviation Authority, are recovered through fees and charges to the industry. Although some public funds are spent on providing surface access to airports, governments have tended to intervene much less than they do in other transport modes. The Government does, however, provide financial assistance to the aerospace industry to support employment and technical development. Since 1997 the Government has provided £1.5 billion in the form of repayable launch investments.10

Air Transport White Paper

12. The 1998 White Paper, A New Deal for Transport, said relatively little about aviation except that the Government would respond to the recommendation of the Transport Select Committee and draw up a policy for UK airports that looked 30 years ahead. The Government duly did this in its 2003 White Paper The Future of Air Transport.11

13. That White Paper looked ahead to 2030. It covered the strategic framework, environmental impacts, various aspects of the air transport sector and the Government’s strategy for airport development in each UK region. It involved a great deal of technical work and consultation, including detailed assessments of regional needs and opportunities.12 The White Paper asserted that air travel was essential to the UK’s economy and noted that passenger numbers had increased five-fold over the previous thirty years. It saw as the key issue the need “to deal with the pressures caused by the increasing need to travel whilst at the same time meeting our commitment to protect the environment in which we live.”13 It forecast that the unconstrained demand for air travel—the number of air passengers wishing to pass through UK airports—would rise from some 200 million in 2003 to between 400 and 600 million by 2030. Its central forecast was a demand of 500

7  Ev 121
8  Civil Aviation Authority, No-frills carriers: revolution or evolution, CAP770, November 2006, pp 3-4
9  The CAA regulates charges at the major airports.
10  For example, on 14 August 2009 Lord Mandelson announced that the Department of Business, Innovation and Skills would provide £340 million of support to Airbus. The Business, Innovation and Skills Committee is currently inquiring into the motor sport and aerospace industries.
11  The Transport Committee returned to the issue of long-term planning in its Report on Aviation (Sixth Report of Session 2002-03, HC 454).
13  Department for Transport, The Future of Air Transport, Cm 6046, December 2003, p 7
million passengers per annum by 2030. This implies an average of two return trips a year for each UK resident in 2030, compared to one return trip today.\textsuperscript{14}

14. The White Paper proposed a “balanced strategy” between airport expansion and the environmental impacts, in line with its “commitment to sustainable development”. Its key conclusion was that the capacity of UK airports, particularly in southeast England, was “an important constraint on future growth” with runways at Heathrow and Gatwick at full capacity and Birmingham and Edinburgh airports approaching their capacity limits. For this reason, the Government supported runway expansion plans at Heathrow, Stansted, Edinburgh and Birmingham airports, and capacity increases at other specified airports.\textsuperscript{15} The provision of this extra capacity would accommodate 470 million passengers per annum, compared with the demand of 500 million passengers per annum in 2030, a shortfall of 30 million.

15. The White Paper also proposed a range of measures to reduce and mitigate local environmental impacts, which it acknowledged often had major implications for public health, particularly the impacts of aircraft noise and poor air quality.

16. In 2006 the Government published a progress report.\textsuperscript{16} It gave more prominence to climate change issues, reflecting the Stern Review.\textsuperscript{17} There was also greater emphasis on the local environmental impacts of aviation. The progress report included revised passenger forecasts—slightly lower than those of the 2003 White Paper—and the findings of a new study into the economic benefits of aviation.\textsuperscript{18}

17. Although now six years old, the Air Transport White Paper is still viewed favourably by aviation experts and industry representatives. They saw it as filling a gap in long-term strategic planning for airport development in the UK. For example, Mr Murphy of the Chartered Institute of Logistics and Transportation believed that “It probably was the most definitive policy document on aviation and airports that ever came out […]”\textsuperscript{19}

18. Dr Bush, the CAA’s Economic Regulation Director, said that, along with subsequent policy statements, the White Paper continued to provide a robust policy framework:

[...] what it does extremely well is to get us focused on long-term trends and the need to match capacity to those long-term trends and to think in terms of what needs to be done from where we are now to deal with the increase in travel that is going to take place. I think it is still robust and credible at that level [...]”

Mr Mans, Chairman of the Royal Aeronautical Society, agreed but added that it should be updated at least every five years.

\textsuperscript{14} Department for Transport, \textit{The Future of Air Transport}, Cm 6046, December 2003, p 23
\textsuperscript{15} A 1979 planning agreement prevents construction of a second runway at Gatwick before 2019.
\textsuperscript{16} Department for Transport, \textit{The Future of Air Transport Progress Report}, Cm 6977, December 2006
\textsuperscript{17} Stern Review, \textit{The Economics of Climate Change}, October 2006
\textsuperscript{18} Oxford Economic Forecasting, \textit{The Economic Contribution of the Aviation Industry in the UK}, October 2006
\textsuperscript{19} Qq 2-3, 308
19. Not all organisations, however, are satisfied with the Government’s aviation policy. The concerns are chiefly based on the environmental impacts of aviation—climate change and local environmental degradation—backed by some dispute over the need for additional airport capacity and the economic benefits of aviation. Although the Air Transport White Paper addresses these issues, the priority attached to some, notably climate change and high-speed rail, has changed considerably since 2003. The Institution of Civil Engineers has also argued that the strategy is starting to look dated and not sufficiently long-term.\(^{20}\) The environmental and economic issues are addressed later in our Report.

**Integrating aviation into overall transport policy**

20. The Eddington Transport Study considered the long-term links between transport and the UK economy.\(^{21}\) It recommended greater investment in transport of all modes, and particularly in the UK’s international gateways and connections to them. Improved surface access to the UK major airports was one of the priorities recommended. The Treasury has accepted that transport investment generally has a high benefit to cost ratio and public spending on transport has increased in real terms in each of four comprehensive spending reviews, rising from 1% of GDP in 1997–08 to 1.5% in 2007–08.\(^{22}\)

21. The lessons of the Eddington Study have yet to be fully taken on board by the Department for Transport. Dr Givoni and Professor Banister of Oxford University contend that airport development has been considered largely in isolation from other transport modes and that surface access to airports has been treated as an ancillary issue. They point out that this is particularly relevant to Heathrow where rail access is poor. Whilst Heathrow is of great importance to the UK national economy, the employment and business benefits are, inevitably, greater for the London area. Even with improvements such as Crossrail (underway) and AirTrack (proposed), rail access from outside the London area will remain unattractive to many.\(^{23}\)

22. The Institution of Civil Engineers urges that future airport expansion should be considered as “part of a wider integrated national transport strategy rather than as single infrastructure projects” and that smaller regional airports should be part of an “integrated national transport strategy”.\(^{24}\)

23. A further aspect of aviation being treated in relative isolation from overall transport policy is that, whereas the Government has set various targets and objectives for surface modes, such as increasing bus and light rail use, none has been set for aviation. Whereas the Government has taken a variety of measures to influence surface modes, it has remained relatively detached regarding air transport.

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\(^{20}\) “Plotting aviation future”, *Planning*, 13 November 2009, p 8

\(^{21}\) HM Treasury & Department for Transport, *The Eddington Transport Study: The case for action: Sir Rod Eddington’s advice to Government*, December 2006

\(^{22}\) Rt Hon Angela Eagle MP giving evidence to the Transport Committee in relation to *Taxes and charges on road users.* (Sixth Report of Session 2008-09, HC 103, Q 521)

\(^{23}\) Ev 305

\(^{24}\) Ev 266
24. Recently, the Department for Transport has considered more explicitly the relationship between aviation and high-speed rail. This has largely focused on investigating high-speed rail access to Heathrow. The Secretary of State, Rt Hon Lord Adonis, has suggested that, ultimately, a high-speed rail line between London and Scotland might replace many domestic flights. Yet transfer from air to high-speed rail is not reflected in Government policy, for example, the Department for Transport’s recent strategy Low Carbon Transport: A Greener Future.

25. The 2003 White Paper, The Future of Air Transport, continues to provide a sound basis for aviation policy. It identifies the likely airport infrastructure requirements without authorising or precluding them. However, the Government needs to set out more explicitly the role envisaged for aviation within its overall transport policy as well as the inter-relationships between aviation and other transport modes. It should ensure that the policy is kept up-to-date, taking full account of proposals for high-speed rail and climate change.

3 The importance of aviation to the UK economy

Supporting UK plc

26. Much of the evidence we received in the course of our inquiry underlined the scale and importance of aviation to the UK economy. The aviation industry—airlines, airports, manufacturers etc—is important in its own right, directly employing some 200,000 people.

27. Perhaps more importantly, from a public policy perspective, aviation supports the wider economy. As world trade and production becomes increasingly global, so the importance of good international access grows. The Confederation of British Industry (CBI) emphasised to us the strategic importance to UK business of good international air services. Aviation is important to a wide range of sectors of the economy, including inbound tourism, finance, knowledge and technology intensive industries and fresh produce, to name but some of the examples that we were given.

28. The Department for Transport and a number of witnesses cite the 2006 study by Oxford Economic Forecasting as the main evidence source for the economic benefits of aviation. This estimates that, in 2004, the UK aviation industry directly contributed £11.4 billion, or 1.1% of UK GDP; and that at that time, 520,000 jobs in the UK directly or indirectly depended on the aviation industry.
29. Flying Matters drew our attention to a study by the National Endowment for Science, Technology and the Arts on the drivers of innovation throughout the UK regions. Flying Matters concluded from the study that the new knowledge economy, which will play a vital role as we move through the recession and recover from it, relies heavily on international connectivity. This is important not just for London but for each of the regions and countries of the UK.

30. Our witnesses, from across the UK, highlighted the importance of Heathrow to the national economy. As a major European hub-airport, Heathrow has 90 airlines which fly to 180 destinations. It is the only UK airport with the critical mass of passengers and flights to enable such a hub to be economically viable. 35% of Heathrow’s traffic consists of connecting passengers and, as the CAA points out, such passengers help to maintain the range and frequency of services offered, to the benefit of all passengers using the airport. Heathrow has special importance for London as an international financial centre. Seven out of the top 10 business routes in the world have Heathrow at one end. Those representing business and transport interests outside London and the southeast also acknowledged the importance of Heathrow as a national economic asset, although they wanted better access to it.

**Air freight**

31. Whilst the vast bulk of UK freight is exported by surface transport, a high proportion of the value of freight goes by air, mostly in the baggage holds of passenger aircraft.

The volume of freight travelling by air is very small—around 0.5% of the total. However, it has a high value—about 25% of the UK’s trade by value. Air freight has a disproportionate importance as it serves industries which are core to the UK’s economic future as a service economy. These include the industries such as electronics, telecoms, financial and business services.

32. Air freight accounts for 40% of UK trade with non-EU destinations by value, the principal routes being transatlantic and to Asia. Inbound freight volumes are higher than outbound although recently the value of goods exported by air has exceeded that of goods imported by air. Heathrow accounts for 25% of the UK’s non-EU trade by value while East Midlands Airport is a key hub for express courier services. Freight movements are organised through hub-and-spoke systems and many UK regional airports with 24-hour operating licences feed into the principal EU freight hubs. These regional airports also facilitate the transfer of express post for Royal Mail and other time-sensitive goods such as

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30 Ev 133
31 Ev 330
32 Ev 232
33 City of London report by York Aviation, *Aviation Services and the City*, December 2008
34 Ev 399
35 Ev 181
newspapers. The global air freight industry has been very badly hit by the current recession and numerous freight aircraft are currently in storage.37

**Business aviation**

33. Business aviation has a specific role although the sector is experiencing a serious downturn because of the recession. According to TAG Farnborough, an exclusively business-oriented airport, business aviation is increasingly important to UK companies and international companies based in, and trading with, the UK. Business aviation provides air services according to the needs of the individual, rather than fixed services. TAG Farnborough says that the types of businesses and individuals that it serves are responsible for substantial inward investment in the UK as well as overseas trade.38

**Aviation industry**

34. The current recession is clearly creating severe difficulties for the industry, in the UK and worldwide. It is also hastening a restructuring of the airline industry. It seems that the trends towards airline mergers, such as British Airways-Iberia,39 and global alliances, are inevitable. With adequate competition and safeguards, it is probably of overall benefit to passengers and businesses.

**Open Skies**

35. The First Stage Open Skies agreement between the EU and the USA came into effect in 2008.40 To date, its principal impact in the UK has been to open up British Airways and Virgin Atlantic to greater competition. It has also caused some services to relocate from Gatwick and Manchester airports to Heathrow.41 The introduction of Open Skies coincided with the global recession and it is difficult, at present, to predict its longer-term impacts.42

36. Discussions to extend the Open Skies agreement are ongoing between the European Commission and the US Federal Aviation Administration. This might allow further access to EU and US markets. The asymmetric nature of the Open Skies agreement is disadvantageous to the UK economy and particularly to the UK regions, and should be renegotiated at the earliest possible opportunity.

**Regional economic development**

37. Aviation was seen by witnesses as important to economic development outside London and the southeast. Mr Nick Paul, representing the eight English regional development

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37 Department for Transport, *An analysis of the end-to-end journey of air freight through UK international gateways*, May 2009

38 Ev 99

39 *Financial Times*, 13 November 2009, p 23

40 See Annex 1.

41 Ev 299

42 Ev 248
agencies outside London, described the importance of aviation to the regions as “massive, and not only for local employment”. The agencies have quantified the economic benefit of air connections for regional economies and shown how some connections—mainly those linking business centres—are more valuable than others in terms of attracting inward investment. According to The Northern Way, the eight regional airports of the North contributed £1.3 billion to the regional economy through direct and indirect benefits. Furthermore, they argue: “The catalytic benefits of international connectivity through the North’s airports most probably greatly outweigh the more easily quantifiable direct and indirect impacts.”

38. Regional airports facilitate economic development and serve local business markets. Additional services create direct employment at airports and will have local multiplier effects. They also facilitate inward investment. A basic level of air connectivity was also seen as vital for business and communities in remote parts of the UK, such as the Scottish Highlands and Islands.

For the island and remote mainland communities, the only alternative to air travel for accessing the mainland and service centres (on occasions on another island) are ferry services or long journeys on poor quality land based infrastructure. Whilst the ferries and other modes offer relatively low fares, they cannot compete with air services for convenience and time-critical travel.

The 2003 White Paper suggested that services to remote areas of the UK, including the Scottish Highlands and Islands, and parts of Wales and southwest England, might be enhanced through Public Service Obligations and Route Development Funds. In the event, relatively few services have been developed or sustained through these mechanisms.

39. Regional airports handle over 40% of all UK air traffic. Some have grown rapidly because of the advent of low-cost carriers. Flybe, which specialises in linking regional airports, has been a particular success story, although there are signs of market saturation, such as the recent easyJet announcement that it will be withdrawing from East Midlands airport. Another important dimension, often overlooked in discussion of regional airports, is the importance of ‘VFR’ (visiting friends and relatives) traffic which is both domestic and international and again provides a key market for low-cost carriers. However, low-cost carrier services are heavily skewed towards outbound leisure services and this has been a negative feature of both the Scottish and Northern Ireland route development schemes.

40. There has been a change in travel patterns, with more passengers using regional airports instead of travelling through London. Over the period, 2000–2006, passenger numbers at regional airports grew by around 7% compared to 3% for the London airports.

43 Q 177
44 Ev 191
45 Ev 185
46 Ev 384
47 Civil Aviation Authority, Air services at UK regional airports, CAP775, 2007
48 Civil Aviation Authority, International relations: the growth in air travel to visit friends and relatives, CAP787, 2009
49 Civil Aviation Authority, Air services at UK regional airports, CAP775, 2007
The growth of direct short-haul international connections from regional airports, largely because of European liberalisation and the rise of the low-cost carriers, has, to some extent, compensated for the loss of connecting services to Heathrow. The CAA found that the strongest growth sector at regional airports from 2000–06 was international scheduled traffic, some of this being at the expense of charter carriers. Meanwhile, the growth rate in domestic traffic fell from 11% in 2003 to 0.2% in 2006.51

41. In addition, numerous regional airports have Air France/KLM connecting services to Paris Charles de Gaulle and Amsterdam Schiphol. Some, such as Bristol, Newcastle and Belfast International, have services to non-EU hubs, especially Dubai (Emirates) and Newark (Continental). It seems clear, however, given the withdrawal of British Airways and bmi transatlantic routes from Manchester, that further expansion of long-haul services from regional airports is unlikely. One problem lies in generating sufficient business-class demand, which is important for profitability. Continental, for example, sells a very high percentage of seats on the Belfast-Newark service but not in the business-class cabin.

42. The CAA observes that “there is growing competition between regional airports” while the challenge for them is “to continue expanding while maintaining their attractiveness to the passenger in terms of convenience and speed”.52 A number of regional airports are financially dependent on one or two operators. As such, they face ‘churn’ in services as airlines adopt different strategies and routes. Ryanair’s decision in 2009 to transfer services from Manchester Airport to other UK regional airports is one such example.53

Contested issues

43. Whilst aviation is self-evidently an important part of the UK economy, some of our witnesses were concerned that the evidence base was too narrow and not sufficiently robust. They also argued that the scale of the economic benefits was sometimes exaggerated and that a more subtle understanding of the economic benefits and disadvantages was required as a basis for public policy decisions.54 Essex County Council, for example, argued that there would be few, if any, economic benefits from an expansion of Stansted airport.55

44. Much of the concern related to the Oxford Economic Forecasting study which was cited by the Department for Transport and aviation industry witnesses in their evidence to our inquiry. Dr Givoni and Professor Banister,56 the Aviation Environment Federation and HACAN,57 criticised this study on several grounds, notably:

50 Civil Aviation Authority, Air services at UK regional airports, CAP775, 2007, p 1
51 Civil Aviation Authority, Air services at UK regional airports, CAP775, 2007, p 3
52 Civil Aviation Authority, Air services at UK regional airports, CAP775, 2007, p 1
53 The Guardian, 17 August 2009
54 Ev 122, Qq 287-288 [Brian Ross]
55 Ev 255
56 Ev 46
57 HACAN is a residents’ group opposed to the expansion of Heathrow. See Ev 389
a) It was not sufficiently independent, having been commissioned by the Department for Transport and the aviation industry;

b) It has not been subjected to peer review;

c) Some of its assumptions and methods appear to exaggerate the economic benefits, and

d) The economic ‘disbenefits’ of aviation are underplayed.

45. Because of the importance of these economic issues to our inquiry, a special briefing paper was prepared for us by the House of Commons Scrutiny Unit (see Annex 1).58 It points out that:

a) The aviation industry does not directly correspond to any definition in official UK statistics (Standard Industrial Classification) and, as such, Oxford Economic Forecasting (OEF) had to design a methodology and make various assumptions to measure economic activity;

b) The study does not fully address the concept or cost of the UK’s ‘tourism deficit’—the difference between spending by UK tourists overseas and spending by visitors to the UK. This is estimated elsewhere to amount to £20.2 billion in 2008, up from £5 billion in 1997. Most of this deficit arises from air travel.59 The OEF study notes the trade imbalance but concludes that it is not a “structural problem”.

46. The White Paper briefly addresses the issue of the tourism deficit. It notes that

The Government, working with VisitBritain and the Tourism Alliance, has launched a series of recent programmes and campaigns to attract foreign visitors and encourage domestic tourism, in the face of a widening gap in the tourism balance of payments.60

Since this time, the gap has continued to widen.

47. We put these issues to the Secretary of State for Transport, Rt Hon Lord Adonis, and to Mr Moor of the Department for Transport. Lord Adonis confirmed that the Department for Transport accepts the findings of the Oxford Economic Forecasting study. The Department for Transport’s view on the issue of the tourism deficit is that it:

[…] is a measure of the difference between the expenditure of UK residents overseas and expenditure of foreign residents in the UK. It is not a measure of the impact of aviation on the contribution of the tourism industry to the value of the UK economy.

58 Annex 2—Economic aspects of the future of aviation, House of Commons Scrutiny Unit, 2009. The Scrutiny Unit is a central unit within the House of Commons Department of Chamber and Committee Services that provides specialist legal, economic and accountancy advice.

59 Two-thirds of overseas tourists travel to the UK by air according to the Department for Transport, The Future of Air Transport Progress Report, Cm 6977, December 2006, 4.18.

60 Department for Transport, The Future of Air Transport, Cm 6046, December 2003, para 4.23
It would not be meaningful to compare estimates of the tourism deficit directly with the £11 billion value added figure.61

48. The low-cost (or no-frills) carriers are now major players in relation to tourism. Yet the CAA found that while low-cost carriers have transformed patterns of air travel and the ways in which airports interact with passengers and booking procedures, "it is less clear that the growth of the no-frill sector has significantly affected overall rates of traffic growth". Rather, "much of their growth seems to have been at the expense of full-service scheduled carriers and, even more so, charter carriers". Stimulation of new traffic occurs on individual routes but it is difficult to discern "a change in the rate of growth at the level of the market overall".62

49. The advent of lower fares has made air travel accessible to more people. According to Flying Matters, “A revolution has taken place in flying since the 1960s. Today, flying is no longer the preserve of a privileged elite.” The CAA found that people from all income-groups are flying more:

There has been a significant increase in the total number of people flying from all [income] groups. The more observable effect is of middle and higher income and socio-economic groups flying more often than in the past, and often on shorter trips.63

50. In this context, it was interesting to hear from Members of the UK Youth Parliament. They had a keen awareness of climate change issues and the environmental impacts of aviation. Equally, they enjoyed air travel and saw it as part of their future, for leisure, education and work purposes. In respect of the future of aviation, the views of young people did not appear to differ significantly from those of the general population.64

Conclusion

51. Aviation is important to the UK economy overall. It facilitates the flows of people, goods and finance into, out of, and within the UK. Good connectivity supports UK competitiveness in increasingly global markets. Aviation is also important to regional economic development.

52. These economic factors are the key justification for difficult decisions that sometimes need to be made regarding airport expansion, when it is necessary to weigh the economic benefits against the environmental and social costs. It is important therefore that the economic assessments are clear and robust whilst recognising that the sum of individual economic assessments underestimate the total value of aviation to the UK economy as, in all probability, if the aviation sector were removed from the UK, the economy would collapse.

61 Ev 116
62 Civil Aviation Authority, No-Frills Carriers: Revolution or Evolution?, CAP770, 2006, pp 3-4
63 Civil Aviation Authority, No-Frills Carriers: Revolution or Evolution?, CAP 770, 2006, p 5
64 Q 484 ff
53. The Government is right to support the sensible development of air transport in the UK. Choices between economic benefits and environmental costs sometimes need to be made. The “balanced strategy”, set out in the 2003 Air Transport White Paper, requires a good evidence base. The Government should regularly update its assessment of the economic value of aviation to the UK economy and ensure that it is subject it to independent external scrutiny.

4 The environment

Climate change

54. One point on which virtually all of our witnesses agreed was that the aviation industry must find ways to operate within the context of global reductions in greenhouse gas emissions. Beyond the immediate problems of the economic recession and security threats, reducing carbon dioxide (CO2) emissions and other climate change impacts from aviation is the greatest challenge facing the aviation industry.65

55. Although aviation currently contributes only some 5% of UK greenhouse gas emissions, the Committee on Climate Change estimates that, by 2050, this might rise to 25%.66 Although international aviation emissions were not included in the Kyoto Protocol, Lord Adonis has made it clear that the Government will be pressing for both international aviation and shipping to be included in any new deal agreed at the United Nations Framework Convention on Climate Change conference to be held in Copenhagen in December 2009.67 The UK has also, uniquely, passed domestic legislation (the Climate Change Act 2008) that binds it to an 80% cut in CO2 emissions by 2050, with an interim milestone of at least 26% by 2020. It has also established binding carbon budgets to ensure that these targets are met. International aviation and international shipping are not included in the carbon budgets because of the complexities relating to the methodologies by which emissions might be allocated. Nonetheless, Lord Turner made clear to us that, as far as the Committee on Climate Change is concerned, the UK’s share of international aviation and shipping emissions will have to be accounted for within the UK’s carbon budget.68

56. Mr Keith Mans, Chief Executive of the Royal Aeronautical Society, emphasised how the industry had risen to many technical challenges over the past century and would do so again in the future. He believed that the aviation industry could square the circle of tripling passenger numbers whilst reducing CO2 emissions.69 The aviation industry’s vision for a lower-carbon aviation industry is set out in the Sustainable Aviation CO2 Roadmap (an industry-sponsored report). This anticipates that, with improved technology (new aircraft

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65 Aviation’s principal contributions to climate change result from emissions of carbon dioxide, nitrogen oxides (NOX), water vapour (contrails), particulates (soot and sulphate particles) and certain other compounds. The impact of these emissions is increased because they are released at altitude—an effect known as ‘radiative forcing’. See Ev 140.

66 Letter from Lord Turner, Chairman of the Committee on Climate Change, to the Secretaries of State for Transport and Energy and Climate Change, 9 September 2009.


68 Q 48

69 Q 39
4. engines and airframes), more efficient air traffic management,\textsuperscript{70} the use of biofuels and other measures, CO\textsubscript{2} emissions can be reduced to 2000 levels by 2050 while passenger numbers grow by a factor of three.\textsuperscript{71}

57. Our meetings with aviation industry representatives in the USA brought home to us the extent to which the industry is relying on sustainable biofuels to reduce CO\textsubscript{2} emissions from aviation in the medium term. Purchasing carbon offsets is also expected to be significant over this period. Whilst some emissions savings will result from new aircraft, the recession and poor credit ratings of airlines are making fleet replacement more difficult. On past experience, it would take at least 15 years and probably much longer to replace most of the world’s jet airliner fleet.\textsuperscript{72}

58. The extent and timeliness with which such large reductions in CO\textsubscript{2} emissions from aviation could, or would, be implemented was challenged by a number of environmental organisations. The WWF-UK described the Sustainable Aviation CO\textsubscript{2} Roadmap as a “techno fantasy”.\textsuperscript{73} In its view, the technologies are unproven and the incentives to adopt them are insufficient. The Environment Agency expressed similar views, if less forcefully.\textsuperscript{74}

59. It is clear that, whatever the debate about the science of climate change, reducing greenhouse gas emissions has to be a fundamental part of the aviation industry’s business plan—a point freely acknowledged by airline representatives: “[…] we recognise that global warming and climate change is a major issue and aviation, like every other industry, needs to be playing its part.”\textsuperscript{75} Whilst strongly supporting emissions trading, Mr Harrison of easyJet, said that more stringent environmental standards should be set within Europe so that older or less fuel-efficient aircraft are taken out of service more quickly.\textsuperscript{76} Mr Ridgway of Virgin Atlantic, whilst enthusiastic about employing the latest technology, pointed out the financial difficulties of investing in low-emission aircraft at present:

\begin{quote}
I think we are in a potentially difficult place coming out of the recession and with the meltdown in the financial system and I think, going forward, the financing of [new, more fuel-efficient] aircraft is potentially going to be quite difficult.\textsuperscript{77}
\end{quote}

60. The concept of sustainable aviation has been studied by the OMEGA, a consortium managed through Manchester Metropolitan University, examining possible solutions for a ‘greener’ aviation future. Their conclusion, based on some 40 technical studies, is that technology may provide the means to mitigate some of air transport’s environmental externalities but that human behavioural change is also necessary.

\textsuperscript{70} We recently examined this in depth in Transport Committee, Fifth Report of Session 2008-09, The use of airspace, HC 163.

\textsuperscript{71} http://www.sustainableaviation.co.uk/

\textsuperscript{72} Annex 1

\textsuperscript{73} Ev168. WWF-UK was formerly the World-Wide Fund for Nature.

\textsuperscript{74} Q 80 [Dr Grayling]

\textsuperscript{75} Q 320 [Mr Harrison]

\textsuperscript{76} Q 320

\textsuperscript{77} Q 346
61. Clearly, there is potential for improvements in technology, fuels and management systems that would reduce the carbon intensity of aviation. It remains questionable, however, to what extent this can be achieved, and what the timeframe and the drivers of progress would be. Various technological developments have been proposed—for example, open rotors, geared turbofans and biofuels—but no immediate consensus on what might provide a step-change in emissions has not, as yet, emerged. Some of the more fuel-efficient engine technologies, such as open-rotor engines, make it harder to achieve reduced noise levels. There are also many questions regarding the sustainability of using biofuels on a global scale.78 The December 2009 Report of the Committee on Climate Change will be important in this respect (see below).

**EU Emissions Trading Scheme**

62. The Government has set out its approach to tackling the problem of containing emissions whilst passenger numbers grow:

   a) International flights using UK airports will be required to become part of the European Union Emissions Trading Scheme (EU ETS) from 2012, and

   b) The total emissions from aviation in 2050 must be no higher than in 2005.79

63. Carbon trading is, in theory, a fair and cost-effective mechanism for reducing emissions. The purpose of carbon trading is to limit emissions in the traded sectors and to create a price for carbon which gives incentives to industry and others to invest in low carbon processes. The National Audit Office has concluded, however, that EU ETS Phases 1 and 2 were ineffective in reducing carbon emissions beyond what would have occurred anyway.80 Carbon trading has had less impact on reducing emissions than intended due to:

   a) The emission caps being set too high;

   b) Options to purchase carbon credits from outside the scheme, and

   c) Initial allowances being too generous.81

64. The National Audit Office is cautious about expecting too much from EU ETS Phase 3, which will include aviation. A number of our witnesses were similarly concerned about reliance on EU ETS to reduce aviation emissions. The Environment Agency lists a number of potential weaknesses in the EU ETS mechanism for aviation, such as the fact that EU ETS includes only CO₂ and not other greenhouse gases. It is also concerned that the mechanism will not influence the long-term price for carbon.82 The current carbon price

78 Environmental Audit Committee, First Report of Session 2007-08, Are biofuels sustainable?, HC 76
79 HC Deb, 15 January 2009, cols 357–358
80 EU ETS Phase 2 runs for five years from 2008 to 2012 inclusive, concurrently with the Kyoto protocol commitment period. Phase 2 increased the scope of installations included and introduced the facility to ‘bank’ carbon credits. From 2011 it includes flights within the EU and, from 2012, all flights leaving or landing in the EU. Phase 3 will run from 2013 to 2020. It will have a declining emissions cap (21% reduction in 2020 compared with 2005) and a substantial increase in the proportion of permits that are auctioned.
81 National Audit Office, Briefing for the Environmental Audit Committee - European Union Emissions Trading Scheme: A review by the National Audit Office, April 2009
82 Ev 140
of around £11.68 (€13)\(^{84}\) per tonne of CO\(_2\) is not considered sufficiently high to provide the incentive to the aviation industry to invest the substantial sums that will be required to achieve significant emissions reduction.\(^{85}\) WWF-UK warned that the EU ETS was liable to be weakened by economic and political self-interests.\(^{86}\) A further issue for the UK is that making the EU ETS the principal driver for reducing aviation emissions potentially removes aviation from UK Government influence.

65. The airlines are relatively supportive of emissions trading. Mr Ridgway of Virgin Atlantic said: “It will be an extra cost but it is an opportunity for airlines, and it incentivises airlines to make sure they are employing and deploying the best and newest technology.”\(^{87}\) It is clear, however, that the airlines are seeking some trade off between EU ETS and Air Passenger Duty (APD). “[…] if aviation is brought into a global emissions scheme, then things like APD would no longer have a place.”\(^{88}\)

**Committee on Climate Change advice**

66. The Government has asked the Committee on Climate Change to advise it on these matters. Lord Turner, Chairman of the Committee, explained to us the detailed modelling work that was being undertaken, and how the Committee on Climate Change would report in December 2009. On the fundamental issue of whether the projected growth in passenger numbers was compatible with the Climate Change Act and with an 80% cut in UK emissions, Lord Turner said “[…] it is not completely incredible”. This would require emissions reductions of 90% or more in non-aviation sectors to offset a lower level of reduction in aviation emission.\(^{89}\)

67. Some of the thinking of the Committee on Climate Change can be seen in the letter from Lord Turner to the Secretaries of State for Transport and Energy and Climate Change, regarding the December 2009 Copenhagen conference. The Committee accepts that emissions trading is a useful and economically efficient mechanism for reducing carbon emissions from aviation “for an interim period […] subject to the caveat that the carbon price in any trading scheme should provide strong signals for appropriate demand management and supply side innovation.”\(^{90}\)

68. Reducing the carbon emissions from aviation is crucial both to the success of climate change policies and to the future of aviation. The aviation industry believes that it can rise to the technological challenge but this will happen only if appropriate ‘sticks and carrots’ are in place. The work of the Committee on Climate Change, due for publication in December 2009, is likely to be crucial in helping to determine what is

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84 The carbon price is normally quoted in Euros, and at the time of publication, the market price was €13. At the Interbank rate monthly average (0.89830) for November 2009, this is equivalent to £11.68. [http://www.oanda.com/currency/historical-rates](http://www.oanda.com/currency/historical-rates)

85 The Tyndall Centre estimates that a carbon price of €100 to €300 per tonne is required. [http://www.tyndall.ac.uk](http://www.tyndall.ac.uk)

86 Q 290 [Mr Lockley]

87 Q 318

88 Q 319

89 Qq 50-52

90 Letter from Lord Turner, Chairman of the Committee on Climate Change, to the Secretaries of State for Transport and Energy and Climate Change, 9 September 2009.
feasible and how it might sensibly be achieved. It would be wrong for us to try to second-guess or prescribe the outcomes. We believe the following principles should apply to future UK policy on aviation emissions:

a) aviation and climate change are global in nature, and global solutions are the only realistic response;

b) aviation should be treated equitably in climate change policy—it should not be demonised or assigned symbolic value beyond its true impacts, and

c) carbon reduction measures should be cost-effective and take account of the economic value of aviation.

69. We are concerned that the EU Emissions Trading Scheme has an appalling track record and that it may prove insufficient to drive investment in low-carbon aviation, especially in these difficult economic times. We await with interest the forthcoming advice of the Committee on Climate Change to the Government on these issues.

Local environmental impacts

70. The Air Transport White Paper 2003 noted that:

One of the features of air travel is that while many of the benefits are spread across society as a whole, many of the adverse impacts are distributed unevenly. People living near airports have to live with the immediate effects of aircraft noise, air quality problems and increased congestion on local roads. Urbanisation sometimes associated with airport development can also have adverse impacts on landscape and habitats. Action can be taken to mitigate these adverse effects, but it is seldom possible to eliminate them altogether.91

71. Whereas a great deal of attention has focused recently on the climate change effects of aviation, less attention has perhaps been paid to the impacts on people and their local environments. We received written evidence from a number of organisations concerned about the local environmental impacts of airport expansion, particularly at Heathrow, but also at Gatwick, Stansted and Bristol airports.

72. London Councils believes that the noise and air quality impacts, and the impact on the health and quality of life of the people affected, “have not been given proper attention by the Government.” Moreover, they point out that:

The impact of aviation is not just restricted to those who live within close proximity to airports. In London, for example, large parts of the capital, even those located several miles away from the main airports experience noise disturbance from aircraft taking off, landing and overflying.92

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91 Department for Transport, The Future of Air Transport, Cm 6046, December 2003, p29
92 Ev 344. London Councils is a statutory joint committee representing all 32 London boroughs and the City of London.
**Noise**

73. According to ICAO, aircraft noise is “the most significant cause of adverse community reaction to the operation and expansion of airports.”93 Aircraft landing and taking off are the chief sources of aviation noise. However, it is apparent that the mix and types of aircraft, the frequency of overflight, as well as the social and economic circumstances of the people affected are all factors influencing the degree to which communities perceive aircraft noise as problematic.

74. Noise levels from individual aircraft have diminished by as much as 70% per aircraft since the early jets. The international standard is set by ICAO (currently ‘Chapter 4’ which came into effect in January 2006) and substantial gains have been achieved. Nevertheless, the gains have been offset by the growth in air traffic which have made noise a constant, as opposed to a periodic event in some areas. Dealing with noise is a particular issue for airport authorities in relation to their local communities. In some cases, local communities and airport authorities have made local agreements, for example, on the number or types of day and night flights.

75. The Government uses 57dB(a) as the level above which aircraft noise is considered to create “community annoyance”.94 Approximately 260,000 people are within the Heathrow 57dBA noise contour.95 Recognising that the relationship between aircraft noise and community annoyance is complex and might have changed since its previous assessment,96 the Government commissioned a major study—**Attitudes to Noise from Aviation Sources in England (ANASE)**, published in 2007.

76. The 2M Group, representing 23 councils in London and the southeast opposed to Heathrow expansion, is particularly concerned about aircraft noise. The group, like others,97 is critical of the Government’s management of the ANASE study which was expected to provide a new framework for assessing the impacts of aircraft noise. It believes the Government’s rejection of the ANASE findings will lead to an undervaluation of the true impacts and costs of noise.98

77. Concerns about the way that the Department for Transport assesses the impacts of aircraft noise and compensates residents are expressed by others also. The Stanwell Moor Residents Group, for example, contends that the technical hurdles for compensation are arbitrary and that the levels of compensation paid are inadequate.99

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93  International Civil Aviation Organization, *Environmental Report 2007*
94  Noise is measured on the decibel scale. 0dB is the threshold of human hearing, 50dB is around the level of a normal conversation and 140dB is the threshold of pain. A 3dB increase is equal to a doubling in sound pressure but will only just be noticed by a human. 10dB equates to a doubling in the perceived loudness. Aircraft noise is measured with reference to the A-weighted decibel scale, dB(A). The A-weighting reflects the fact that the human ear does not detect all frequencies of sound equally efficiently.
95  Department for Transport, *Adding capacity at Heathrow, Impact Assessment, January 2009*, p 17. According to The Parliamentary Office of Science and Technology, “Aircraft noise already has the potential to affect the quality of life for at least half a million people in the UK – with 80% of those living close to major airports in the southeast of England.” *Aircraft Noise, POSTnote 197, June 2003*
96  CAA, DR Report 8402: *United Kingdom Aircraft Noise Index Study, 1985*
97  Ev 210
98  Ev 336
99  Ev 458
78. Noise is not simply a nuisance. Studies by Dr Lars Jarup of Imperial College, London found a “clear exposure response relationship between aircraft noise during the night and the prevalence of high blood pressure. The effects are both short and long term.” High blood pressure has adverse health implications.100

79. One of the dilemmas for future aircraft engine design is that it is difficult to optimise both noise reduction and CO2 reduction in the same engine and industry needs guidance from international bodies as to where it should focus its efforts.101 We were encouraged by what we heard from the American Association of Aerospace Industries on the potential noise and emissions savings of some new technologies, such as geared turbofan engines.102 But there is clearly a long way to go before aircraft noise ceases to be a problem.

80. We addressed some of the issues of aircraft noise in our recent Report The use of airspace, particularly in relation to tranquil areas such as national parks and Areas Of Outstanding Natural Beauty. We recommended that the Department for Transport and the CAA should examine the case for maximum limits on noise levels and aircraft numbers over sensitive natural areas.103

81. Aircraft noise is a nuisance to a large number of people, which detracts from their quality of life and presents health hazards which are not fully understood. It should be remembered that, as aviation has grown, planes have become quieter and noise levels have reduced for millions of people. The Government must act decisively to ensure that older, noisier aircraft are taken out of use as soon as possible. This should be achieved firstly by seeking to influence international noise standards (set by the International Civil Aviation Organization) and secondly through guidance to local airports.

82. The Government needs to revisit its procedures for assessing the impacts of aircraft noise, the compensation arrangements and the effective enforcement of noise regulations. The Government should also review the adequacy of research into the effects of aircraft noise, particularly on human health.

**Air Quality**

83. Poor air quality is the other main local environmental impact associated with airports. The Environment Agency told us that

The main pollutants of interest arising from aviation and associated road transport are oxides of nitrogen and particulate matter. Oxides of nitrogen contribute to acid rain and interact with hydrocarbons to produce ground-level ozone which can affect human health and vegetation, including crops. Small particles (usually referred to as PM10) can cause cardiovascular problems.
To put the issue into perspective, the emissions from Heathrow are broadly comparable with those of a major industrial installation. Whereas major industrial sources are regulated by the Environment Agency, airports and aviation are not.\textsuperscript{104}

84. It is important to bear in mind that only a minority of the air pollution associated with airports comes from the aircraft. Approximately one third of nitrogen dioxide (\(\text{NO}_2\)) emissions around airports are attributable to airport operations, one third to road traffic and the remainder to wider background sources such as industry and domestic heating. These figures vary substantially according to the exact location.\textsuperscript{105}

85. London has the worst air pollution levels in the UK and is among the worst in Europe.\textsuperscript{106} The Environment Agency states that \(\text{NO}_2\) concentrations in the vicinity of Heathrow are likely to continue to exceed the EU air quality limit of 40 micrograms per cubic metre (\(\mu\text{g/m}^3\)) by 2010 when compliance with the limit is required. The Government has announced that it plans to apply for permission to defer compliance until 2015 for a number of areas across the country, including Heathrow.\textsuperscript{107} As part of its January 2009 announcement on Heathrow expansion, the Government will give the Environment Agency a new legal duty and powers to enforce air quality limits around Heathrow. The Environment Agency told us that it welcomes this new role and “will make sure these limits are rigorously enforced”.\textsuperscript{108}

86. As EU standards for motor vehicle emissions are raised and the UK vehicle fleet becomes cleaner, there is likely to be a reduction in air pollutants from airport traffic. The Government predicts that, “even on conservative assumptions” the area around Heathrow will comply with EU air quality standards by 2020.\textsuperscript{109} A shift to electric vehicles would further improve air quality. Over the timescale of the Air Transport White Paper—to 2030—these changes could be significant. However, future improvements in air quality cannot be taken for granted and it is of concern that the UK is unlikely to be able to meet EU air quality standards until 2015, instead of the target date of 2010.

87. We urge the Government, in partnership with airports and airlines, to bring forward measures to improve air quality around our major airports. The pollutants come from a variety of sources, including aircraft, airport traffic and background sources. The Environment Agency has techniques to assess the air quality impacts for major airport developments and we recommend that the Government and airport developers take full advantage of these.

\textsuperscript{104} Ev 140
\textsuperscript{105} Figures based on Heathrow airport. See Ev 140-143
\textsuperscript{106} London Assembly Government, Every Breath You Take, May 2009
\textsuperscript{107} Ev 119
\textsuperscript{108} Environment 140
\textsuperscript{109} Department for Transport, Britain’s Transport Infrastructure. Adding capacity at Heathrow: Decisions Following Consultation, January 2009
5 Infrastructure needs

Airports

The roles of UK airports

88. Our witnesses explained the roles of different airports across the UK and how capacity at one airport could not necessarily be substituted for capacity at another, particularly as regards Heathrow.

89. The London airports have different roles and are not necessarily in competition with each other. Heathrow has a unique role. It is a major European hub airport, competing with Paris, Frankfurt and Schiphol airports. Heathrow handles approximately 80 million passengers per annum at its five terminals. It is also the UK's most important freight airport, handling 25% of total UK air freight. However, Heathrow is no longer a significant hub airport for UK domestic flights. As a result of runway capacity constraints, economic factors, including the high value of landing slots and competition from rail, the number of UK cities with flights to Heathrow has reduced to six.110

90. It was once planned that Gatwick should be developed as a dual hub and British Airways tried this approach from 1987 onwards. British Airways has subsequently retrenched and, in 2002, concentrated its hub services at Heathrow. Gatwick is now dominated by both long-haul and short-haul point-to-point leisure traffic; its largest carrier is no longer British Airways but easyJet. The low-cost carriers have replaced much of the charter traffic at Gatwick. As a result of the Open Skies agreement, the US carriers which formerly operated from Gatwick have transferred services—despite the high costs incurred in buying slots—to Heathrow where, formerly, they had no access.

91. Long-haul carriers get higher yields at Heathrow while, in turn, low-cost carriers get higher yields at Gatwick than they do at Stansted, a situation which would not change even with additional runways. Stansted is dominated by Ryanair and easyJet (more than 80% of all traffic) and neither appears committed to paying the additional charges necessary to raise capital for a second runway. Both airlines are also threatening to reduce capacity at Luton because of what they regard as unduly high landing charges.111

92. Other major UK airports provide point-to-point services, mainly to other UK destinations, to short or medium distance international destinations, and 'spoke' services to hub airports in continental Europe and even in the Middle East and USA.

93. It seems unlikely that Gatwick, Stansted and Luton will ever be anything other than low-cost carrier-dominated leisure airports. They provide predominantly point-to-point services although, especially at Stansted, the density of services has allowed the development of 'self-connecting': the CAA found that 10% of all terminal passengers at

110 Qq 130-132 (From Aberdeen, Belfast (City and International airports), Glasgow, Edinburgh, Manchester and Newcastle.)

111 The Times, 4 September 2009
Stansted are do-it-yourself ‘connectors’. Whereas about 35% of passengers at Heathrow are connecting, Gatwick has only about 12% connecting passengers with fewer still at Manchester. Other smaller commercial UK airports provide more specialist services, such as the TAG Farnborough which is exclusively a business traffic airport.

**Development**

94. As noted previously, the 2003 White Paper set out how UK airports should be developed in order to meet the forecast growth in passenger demand to 2030. The key decisions were to support a third runway at Heathrow and a second runway at Stansted.

**Heathrow**

95. Heathrow is operating at full runway capacity and has very little resilience to cope with disruptions. Passenger numbers have grown due to BAA’s increases in passenger terminal capacity—Terminal 5 opened in 2008—and due to a switch to larger aircraft by some airlines so as to make better use of the limited number of landing slots.

96. At first sight, it might seem logical to take pressure off Heathrow by developing intercontinental services from other UK airports. Moreover, many businesses and individuals would no doubt welcome a greater range of direct international air services from their regional airport. However, attempts to do so, notably at Gatwick and Manchester, have had only limited success as they have been unable to sustain the level of demand for international services that is necessary to operate a hub airport. There has been a further concentration of long-haul services at Heathrow since the Air Transport White Paper, and services at Gatwick and Manchester have been relocated to Heathrow following the implementation of the Open Skies agreement with the USA.

97. Representatives from regions outside the southeast of England, such as regional airport operators, are supportive of Heathrow expansion. Their support is partly based on the hope that this will provide sufficient slots to allow regional services back into Heathrow. However, due to the greater profitability of allocating slots to long-haul flights, the trend of declining regional flights to Heathrow is unlikely to be reversed. BAA expressed hopes that this might happen but could provide no guarantees. Various witnesses suggested that slots should be reserved for UK regional services but the Department for Transport believes this would be prohibited under EU legislation. The Department for Transport also takes the view that it would not be appropriate to use Public Service Obligation

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112 Civil Aviation Agency, Connecting passengers at UK airports, November 2008
113 Statement by the Secretary of State for Transport, Rt Hon Geoff Hoon MP [HC Deb 15 January 2009, cols 357-358]
114 Q 394
115 Ev 305
116 Q 393
117 Ev 118
arrangements to support regional flights to Heathrow.¹¹⁸ This is in contrast to what it envisaged in its 2003 White Paper.¹¹⁹

98. In contrast to the USA where airports are government-owned, usually by the state or municipality, UK airports are mainly private businesses with little investment from the taxpayer.¹²⁰ The issue of new infrastructure is, therefore, not so much one of affordability but of planning permission. The economic benefits must be set against noise, air quality, increased traffic and urbanisation, on which a public interest judgement must be made. We accept that these are significant concerns with regard to a third runway at Heathrow. The Government has made specific conditions in order to moderate the local environmental impacts but it cannot eliminate them entirely. These conditions include a legally-binding process to ensure that additional flights will only be permitted if this can be done without breaching noise and air quality limits. It has also proposed a new “green slot” approach, to incentivise the use at Heathrow of the most modern aircraft.¹²¹ Air quality may improve, but significant noise problems are likely to remain. Ultimately, a judgement has to be made regarding the economic benefits to the UK and the environmental costs.

99. BAA points out that Heathrow is vulnerable to foreign competition. It has only two runways, operating at 99% capacity, in comparison to Paris which has four runways, Amsterdam five, and Frankfurt three, with a fourth approved and due to open in 2011. In 1990, Heathrow was second in Europe in terms of flights to the rest of the world, but by 2010 it will have dropped to seventh—behind Frankfurt, Paris, Amsterdam, Munich, Rome and Madrid.¹²²

100. We are not persuaded that refusing a third runway at Heathrow would be helpful in reducing greenhouse gas emissions. Heathrow’s competitor airports have expanded their runway capacity and have plans to increase flights and passenger numbers. Constraining Heathrow will only shift flights to other European airports. Climate change and emissions from aviation are international problems that cannot be solved by isolated restrictions on airport development.

101. BAA announced in September 2009 that it would not submit a planning application for the third runway until after the General Election. Lord Adonis told us that he is not unduly concerned at this stage. “We have always made it clear […] that it is a matter for BAA when it brings forward the planning application. They have chosen not to bring it forward so far, but that is a matter for them.”¹²³ This is wholly inconsistent with the Government’s assertions of the present need for a third runway. This also introduces an additional uncertainty into the timescale for obtaining planning consent and constructing the runway. The application, if submitted, will be determined by the Infrastructure

¹¹⁸ Ev 118
¹¹⁹ Department for Transport, The Future of Air Transport, Cm 6046, December 2003, p 57
¹²⁰ The main exception is the Manchester Airports Group which is wholly owned by the Greater Manchester local authorities. At some other regional airports, such as Birmingham International, the local authorities have a minority interest. The Scottish Government sponsors the 10 main airports in the Highlands and Islands Region.
¹²² Ev 399
¹²³ Transport Questions with the Secretary of State, Transcript of oral evidence, 4 November 2009, Q 88

102. In view of the economic benefits to the UK, we endorse the Government’s January 2009 decision to support a third runway at Heathrow and an additional terminal. We note the conditions for noise and air quality, imposed by the Government, and arrangements to limit CO2 emissions from aviation generally. It is crucial that these are applied effectively. We are concerned, however, about the lack of clarity on the timescale for completion of this project.

103. Even with a third runway at Heathrow, it is unlikely that the airport will become a hub airport for many UK cities. In order to maximise the economic benefits of an enlarged Heathrow, it is essential that direct access from the national rail network to Heathrow be provided.

**Stansted and Gatwick**

104. The case for an additional runway at Heathrow is based on improving the resilience of an airport that is already operating at full capacity. By contrast, the case for a second new runway in the southeast is based on predicted growth in passenger demand.

105. We have followed the development of the Department for Transport’s passenger forecasts with interest. The Department for Transport’s ‘central case’ forecast for 2030 has reduced from 500 million passengers per annum (mppa) in the 2003 forecast, through 485 mppa in the 2006 forecast, to 465 mppa in the 2009 forecast. A Department for Transport ‘sensitivity test’ shows that, if the calculations are based on rates of economic growth from the November 2008 Pre-Budget Report, demand in 2030 is forecast at 435 mppa. Some witnesses calculated that, using 2009 GDP growth rates, the forecast for 2030 is closer to 400 mppa. The Department for Transport contends that its central case—465 mppa—is the most appropriate figure for long-term planning. However, some of our witnesses argued that the impact of the recession would be substantial and lasting: although growth would return, the level of demand in 2030 would be affected. Whichever recent figure is used, it appears that the shortfall in airport capacity in 2030—the difference between the Department for Transport’s estimate of unconstrained demand and the demand that would be accommodated with the two proposed additional southeast runways—has now disappeared.

106. The planning inquiry into a second runway at Stansted is currently on hold. The case is more finely balanced and the recession and the consequent reduction in passenger numbers may impact on its viability and implementation date. Whereas most of our witnesses were clear about the need for expansion of Heathrow, they were less exercised about a second runway at Stansted. Whilst some local authorities, such as Manchester councils, have backed local airport expansion strongly on economic development grounds,

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124 Annex 2
125 Ev 471
126 Annex 2
127 Q 10 [Dr Bush]
this does not appear to be the case with Stansted. Outside London and the southeast of England, runway capacity issues are less critical.

107. **We are not convinced that a national case for an additional runway at Stansted has been made.**

108. The enforced sale by BAA of Gatwick airport is intended to lead to greater competition between airports in the southeast of England. Gatwick airport submitted evidence to us independently of BAA, stating that it expects its annual passenger traffic to reach 40 million within a decade and that it is keen to explore the option of a second runway at Gatwick.129

109. Some witnesses told us that, if a third runway at Heathrow were to be constructed, a second runway at Gatwick would not be viable—at least, not within the 2030 timescale.130 There is, in any case, a legal restriction that prevents construction of any additional runway at Gatwick prior to 2019. However, other witnesses considered that, in terms of demand, Gatwick would be a better location for a new runway than Stansted and that, in terms of airport planning approval, 2019 was not far off.

110. **The delays in arriving at a final decision on a second runway at Stansted, coupled with the recession and declining passenger numbers, mean that a second runway at Stansted is unlikely to be completed prior to 2019 when the restriction on an additional runway at Gatwick expires. The Government should reconsider whether the additional runway, if required, should be located at Gatwick rather than Stansted.**

**High-speed rail**

111. Earlier this year, Lord Adonis set out his *Transport manifesto*. He noted that “the most far-reaching policy departure […] in its implications for Britain’s transport system was the decision to establish the High Speed Two company, and to ask it to recommend to the Government a north-south high-speed rail plan by the end of the year.” Part of the initial remit of High Speed Two (or “HS2” as it is now generally called) is to investigate the options for a high-speed rail link between London and the West Midlands, including a link to Heathrow.

112. The Eddington Study was relatively dismissive of high-speed rail but the Government and main Opposition parties are now broadly supportive. We have previously stated our support for new high-speed rail lines in the UK.131 An inquiry into aviation is not the place to consider this subject in depth the case for high-speed rail.132 However, it is important to clarify the extent to which rail might provide an alternative to short-haul flights.

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128 Ev 255
129 Ev 461
130 Q 12
131 Tenth Report of Session 2007-08, *Delivering a sustainable railway: a 30-year strategy for the railways*, HC 219, para 28
132 The Committee is inquiring into high-speed rail in its current inquiry into the *Priorities for investment in the railways*. 
113. Both ‘sides’ in the airport expansion debate were very positive about high-speed rail. BAA would welcome high-speed rail, especially if it served Heathrow. The airlines were also in agreement about investment in high-speed rail and in rail generally. Similarly, the WWF-UK, 2M Group and other organisations opposed to airport expansion also strongly supported the development of high-speed rail.

114. Views diverge, however, on the extent to which improved rail services or new high-speed rail lines would reduce the number of short-haul flights and free up capacity at the busiest airports in the southeast, particularly at Heathrow. Airlines and airports believe that high-speed rail is not an alternative to airport expansion and, while desirable in its own right, it makes little difference to the strategic decisions on airports. The Airport Operators Association said that “Rail-air is a false choice.” Mr Harrison explained that easyJet, the largest short-haul airline in the UK, already has a policy of not operating on routes which take less than four hours by rail. “[…] it is a fallacy to think about high-speed rail as some sort of substitution for short-haul flights. They do different things and they are complementary.”

115. Mr Ridgway of Virgin Atlantic said that a high-speed rail line might free up some 2–3% of capacity at Heathrow which would be beneficial but would make little difference to the issue of runway capacity. Mr Carrivick (BAR UK) pointed out that a new high-speed rail line would take many years to become operational whereas additional runway capacity was needed now.

116. High-speed rail has proved to be highly effective at growing demand for travel between cities less than four hours apart by rail. It also tends to take up much of the growth in travel that might otherwise be accommodated on short-haul flights. Eurostar, the only UK company that has first hand experience of operating high-speed rail services between UK and continental Europe, provides useful evidence. Since 1994, it has more than doubled the total number of passengers travelling by air or rail between London and Paris. The market share for rail between London and both Paris and Brussels is now in excess of 70%. Eurostar concludes that an 80% share for rail is typical for journeys of approximately two hours, and that high-speed rail attracts more than 50% of the market share for journeys of up to 3.5 hours.

117. Eurostar is more circumspect about the extent to which high-speed rail can eliminate the need for existing short-haul air services. This has happened on the Paris-Brussels route and, according to Dr Hamprecht of Deutsche Bahn, many French domestic services have

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133 Q 335
134 Ev 168
135 2M is a collation of 23 councils in London and the southeast opposed to expansion of Heathrow airport. See Ev 336.
136 Ev 271
137 Q 334
138 Ev 110
now been replaced by TGV.\textsuperscript{139} A key factor in this is the high quality and direct rail access to Paris airport.\textsuperscript{140}

118. The Air Transport White Paper briefly considered the issue of high-speed rail in relation to airport capacity. It noted that passengers on internal flights accounted for some 13\% of traffic at UK airports. It also noted the impact of high-speed rail on domestic air services in France and welcomed the prospect of improved rail services in the UK. However, it concluded that for passengers who were interlining (travelling to connecting flights) “rail is unlikely to be the most attractive choice. And for some parts of the UK, travel by air will remain the only realistic solution.”\textsuperscript{141} Manchester Airports Group told us that, of the 0.9 million passengers who flew between Manchester and Heathrow in 2008, 63\% were transferring to onward flights. In its view, rail would not be an attractive alternative for these passengers.\textsuperscript{142}

119. Sir David Rowlands, Chairman of HS2, and charged with reporting to the Government by December 2009 on the options for high-speed rail, told us that there was potential for high-speed rail to replace some demand for short-haul flights. He pointed out that the upgrade to the West Coast Main Line, resulting in improved speeds, though not what is conventionally defined as high speed, had already increased rail’s share of the rail/air market between Manchester and London from around 50\% to 70\%. He saw high-speed rail as “potentially complementary” to Heathrow but thought the impact on slots and overall passenger numbers would be relatively minor.\textsuperscript{143}

120. Network Rail published its own strategic study of a potential high-speed rail network in August 2009.\textsuperscript{144} This concluded that a high speed link to Heathrow would have a positive benefit to cost. This benefit was above the guidance threshold set by the Department for Transport indicating that it could be considered good value for money and hence potentially eligible for funding.\textsuperscript{145} When compared to constructing the ‘basic’ north-south high-speed rail route, adding a link to Heathrow would involve additional cost for the benefit of a relatively small number of additional passengers. As such, Network Rail found that, in benefit to cost terms, “the addition of Heathrow is detrimental to the overall case” for high-speed rail. It should be noted that Network Rail’s assessment does not take account of the wider economic benefits associated with Heathrow.

121. We look forward to the creation of a high-speed rail network for the UK. It is imperative that this includes links to some of our major airports. Provided that good quality airport links are provided, high-speed rail will provide an alternative to some domestic flights, a welcome choice for passengers and strengthen the UK’s major

\begin{footnotes}
\footnote{Dr Hamprecht, Uncorrected transcript of oral evidence, \textit{Priorities for investment in the railways}, 11 November 2009, Q 102}
\footnote{Mr Steer, Uncorrected transcript of oral evidence, \textit{Priorities for investment in the railways}, 11 November 2009, Q 147. Refers to Paris CDG airport.}
\footnote{Department for Transport, \textit{The Future of Air Transport}, Cm 6046, December 2003, p 59}
\footnote{Ev 299}
\footnote{Qq 402-405}
\footnote{Network Rail, \textit{Strategic Business Case for New Lines}, August 2009}
\footnote{The Department for Transport’s \textit{Guidance on Value for Money} states that a benefit:cost ration (BCR) of between 1.5:1 and 2.0:1 represents ‘medium’ value for money; above 2.0 is ‘high’ value for money. Network rail’s Heathrow option shows a BCR of 1.6.}
\end{footnotes}
airports. Enhancing rail access to Heathrow will also maximise the economic benefits of the UK’s international gateway airport.

122. High-speed rail is unlikely to replace all UK domestic flights, especially east-west links between regions and flights to Northern Ireland and the Scottish Highlands. In any event, the number of flights from UK airports to Heathrow is relatively small. As such, there is no evidence that high-speed rail offers a viable alternative to expansion of Heathrow.

6 Taxes and charges

Taxation of aviation

Levels of taxation

123. Air travel is not taxed in the same way as other goods and services. This generates some strongly differing views and analyses, as we heard during our inquiry. Under the 1944 Chicago Convention on International Civil Aviation, tax may not be levied on aviation fuel for international airlines.\(^{146}\) It would also be difficult for a country to unilaterally impose a tax on aviation fuel because airlines would seek to refuel elsewhere.\(^{147}\) Air travel tickets are zero-rated for VAT but, since 1994, passengers have paid Air Passenger Duty (APD).

124. The Oxford Economic Forecasting study found that the aviation industry contributed £3.6 billion to the Exchequer in 2004 through APD, income tax, corporation tax and national insurance. The contribution of APD has risen over recent years and, according to the Airport Operators Association, was around £2 billion in 2007.\(^{148}\)

125. The Aviation Environment Federation and others say that the aviation industry is heavily under-taxed. Whereas motorists pay 54 pence per litre in fuel duty plus around 15 pence per litre in VAT, no tax or duty is payable on aviation fuel. They point to the Government report on Heathrow which said that “Were the UK to charge a fuel duty and VAT on tickets, this could result in revenues of around £10 billion.”\(^{149}\) The Department for Transport says that this is “an initial first order estimate” and seems reluctant to provide any further details.\(^{150}\) It also believes:

[...] that there is a place for domestic aviation taxation alongside the ETS as aircraft emit other externalities and the industry should also make a fair contribution to the

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\(^{146}\) HL Deb, 19 October 2000, cols 1194–6

\(^{147}\) In the UK, aviation gasoline—used by smaller aircraft—is subject to aviation gasoline duty (Avgas). From 1 September 2009 the rate was 0.3457p per litre. However, kerosene—used by aircraft jet engines—is untaxed.

\(^{148}\) Ev 271

\(^{149}\) Department for Transport, Summary of responses to the Government’s consultation on the aviation emissions cost assessment (amended version), October 2008, p 14

\(^{150}\) Ev 115
public finances. The Treasury keeps all taxes under review and will monitor the interaction of the two instruments as ETS auctioning rates rise.151

126. The British Air Transport Association compares aviation to rail and bus travel where operators pay (net) only low rates of fuel duty and travel is zero-rated for VAT. It also points out that, whereas billions of pounds of taxpayers money are invested in rail and bus travel, airports and airlines receive virtually no subsidy.

127. Taxation is an aspect of aviation that is hotly disputed. The industry argues that it contributes heavily to the Treasury whilst critics say it should pay more. Yet it ought be relatively straightforward to provide a factual account. We asked for this, but did not receive one. It would be helpful if the Government clarified this issue with a statement of the revenues raised, the extent of any tax exemptions and how these compare to the social and environmental costs of aviation. As part of this clarification, the Government needs to explain the basis for its earlier statement that an additional £10 billion might be raised if VAT and fuel duty were applied to aviation.

Impact of Air Passenger Duty on demand

128. The CAA told us that, to date, APD has had no discernible effect on the growth in passenger numbers. Dr Bush explained that APD usually forms only a small percentage of the overall cost of a holiday or trip so demand for air travel is relatively insensitive to changes in APD.152 That said, the rate of APD rose substantially in 2008 and increased again in November 2009, with further rises in 2010. Airline representatives told us that they are concerned about additional taxation, particularly in the current difficult economic climate. They are also concerned about distortions that APD may cause—in terms of competition between airlines and also between destinations.

129. Airline representatives were of the view that APD covered all the environmental costs of aviation although they concluded that it was ineffective as an environmental tax. They are seeking a reduction in APD to offset the costs of joining the EU ETS which they favour. However, the Government has made no commitment to this proposal.153

130. The aviation industry is in a precarious state and the Government must ensure that it does not damage its long-term viability through excessive increases in taxation. That said, it is only reasonable that aviation should contribute its fair share to the Exchequer.

131. For historic reasons, aviation has avoided general taxes—VAT and fuel duty—which apply to most service industries. Whilst it is true that bus and rail travel are lightly taxed and subsidised, there are clear social and environmental reasons for encouraging these modes, which do not apply to aviation. However, there are no modes of transport without environmental impacts.

152 Qq 42–43
153 Q 320
132. It is right that the aviation sector should be contributing its fair share to Government revenues. Air Passenger Duty was introduced to raise revenue for the Government. It has been modified to provide ‘green signals’ but the Government states that it is not an environmental charge. The major environmental cost of aviation—climate change impacts—will be covered by the EU Emissions Trading Scheme charges from 2012. The level of Air Passenger Duty should therefore be set according to the Government’s revenue needs, taking careful account of the economic importance of the aviation industry. It also needs to be mindful of the state of the aviation industry in the current economic recession and to take account of competition from other European airports.

Covering environmental costs

133. The 2003 Air Transport White Paper said that the Government would “work to ensure that aviation meets its external costs, including environmental and health costs”.154 The Government updated its estimate of aviation’s climate change costs in 2008, concluding that the aviation sector’s climate change costs in 2006 were around £1.8 billion.155 It points out that considerable sensitivity is attached to assumptions regarding the price for carbon and the radiative forcing factor used.156 Other environmental costs were not updated. These had been previously estimated at £119–£236 million for local air quality and £25 million for noise per annum in 2000.

134. The Government concludes that, in 2006, revenues from aviation, in the form of APD and AVGAS payments, failed to cover around £0.8 billion of aviation’s climate change cost. However, with the doubling of APD, announced in February 2007, “aviation would cover its climate change costs with an excess of £0.1 billion.”

135. APD was introduced “to broaden the tax base”, that is as a revenue raising measure, by the then Chancellor, Rt Hon Kenneth Clarke MP, in 1994.157 Originally a simple flat-rate tax, it has evolved into four bands according to trip distance, with a higher ‘standard’ rate chargeable on premium fares within each band. It has taken on a secondary role of a green tax and its purpose is not always clear.158 In 2007 the Government announced that it intended to replace APD with a ‘per plane’ duty—to encourage fuel efficiency and reduce CO₂ emissions—but this idea was abandoned the following year because its impact was seen as marginal and because of concerns about the economic impacts on air freight and on regional airports.

136. Although APD has been restructured to reflect the distance flown, and therefore—broadly speaking—CO₂ emissions, the Government is clear that APD is not an environmental charge:

154 Department for Transport, The Future of Air Transport, Cm 6046, December 2003, p 31
155 Department for Transport, Aviation emissions cost assessment, 2008, p 6
156 Radiative forcing refers to the greater climate change impact of greenhouse gases emitted at altitude.
157 HC Deb, 30 November 1993, col 934
158 Qq 577, 583–584
[...] the Government emphasises that whilst its domestic aviation tax regime is structured so as to send environmental signals, neither APD nor AVGAS should be seen as an environmental charge designed solely to capture the environmental cost of aviation.159

Charges

Security costs

137. The need for improved security is not disputed. However, our witnesses were generally critical of the impact of security measures on passengers and airlines. The Board of Airline Representatives in the UK (BAR UK) says:

The aviation sector has a lot of regulatory burden placed on it by the security environment….airlines are being expected to absorb very high additional costs without any demonstrable benefits to them, their customers, their staff or, in the case of National ID Cards, security.160

The impact on passengers and the industry of additional security arrangements was also made clear to us on our visit to the USA where industry representatives told us of the additional costs, delays and reduced passenger numbers.

138. The combined effect of additional security costs, other airport charges and APD, is a concern of the aviation industry, including general and business aviation, in the current economic climate.161 We urge the Government to do all it can to develop aviation security procedures that minimise cost and delays for passengers, whilst not sacrificing safety and security.

7 Passenger representation and protection

Passenger representation

139. Air passengers with a complaint against an airline or airport may currently seek the assistance of the Air Transport Users Council (AUC). The AUC was set up by the CAA in 1973, but has no statutory basis. Its remit was to assist the CAA in its duties to further the reasonable interests of air transport services.

140. In its 2009 consultation document on reforming the economic regulation of airports, the Government has proposed the establishment of a statutory body to represent air passengers.162 This would involve transferring the responsibility for complaints handling from the AUC to Passenger Focus and giving Passenger Focus a greater policy advocacy role on behalf of the air passenger. Its air passenger role would be funded through airport

159 Department for Transport, Aviation Emissions Cost Assessment, 2008, p 9
160 Ev 364
161 Ev 425
162 Department for Transport, Reforming the framework for the economic regulation of the UK airports, March 2009, p 128
licence fees—ultimately a charge on air passenger. Passenger Focus is a statutory body with responsibility for rail passengers and, from 2010, for bus and coach passengers outside London. It is funded by the Department for Transport.

141. In our Report *Passengers’ Experience of Air Travel* we called for stronger passenger representation and made the following recommendation pertaining to the AUC:

> The Air Transport Users’ Council does a fine job with limited resources and what appears to be no advertising budget. We recommend that the CAA look at devising some kind of cross-subsidy for the Council from airport and airline fines for poor performance and that the Council does more to advertise itself.

Witnesses to our current inquiry expressed no dissatisfaction with the AUC.

142. The Government’s proposal raises interesting questions about the most appropriate and effective model of passenger representation. The AUC investigates cases of detriment brought by individual air passengers, applying the consumer protection legislation and codes, most of which now apply across the EU. The Chief Executive of AUC, Simon Evans, told us that, in his view, consumer protection legislation was now well established and that passengers were best served by effective application of the laws. Mr Josephides, Director of the Independent Tour Operators Association, endorsed this approach.

143. Passenger Focus also has a role in resolving disputes between individual passengers and transport operators but its emphasis is on advocacy backed by research. It seeks to further the interests of passengers through reports, lobbying and campaigns. It has undertaken research for the Department for Transport which may adopt its recommendations. The Chief Executive of Passenger Focus, Anthony Smith, told us that Passenger Focus would be able to bring its research skills to bear on the air travel sector and it would be able to represent the passenger for more of their journey, across the modes. However, Passenger Focus’ remit does not cover travel by London Underground, London buses, taxis or by car.

144. We welcome moves to strengthen the voice of air passengers and the increased emphasis on the passenger in the remit for the CAA. In reaching its conclusion, the Government should consider that the issues facing air passengers and those faced by bus or rail passengers are often quite different. For many people, air travel is an infrequent, discretionary journey, whereas bus and rail travellers have little choice about many of their journeys. Air passengers tend to experience greater competition and choice than do bus or rail passengers. Air travel is a private contract between the passenger and the operator, whereas the public authorities (central or local Government or other public agencies) are frequently involved in specifying or subsidising bus and rail travel, for example, through the specification of rail franchises or funding concessionary bus travel.

145. **We welcome moves to strengthen the voice of air passengers and the increased emphasis on the passenger in the remit for the CAA. It is not clear how the**

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163 Passengers on Transport for London services are represented by London Travel Watch.
165 Q 354
Government’s proposal to replace the Air Transport Users Council with Passenger Focus would influence the airlines or airports. This is true despite the proposal to beef up the passenger advocacy role of Passenger Focus, as compared to AUC’s current remit. No new powers are proposed. Government influence over bus and rail companies, for example through the specification of rail franchises, does not extend to the aviation sector which is heavily prescribed by international legislation. The air travel market is highly competitive and operators take a hard-nosed approach to service costs and standards. Whatever the Government decides regarding passenger representation, it is essential that the powers of a body defending passengers’ rights match its remit. If not, it may create false expectations.

Passenger protection

146. We have previously inquired into the financial protection for passengers in the event of an airline abruptly ceasing to operate. Passengers who book a flight which is part of a package pay a small, mandatory levy and are insured under the ATOL scheme. However, those online customers who, increasingly, book flight-only or what may appear to be a package, are not protected unless they take out their own travel insurance. Those who pay with a credit card may be able to recover costs from the credit card company. It is doubtful if all passengers understand this complicated and anachronistic situation.

147. ABTA described the situation for us:

Passengers travelling on flights which are part of packages sold under the Package Travel Regulations are protected against the insolvency of the air carrier through the Civil Aviation Authority’s ATOL Regulations. Another passenger travelling on the same flight who purchased their ticket direct from an airline, or through its agent, is not protected unless he has taken out insurance. There must be consistency so that the passenger is assured that, when he is buying a flight/holiday from whatever source, he is protected.

148. Recent industry failures have left passengers stranded at foreign airports. The collapse of XL Leisure Group in September 2008 followed the failure of the low-cost transatlantic airline, Zoom. Italian airline Alitalia narrowly avoided liquidation in the same year and British Airways has been suffering unprecedented financial difficulties. SkyEurope filed for bankruptcy in August 2009 and ceased to operate all fights. When we considered this issue in 2006, we recommended that the Government should support the CAA’s then position to impose a “modest mandatory levy” on tickets to guard against the consequences to passengers of airline bankruptcy. However, the Government decided against this policy.

166 The Air Travel Organisers’ Licensing (ATOL) carries out checks on the tour operators and travel organisers it licenses, and requiring them to take part in a financial guarantee scheme managed by the Air Travel Trust (ATT) which provides the funds to protect customers should a firm fail.

167 Q 353

168 Ev 250

149. All our witnesses said that passenger protection was inadequate. The situation could deteriorate further if tour operators decide to ‘unbundle’ their packages in order to compete with others who are not required to include the ATOL levy in their charge to the passenger. Furthermore, the Government, as the ultimate insurer of the ATOL scheme, carries much of the financial risk. The CAA has proposed an increase from £1 to £3 in the ATOL levy. easyJet recommended a different approach to passenger protection:

The focus of previous efforts have been on measures to apply following failure, and are not pre-emptive. […] Our proposal is that the Government should require all UK based airlines to have cash to cover three months of operations, without this they would be unable to sell seats on future flights. This would allow airlines to either fail slowly, with their aircraft and crew used to complete flights, or to be rescued through a cash injection.

150. The Government has undertaken a ‘lessons learned’ exercise following the collapse of XL Leisure. It has sought to improve information to passengers regarding their rights and the need for travel insurance for non-ABTA flights. However, it is not clear that standard travel insurance usually excludes economic failure by the airline. **We remain concerned that air passengers are not adequately protected from airline collapse.** As the number of people who book flights over the internet increases, the number at risk also rises. We repeat our recommendation that the ATOL levy should be increased and extended to include all flights overseas and not merely package holidays.

151. **We also urge the Government to work with the insurance industry to make it clear to passengers that standard travel insurance does not normally include flights home in the case of economic collapse by the airline.**

8 Conclusion

152. There is clear evidence that the aviation industry is important to the UK economy as a whole and to the economic development of certain regions. The aviation industry enjoys certain taxation advantages but it receives little direct public funding. At a time of severe economic difficulty for the industry, this laissez-faire approach by the Government is risky and unlikely to optimise the benefits.

153. **We believe that the aviation industry is very important to the UK economy.** We therefore find it unsatisfactory that the Government leaves such a key industry to the vagaries of the market. The Government needs to carefully assess which parts of the industry contribute most to the economy, including regional economic development, and consider a more proactive role so as to ensure that strategic assets are not lost in these difficult economic times.

170 Ev 250
171 Ev 405
172 Ev 117
Conclusions and recommendations

Government policy on aviation

1. The 2003 White Paper, The Future of Air Transport, continues to provide a sound basis for aviation policy. It identifies the likely airport infrastructure requirements without authorising or precluding them. However, the Government needs to set out more explicitly the role envisaged for aviation within its overall transport policy as well as the inter-relationships between aviation and other transport modes. It should ensure that the policy is kept up-to-date, taking full account of proposals for high-speed rail and climate change. (Paragraph 25)

The importance of aviation to the UK economy

2. The asymmetric nature of the Open Skies agreement is disadvantageous to the UK economy and particularly to the UK regions, and should be renegotiated at the earliest possible opportunity. (Paragraph 36)

3. The Government is right to support the sensible development of air transport in the UK. Choices between economic benefits and environmental costs sometimes need to be made. The “balanced strategy”, set out in the 2003 Air Transport White Paper, requires a good evidence base. The Government should regularly update its assessment of the economic value of aviation to the UK economy and ensure that it is subject it to independent external scrutiny. (Paragraph 53)

The environment

4. Reducing the carbon emissions from aviation is crucial both to the success of climate change policies and to the future of aviation. The aviation industry believes that it can rise to the technological challenge but this will happen only if appropriate ‘sticks and carrots’ are in place. The work of the Committee on Climate Change, due for publication in December 2009, is likely to be crucial in helping to determine what is feasible and how it might sensibly be achieved. It would be wrong for us to try to second-guess or prescribe the outcomes. We believe the following principles should apply to future UK policy on aviation emissions:

   a) aviation and climate change are global in nature, and global solutions are the only realistic response;

   b) aviation should be treated equitably in climate change policy—it should not be demonised or assigned symbolic value beyond its true impacts, and

   c) carbon reduction measures should be cost-effective and take account of the economic value of aviation. (Paragraph 68)

5. We are concerned that the EU Emissions Trading Scheme has an appalling track record and that it may prove insufficient to drive investment in low-carbon aviation, especially in these difficult economic times. We await with interest the forthcoming
advice of the Committee on Climate Change to the Government on these issues. (Paragraph 69)

6. Aircraft noise is a nuisance to a large number of people, which detracts from their quality of life and presents health hazards which are not fully understood. It should be remembered that, as aviation has grown, planes have become quieter and noise levels have reduced for millions of people. The Government must act decisively to ensure that older, noisier aircraft are taken out of use as soon as possible. This should be achieved firstly by seeking to influence international noise standards (set by the International Civil Aviation Organization) and secondly through guidance to local airports. (Paragraph 81)

7. The Government needs to revisit its procedures for assessing the impacts of aircraft noise, the compensation arrangements and the effective enforcement of noise regulations. The Government should also review the adequacy of research into the effects of aircraft noise, particularly on human health. (Paragraph 82)

8. We urge the Government, in partnership with airports and airlines, to bring forward measures to improve air quality around our major airports. The pollutants come from a variety of sources, including aircraft, airport traffic and background sources. The Environment Agency has techniques to assess the air quality impacts for major airport developments and we recommend that the Government and airport developers take full advantage of these. (Paragraph 87)

Infrastructure needs

9. In view of the economic benefits to the UK, we endorse the Government’s January 2009 decision to support a third runway at Heathrow and an additional terminal. We note the conditions for noise and air quality, imposed by the Government, and arrangements to limit CO2 emissions from aviation generally. It is crucial that these are applied effectively. We are concerned, however, about the lack of clarity on the timescale for completion of this project. (Paragraph 102)

10. Even with a third runway at Heathrow, it is unlikely that the airport will become a hub airport for many UK cities. In order to maximise the economic benefits of an enlarged Heathrow, it is essential that direct access from the national rail network to Heathrow be provided. (Paragraph 103)

11. We are not convinced that a national case for an additional runway at Stansted has been made. (Paragraph 107)

12. The delays in arriving at a final decision on a second runway at Stansted, coupled with the recession and declining passenger numbers, mean that a second runway at Stansted is unlikely to be completed prior to 2019 when the restriction on an additional runway at Gatwick expires. The Government should reconsider whether the additional runway, if required, should be located at Gatwick rather than Stansted. (Paragraph 110)

13. We look forward to the creation of a high-speed rail network for the UK. It is imperative that this includes links to some of our major airports. Provided that good
quality airport links are provided, high-speed rail will provide an alternative to some domestic flights, a welcome choice for passengers and strengthen the UK’s major airports. Enhancing rail access to Heathrow will also maximise the economic benefits of the UK’s international gateway airport. (Paragraph 121)

14. High-speed rail is unlikely to replace all UK domestic flights, especially east-west links between regions and flights to Northern Ireland and the Scottish Highlands. In any event, the number of flights from UK airports to Heathrow is relatively small. As such, there is no evidence that high-speed rail offers a viable alternative to expansion of Heathrow. (Paragraph 122)

Taxes and charges

15. Taxation is an aspect of aviation that is hotly disputed. The industry argues that it contributes heavily to the Treasury whilst critics say it should pay more. Yet it ought be relatively straightforward to provide a factual account. We asked for this, but did not receive one. It would be helpful if the Government clarified this issue with a statement of the revenues raised, the extent of any tax exemptions and how these compare to the social and environmental costs of aviation. As part of this clarification, the Government needs to explain the basis for its earlier statement that an additional £10 billion might be raised if VAT and fuel duty were applied to aviation. (Paragraph 127)

16. It is right that the aviation sector should be contributing its fair share to Government revenues. Air Passenger Duty was introduced to raise revenue for the Government. It has been modified to provide ‘green signals’ but the Government states that it is not an environmental charge. The major environmental cost of aviation—climate change impacts—will be covered by the EU Emissions Trading Scheme charges from 2012. The level of Air Passenger Duty should therefore be set according to the Government’s revenue needs, taking careful account of the economic importance of the aviation industry. It also needs to be mindful of the state of the aviation industry in the current economic recession and to take account of competition from other European airports. (Paragraph 132)

17. We urge the Government to do all it can to develop aviation security procedures that minimise cost and delays for passengers, whilst not sacrificing safety and security. (Paragraph 138)

Passenger representation and protection

18. We welcome moves to strengthen the voice of air passengers and the increased emphasis on the passenger in the remit for the CAA. It is not clear how the Government’s proposal to replace the Air Transport Users Council with Passenger Focus would influence the airlines or airports. This is true despite the proposal to beef up the passenger advocacy role of Passenger Focus, as compared to AUC’s current remit. No new powers are proposed. Government influence over bus and rail companies, for example through the specification of rail franchises, does not extend to the aviation sector which is heavily prescribed by international legislation. The air travel market is highly competitive and operators take a hard-nosed approach to
service costs and standards. Whatever the Government decides regarding passenger representation, it is essential that the powers of a body defending passengers’ rights match its remit. If not, it may create false expectations. (Paragraph 145)

19. We remain concerned that air passengers are not adequately protected from airline collapse. As the number of people who book flights over the internet increases, the number at risk also rises. We repeat our recommendation that the ATOL levy should be increased and extended to include all flights overseas and not merely package holidays. (Paragraph 150)

20. We also urge the Government to work with the insurance industry to make it clear to passengers that standard travel insurance does not normally include flights home in the case of economic collapse by the airline. (Paragraph 151)

Conclusion

21. We believe that the aviation industry is very important to the UK economy. We therefore find it unsatisfactory that the Government leaves such a key industry to the vagaries of the market. The Government needs to carefully assess which parts of the industry contribute most to the economy, including regional economic development, and consider a more proactive role so as to ensure that strategic assets are not lost in these difficult economic times. (Paragraph 153)
Introduction

1. The Transport Committee visited Washington DC, the Federal Capital of the United States of America, from 19 to 23 October 2009. The purpose of the visit was to hear about the prevailing conditions and likely developments relating to aviation. The visit was specifically linked to our inquiry into The future of aviation. During our visit we also took the opportunity to learn about general developments in transport policy in the USA since the election of President Obama in 2008.

2. The USA was a useful place to visit for this inquiry for a number of reasons. The USA is the world’s largest aviation market. There are many transatlantic air services between the USA and the UK operated by UK- and US-owned airlines. The US domestic market was liberalised in 1978, allowing competition between US carriers, though not foreign-owned airlines. The First Stage Open Skies agreement between the USA and the EU has allowed airlines from the USA and the EU greater access to each other’s airports, including Heathrow. The EU, supported by the UK Government, is working towards the Second Stage Open Skies agreement seeking a relaxation of the restrictions on foreign investment in US airlines, and vice-versa. The position of the US Government and the aviation sector regarding climate change issues was also pertinent, prior to the international conference in Copenhagen in December 2009.

3. We met with a range of politicians, officials, industry and transport-user representatives and researchers. We are very grateful to all of them for taking time to share with us their experience and expertise. We would particularly like to thank Senator Lieberman and Representatives Oberstar, Petri and Defazio for meeting with us. We also thank Mr Dominick Chilcott, Deputy Head of Mission at the British Embassy in Washington, for his kind hospitality and valuable briefings. Our thanks also go to the Embassy staff who organised our visit, most particularly to Ms Judith Ritchie and Mr Jon Shifrin who also accompanied us throughout.

Transportation Bill

4. US transportation policies are typically governed by a transportation bill which specifies policies, programmes and federal funding for a four to five year period. The last transportation bill expired on 30 September 2009. A one-month extension was authorised by Congress and further temporary extensions are likely as the enactment of a new transportation bill is some way off. Representative Oberstar, Chairman of the House Transportation and Infrastructure Committee, has published an 800-page Transportation Reauthorization Bill but this has yet to be approved in either House. It would require further details on how the proposals would be funded. The Administration has indicated that it wishes to develop a transportation bill but that this will take twelve months or more due to other political priorities.
US Air Transport Industry

5. The aviation industry in the USA is a mix of public and private enterprise. Airports are publicly-owned, typically by the state, city or metropolitan authorities, and managed via airport authorities. This is in contrast to the UK where airports are almost all privately-owned. Funding for airport development is provided by a mix of public funds, public bonds, profits from airport trading concessions and charges on airlines. Federal funding for airports generally goes only to smaller airports. Larger airports raise funds through bonds and concessions. Accepting Federal funding requires the airport to take on certain obligations. The airport authorities recover their operating costs from the airlines by way of airport charges, such as landing fees. Airports sometimes give financial incentives to airlines to start new services. Revenue diversion prohibition laws prevent airports from channelling surplus funds to other areas of public expenditure.

6. Recent legislation would allow up to 10 airports to be sold to the private sector. However, this option has not yet been taken up. Airports which have accepted Federal funds—as many have—are constrained by public obligations. State-owned airports are able to issue tax-exempt bonds and thus are able to raise funds more cheaply than the private sector. Chicago Midway Airport has pursued a move to private ownership but the collapse of Morgan Stanley Bank, one of the financial parties, has adversely affected it.

7. The airlines, by contrast, are privately owned. The domestic air transport industry was ‘deregulated’ in 1978, allowing privately-owned airlines to determine routes and services. A provision was included to maintain services at small airports which serve smaller, remote communities in some states. The Essential Air Services Program requires that the government must support air services which existed in 1978, unless there is another airport within 70 miles. However, the airlines are not keen to operate these loss-making services, even with subsidy. There is also a small grant available to support new air services for small communities for one year. Non-US airlines are not permitted to operate on US domestic routes and foreign-ownership of US airlines remains heavily restricted. The view of the industry representatives who we met is that the US air transport market is extremely competitive and that profit margins have been small over a long period. US airlines are less differentiated, in terms of service levels, compared with the UK where the difference between no-frills carriers and the legacy carriers is more marked.173

8. Airport charges must be revenue neutral. Currently, landing fees must be calculated according to the weight of the aircraft but the Airports Council International wants to introduce fees that also take congestion into account. There are no penalties for over-scheduling by airlines. Congestion and delays are serious at some airports and passengers suffer. The airlines are in dispute with the Airports Council International and the Department of Transportation over landing fees.

9. The aviation sector is overseen by the Federal Aviation Administration (FAA), part of the US Department of Transportation. The FAA provides air traffic management services and is responsible for safety and economic regulation. A major challenge for the future is the implementation of ‘NextGen’, a new GPS-based air traffic management system, to replace the existing radar-based system. NextGen would integrate many existing systems to

173 Southwest Airlines is the chief exception.
improve overall efficiency. Indeed, integration is seen as being more of a challenge than developing the technology itself. NextGen should provide approximately 3% more capacity, but much greater efficiency and delay-handling capability, particularly in bad weather conditions. This parallels the Single European Skies (SESAR) proposals for Europe. The two systems are intended to be compatible. NextGen requires further systems development and will require Federal funding which has yet to be secured. Two versions of a FAA Reauthorization Bill, which would provide funding for NextGen, have been passed in the House of Representatives but neither has yet been passed by the Senate.

10. There is no single body to represent airline passengers in the USA. A number of user-organisations have been established, sometimes with specific remits, but there is no equivalent of the UK’s Air Transport User Council or Passenger Focus. The Department of Transportation has a consumer unit which deals with certain passenger-complaint issues.

Open Skies

11. The First Stage Open Skies agreement between the EU and the USA came into effect in 2008. This has given US airlines greater access to European airports, notably London Heathrow, and EU airlines now have greater access to key US hub-airports.

12. Although the practical effects of Open Skies have been limited to date, the move to more open access and competition between EU and US airlines on transatlantic flights is seen as transformative and likely to make further agreements easier to conclude. The Department of Transportation is committed to concluding a Second Stage Open Skies agreement which would allow further access to EU and US markets. However, opposition to foreign ownership of US airlines remains strong within the USA, particularly from the labour unions and some Members of Congress. There are also concerns about increased restrictions on night flying at some European airports, which are causing problems for US freight carriers which need to deliver early in the day. For example, after a new runway was constructed at Frankfurt airport, a night-flying ban was introduced. As a result, some US carriers relocated their operations to Cologne airport, which, they argued, involved them in significant additional costs.

Passenger Demand and Industry Response

13. Air passenger numbers have declined sharply since Autumn 2008 and demand in 2009 has been lower still. The fall in passenger numbers has been accompanied by a fall in airline revenues and, in mid-2009, a return to high fuel prices. The FAA has revised its passenger growth forecasts downwards: whereas its 2005 forecasts predicted that passenger numbers would reach 1 billion in 2015, its 2009 forecasts do not anticipate reaching 1 billion until 2021. The US domestic air transport market is seen as ‘mature’, with less growth potential than is forecast for international air transport markets. Demand pressures are greatest at airports which are already capacity constrained. A return to passenger growth is anticipated in 2010, although this is by no means certain.

14. Airlines have responded to the adverse business conditions by reducing services and cutting costs. We were told that the contraction in air services is equivalent to a 10-year ‘roll-back’ and that hundreds of aircraft are now mothballed and may never re-enter service. The airlines have concentrated their remaining services on ‘fortress hub’ airports.
This has particularly affected smaller airports, 38 of which lost all services between 2007 and 2008. Smaller airports are also at risk due to uncertainty over regional air services. Many of these services rely on small (50-seater) jets which are due to be retired soon and may not be replaced.

15. Airports have also responded by removing spare capacity. There are, however, airports where existing capacity is needed to meet anticipated long-term growth, such as Orlando which services Disneyland. As such, there is a tension between the short-term survival imperative of the airlines and the airports’ need to invest in longer-term infrastructure projects.

16. The US aviation industry would like to see the following measures implemented, in order to provide some sustained recovery:
   a) Alliances between airlines permitted, including anti-trust immunity for the British Airways-American Airlines alliance;
   b) Relaxation of restrictions on foreign ownership of US airlines;
   c) A clear rationale for taxation of aviation;
   d) Federal investment in NextGen air traffic management, and
   e) Regulation of the fuel commodity market.

Security and safety

17. Aviation security remains a top political and industry priority. Security is overseen by the Department of Homeland Security and delivered by the Transportation Security Administration. Security checks at airports are undertaken by Transportation Security Administration staff, with charges passed on to the airports and airlines. Ultimately these are borne by the passenger. The airlines believe that these costs should be met by general taxes, and not be exclusively by the passenger.

18. The industry argued that the enhanced security arrangements are causing additional delays, inconvenience and costs to air passengers. This is impacting on passenger demand. Some international visitors are being deterred from visiting the USA or, once in the USA, from making additional internal flights. This is working against the ‘Visit America’ campaign which is promoting travel to the USA, which is now less expensive as a result of the lower dollar price. As a result of the additional delays at airports, some US citizens are now choosing to drive (for up to three hours) instead of taking short flights. Intercity coach travel is also expanding significantly on some routes. The authorities are seeking security measure which are more acceptable to passengers.

19. The House of Representatives has passed a bill that would require the FAA to undertake safety checks on aircraft maintenance undertaken outside the USA. The Senate has amended the Bill to allow exemptions for countries where safety standards are adequately monitored by the host country. Once the Bill has passed though the Senate it will be considered in conference by members of both Houses. The aviation industry is concerned that additional safety inspections overseas would be a substantial additional cost.
Reducing the environmental impacts of aviation

20. The US Administration’s position on climate change, and its likely negotiating stance at the Copenhagen conference on climate change in December 2009, were still being developed during our visit. The aviation industry accepts that it must play its part in carbon dioxide (CO₂) reduction policies. However, it is concerned at the prospects of additional taxes or emissions trading which would take money from the industry at a time of severe financial difficulty.

21. The International Civil Aviation Organization (ICAO) has recently agreed a declaration on emissions reduction and the aviation industry would prefer an approach that allows ICAO to oversee emissions reductions, keeping it separate from any treaty that might be agreed at Copenhagen. ICAO believes it has the powers and mechanisms to enforce agreed reductions.

22. There are a number of ways in which CO₂ emissions and other environmental impacts might be reduced. Better operating practices, particularly new air traffic management systems, could deliver fuel and emissions savings and reduced noise. New aircraft engine and air-frame technologies can produce aircraft that would be more fuel-efficient and quieter, with lower emissions of CO₂, oxides of nitrogen (NOₓ) and other pollutants. Fuel economy is already a major driver of aircraft design and each new generation of aircraft is typically 15% more efficient than the previous one. The industry typically replaces up to 1,000 jet airliners each year. It will therefore take more than 15 years to replace the current world fleet of around 18,000 aircraft. The situation is exacerbated by the poor credit ratings of many airlines, including those in the USA, which make it harder for airlines to afford new aircraft.

23. The industry, therefore, sees biofuels as a crucial part of achieving reduced emissions. These must be sustainable so as to avoid adverse social or environmental impacts. Algae-derived biofuels are being explored. They must also be ‘drop in’ fuels that can be used in existing delivery systems and aircraft, thereby avoiding major new costs. The industry is seeking to develop commercial viability for aviation biofuels, aiming for 1% biofuels by 2015.

High-speed rail

24. There is public enthusiasm for the idea of new high-speed rail, as proposed by the Obama Administration. $9 billion has been provided to allow development of proposals and 11 routes have been approved for further consideration. However, there are substantial hurdles to overcome. The existing rail network is mainly privately owned—the exception being Amtrack—and it is dominated by low-speed freight services. High speed passenger services would require extensive rail upgrades or new lines. The ‘high speed’ proposals are for train speeds of around 110 mph, not the 200+ mph achieved on European and Asian high speed services. Given the size of the USA and its dispersed population, which is very sparse in some states, high-speed rail would be viable only in certain corridors. Some transport professionals are seeking to dampen public expectations of what can realistically be achieved.
25. Whilst there is public and political support for the concept of new high-speed rail, there is also some opposition. For example, some in the aviation industry object in principle to substantial public funds being provided to compete with private airlines. Others question whether it would be value for money, and are concerned not only about the high construction costs but also the prospect of ongoing subsidy. They also question whether high-speed rail would be more environmentally-benign than future air travel if the full environmental costs of construction costs are taken into account. High-speed rail would have to compete not only with domestic airlines but also with high quality intercity coach services which have grown dramatically on some routes recently, such as Washington DC-New York-Boston.
Annex 2—Briefing note: Economic aspects of aviation

Introduction

1. This briefing note has been prepared by the House of Commons Scrutiny Unit174 for the House of Commons Transport Select Committee at the request of Committee secretariat. It is intended to assist the Committee with its inquiry into The future of aviation in advance of the oral evidence sessions.175 It is not intended as a comprehensive account of all the economic issues surrounding the aviation industry in the UK.

2. The aviation industry generates a range of direct economic benefits to the UK. It is a major employer, facilitates tourism, provides trade links and supports the movement of goods. It is estimated that the aviation industry directly contributed £11.4 billion to UK Gross Domestic Product (GDP) in 2004 (1.1% of total GDP) and supports more than 520,000 jobs (of which 186,000 are directly employed in the industry). The UK is also home to an aerospace technology industry employing around 100,000 people and contributing £5.3 billion to the UK economy.176

3. Air transport is also vital for business, with business traffic accounting for around 25% of all passenger traffic (approximately 60 million passengers per annum). Department for Transport (DfT) projections for passenger demand estimate that business travel may account for 30% of all passenger traffic by 2030, equivalent to as many as 138 million business passengers per annum.177

4. Air is also an important means of transporting freight. It accounts for approximately 30% of all UK exports by value (55% of all exports outside the EU). Around 2.5 million tonnes of cargo and mail were uplifted at UK airports in 2008.178

Background: the 2003 Aviation White Paper

5. The 2003 White Paper, The Future of Air Transport, set out a strategic framework for the development of airport capacity in the UK over the ensuing 30 years, within the wider context of the UK air transport sector. The then Secretary of State for Transport, Alastair Darling, summarised the purpose of the White Paper, to balance the benefits of cheaper and better air transport with environmental costs, in a statement to the House of Commons:179

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174 The Scrutiny Unit is a central unit within the House of Commons Department of Chamber and Committee Services that provides specialist legal, economic and accountancy advice.

175 The briefing note was produced on 6 April 2009. It has not been updated.


177 DfT, UK Air Passenger Demand and CO2 Forecasts, January 2009, p133

178 CAA, Aviation Trends Quarter 4 2008, p7

179 HC Deb 16 December 2003 cc1433-1434
The Government recognise the benefits that the expansion of air travel has brought to people’s lives and to this country’s economy. Its increased affordability has opened up the possibility of travel for many people, and provides the rapid access that is essential to many modern businesses. But we have to balance those benefits against the serious environmental impact of air travel, particularly the growing contribution of aircraft emissions to climate change, and the significant impact that airports can have on those living nearby. That is why the Government remain committed to ensuring that, over time, aviation meets the external costs that it imposes. The White Paper sets out proposals to tackle aviation’s greenhouse gas emissions by bringing it within the European Union emissions trading scheme. And the Government will continue to play a major role in seeking to develop new solutions and stronger actions by the appropriate international bodies. […]

Some of our major airports are already close to capacity, so failure to allow for increased capacity could have serious economic consequences. But that must be balanced by the need to have regard to the environmental consequences of air travel. Simply building more and more capacity to meet demand is not sustainable. Instead, a balanced approach is required that recognises the importance of air travel to prosperity, but which seeks to reduce and to minimise the impact of airports on those living nearby and on the natural environment. […]

The White Paper sets out a strategic framework for the development of airport capacity. It sets out our conclusions for every part of the country […].

6. It is estimated that implementing all the runway proposals in the White Paper would generate additional GDP of over £13 billion a year in constant prices by 2030, with a Net Present Value (NPV) of £81 billion. A third runway at Heathrow alone would generate wider economic benefits estimated at £7 billion a year in constant prices by 2030 (an additional 0.3% of GDP), with a NPV of £27 billion.

7. However, the environmental costs to the UK of the proposals, primarily from additional greenhouse gas emissions, are estimated to range from an additional £100 million a year for mixed mode operation at Heathrow to an additional £700 million a year in today’s prices by 2030 for full implementation of the White Paper proposals.

**Value of the aviation industry to the UK economy**

**2006 Oxford Economics report and updated data**

8. An Oxford Economics report published in 2006, commissioned by a range of organisations from the aviation industry, together with DfT and VisitBritain, provides the

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180 Oxford Economics, The Economic Contribution of the Aviation Industry in the UK, October 2006, p2
181 Ibid.
182 Mixed mode involves using the runways for both landings and take-offs instead of the current practice which normally segregates the runways.
183 Ibid.
The most recent wide-ranging study into the overall contribution of the aviation industry to the UK economy. The report’s primary findings were as follows:

a) The aviation industry directly contributed £11.4 billion to UK GDP in 2004 (1.1% of total GDP).

b) It directly employs 186,000 individuals, while the total number of jobs supported by the industry is approximately 520,000.

c) The industry contributed approximately £3.6 billion to the Exchequer in 2004/05.

d) Visitors arriving by air contribute over £12 billion a year to the UK tourism industry, generating a further 170,000 jobs.

e) The combined cost of CO₂ and the potential non-CO₂ climate impacts from UK aviation is estimated to have amounted in aggregate to £1.4 billion in 2000, and could reach £4 billion a year in today’s prices by 2030.

f) UK airlines sold £4 billion of tickets overseas in 2004 and earned £394 million in freight charges, while UK airports and other members of the industry generated £2.6 billion of exports in 2004. Total exports generated by the aviation industry therefore totalled £6.9 billion in 2004, which accounted for 7% of the UK’s overall exports of services and 3% of all exports.

g) However, overseas airlines are also significant export earners in their dealings with the UK: the net result was that the UK had a balance of payments deficit in air transport services of around £3.3 billion.

9. These estimates have come under scrutiny from environmental groups and other bodies for the methodology used and the relatively pro-aviation industry picture the study paints. Critics have also highlighted the lack of external peer review of the report and its failure to address the concept of the ‘tourism deficit’.  

10. One of the problems with the existing research on the subject is that the aviation industry does not fit neatly with the system of Standard Industrial Classification (SIC) which is used to disaggregate by industry much of the relevant official UK data, as published by the Office for National Statistics (ONS). The aviation industry is commonly defined as:

[...] activities that are directly dependent upon transporting people and goods by air to, from or within the UK. This covers airline and airport operations and includes

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184 ibid.

185 This includes indirect employment (jobs created in the supply chain to the industry) of 167,000, induced employment (employment created by employees in the aviation sector and those indirectly supported by the aviation industry using their income to purchase goods and services for their own consumption) of 88,000, and employment of travel agents of 82,000 (approximately 80% of all travel agents).

186 For more information on the ‘tourism deficit’, see section 3.2 of this briefing.

scheduled and charter flights for passengers and freight, general aviation, airport
maintenance, air traffic control and regulation, and activities directly serving air
passengers, such as check-in, baggage-handling, and on-site retailing and catering
facilities. Not all of these activities necessarily take place at an airport—for example,
some airlines have head office functions or ticketing centres at other locations.

However, as the Oxford Economics report point out, this:188

[…] does not directly correspond to any definition in official UK statistics. The
activities of airlines are covered under the Standard Industrial Classification heading
division 62, called “air transport”. Similarly the activities of airport operators, ground
service personnel and air traffic control form SIC subclass 63.23, called “other
supporting air transport activities”. However, it is not possible to identify separately
from the official statistics activities such as air cargo handling, retailing, catering and
hotels at airports and surface transport links to airports. We have therefore used a
range of sources to provide best estimates of these.

Contribution to GDP

11. In order to capture the full economic contribution of the industry, the report makes a
number of assumptions, in particular in relation to contribution to GDP and persons
employed. Oxford Economic uses three elements in its calculation of the contribution of
aviation to GDP:

12. Gross Value Added (GVA)189 of airlines (SIC division 62) based on ONS National
Account’s data, as published in ONS’s annual ‘Blue Book’.

   a) GVA of air transport supporting activities (SIC division 63.23) based on ONS’s
      Annual Business Inquiry (ABI) data.

   b) GVA per employee in the “rest of the aviation industry”, covering employees in
      areas such as retail and catering concessions, or in hotels on airports.

13. The shortcomings of combining these three elements are twofold. First, the GVA of
airlines and air transport supporting activities use different sources with differing
methodologies—while ABI data feeds into the National Accounts, it does not fully
encapsulate the whole economy. As the notes to the ABI state:190

   This measure is approximate because it does not allow fully for certain types of
   National Accounts concepts/issues such as taxes or subsidies or income earned in-
   kind.

188 ibid.

189 GVA represents the amount that individual businesses, industries or sectors contribute to the economy. Broadly, this
is measured by the income generated by the business, industry or sector less their intermediate consumption of
goods and services used up in order to produce their output. GVA consists of labour costs (e.g. wages and salaries)
and an operating surplus (or loss). The latter is a good approximation to profits. The cost of capital investment,
financial charges and dividends to shareholders are met from the operating surplus.

190 http://www.statistics.gov.uk/abi/variable_info.asp
The ABI forms a major data input in the production of Input-Output Annual Supply and Use Tables used to set the annual level of UK Gross Domestic Product. These tables also show industry estimates of GVA at basic prices but are different from those shown in the ABI. In producing the Input-Output based estimates of GVA at basic prices fully consistent with the European System of Accounts 1995, there are essentially four key adjustments required to the survey based data: coverage adjustments; conceptual and valuation adjustments; quality adjustments; and coherence adjustments. Details are available in the notes to the UK Input-Output Analyses.

14. However, the ABI has the value of being able to provide more detailed industrial data than that published in the National Accounts.

15. Secondly, the third element is calculated assuming that GVA per employees in the “rest of the aviation industry” is equal to the GVA per employee in the national distribution, hotels and catering sector.

16. While it is possible to update the figures for the first two elements to get a more current picture of the industry, it is not possible to calculate a timelier estimate for the third element as the report does not provide the methodology or sources for this calculation. Bearing this in mind, displayed below are updated data on GVA for the first two elements of this calculation based on ABI data only:

**UK Gross Value Added at basic prices by selected industry**

<table>
<thead>
<tr>
<th>Year</th>
<th>Scheduled air transport (SIC 62.10) (£ million)</th>
<th>Non-scheduled air transport (SIC 62.20) (£ million)</th>
<th>All air transport (SIC 62) (£ million)</th>
<th>Other supporting air transport activities (SIC 63.23) (£ million)</th>
<th>Total £ million</th>
<th>% of UK GVA (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>1,931</td>
<td>442</td>
<td>2,373</td>
<td>1,272</td>
<td>3,645</td>
<td>0.5%</td>
</tr>
<tr>
<td>1997</td>
<td>2,880</td>
<td>497</td>
<td>3,378</td>
<td>1,783</td>
<td>5,161</td>
<td>0.7%</td>
</tr>
<tr>
<td>1998</td>
<td>3,524</td>
<td>536</td>
<td>4,060</td>
<td>2,242</td>
<td>6,302</td>
<td>0.8%</td>
</tr>
<tr>
<td>1999</td>
<td>5,950</td>
<td>660</td>
<td>6,610</td>
<td>2,428</td>
<td>9,038</td>
<td>1.1%</td>
</tr>
<tr>
<td>2000</td>
<td>6,393</td>
<td>608</td>
<td>7,001</td>
<td>2,544</td>
<td>9,545</td>
<td>1.1%</td>
</tr>
<tr>
<td>2001</td>
<td>5,890</td>
<td>677</td>
<td>6,567</td>
<td>3,082</td>
<td>9,649</td>
<td>1.1%</td>
</tr>
<tr>
<td>2002</td>
<td>5,055</td>
<td>761</td>
<td>5,816</td>
<td>2,751</td>
<td>8,567</td>
<td>0.9%</td>
</tr>
<tr>
<td>2003</td>
<td>5,404</td>
<td>1,361</td>
<td>6,765</td>
<td>3,002</td>
<td>9,767</td>
<td>1.0%</td>
</tr>
<tr>
<td>2004</td>
<td>6,207</td>
<td>966</td>
<td>7,175</td>
<td>3,212</td>
<td>10,387</td>
<td>1.0%</td>
</tr>
<tr>
<td>2005</td>
<td>5,813</td>
<td>1,144</td>
<td>6,957</td>
<td>3,405</td>
<td>10,362</td>
<td>0.9%</td>
</tr>
<tr>
<td>2006</td>
<td>5,473</td>
<td>897</td>
<td>6,370</td>
<td>3,507</td>
<td>9,877</td>
<td>0.8%</td>
</tr>
<tr>
<td>2007</td>
<td>5,056</td>
<td>955</td>
<td>6,011</td>
<td>4,070</td>
<td>10,081</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

Note: (a) Denominator for calculation is total UK GVA on National Accounts basis.
Sources: ONS, Annual Business Inquiry & Blue Book 2008

17. To illustrate the difference between GVA data from the ABI and that published in the National Accounts, 2006 National Accounts data for the “Air transport” sector indicated GVA at £6,625 million, approximately 4% higher than the GVA figure for this sector provided in the table above.
Employment

18. When it comes to estimating the number of people employed within the industry there are similar problems. The Oxford Economics report estimated that the aviation industry directly employed 186,000 individuals in 2004. This estimate is based on airport surveys carried out for the Airport Operators Association (AOA). However, the report notes this is consistent with official ONS data if assuming that “other” aviation related employment, which is not captured by a single Standard Industrial Classification (SIC), is similar in proportion to a previous study carried out by Oxford Economics in 1999. Unfortunately, it is not clear from the 1999 report what the methodology used was to calculate this proportion.

19. When estimating non-direct employment, the Oxford Economics report again makes a number of assumptions. In particular, the calculation (and indeed concept) of induced employment assumes that the spending on purchases of goods and services of direct employees in the aviation industry supports a specific number of jobs in the industries that supply these purchases. Thus, while the Oxford Economics report estimates that approximately half a million jobs may be supported by the aviation industry, there are many commentators and groups that would argue this is an overestimate due to the methodology used to calculate non-direct employment.

20. The table below provides an updated historical series of those aviation related employees directly captured in single SICs:

### Employee jobs in the aviation industry

<table>
<thead>
<tr>
<th>Year</th>
<th>Scheduled air transport (SIC 62.10)</th>
<th>Non-scheduled air transport (SIC 62.20)</th>
<th>All air transport (SIC 62)</th>
<th>Other supporting air transport activities (SIC 63.23)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>78</td>
<td>15</td>
<td>93</td>
<td>23</td>
<td>116</td>
</tr>
<tr>
<td>1999</td>
<td>79</td>
<td>15</td>
<td>94</td>
<td>28</td>
<td>122</td>
</tr>
<tr>
<td>2000</td>
<td>86</td>
<td>17</td>
<td>103</td>
<td>30</td>
<td>133</td>
</tr>
<tr>
<td>2001</td>
<td>77</td>
<td>16</td>
<td>93</td>
<td>33</td>
<td>126</td>
</tr>
<tr>
<td>2002</td>
<td>75</td>
<td>16</td>
<td>91</td>
<td>34</td>
<td>125</td>
</tr>
<tr>
<td>2003</td>
<td>74</td>
<td>16</td>
<td>90</td>
<td>35</td>
<td>125</td>
</tr>
<tr>
<td>2004</td>
<td>74</td>
<td>11</td>
<td>86</td>
<td>35</td>
<td>121</td>
</tr>
<tr>
<td>2005</td>
<td>74</td>
<td>16</td>
<td>90</td>
<td>37</td>
<td>127</td>
</tr>
<tr>
<td>2006</td>
<td>77</td>
<td>13</td>
<td>90</td>
<td>38</td>
<td>128</td>
</tr>
<tr>
<td>2007</td>
<td>77</td>
<td>17</td>
<td>93</td>
<td>48</td>
<td>141</td>
</tr>
</tbody>
</table>

Notes: All data rounded to the nearest thousand.
Source: ONS, Annual Business Inquiry

Contribution to the Exchequer

21. As noted above, the Oxford Economics report estimated that the aviation industry contributed approximately £3.6 billion to the Exchequer in 2004/05 from Air Passenger

Duty,\textsuperscript{192} income tax and corporation tax revenues and National Insurance contributions. However, the industry enjoys significant tax concessions: the cost of air travel is zero-rated for VAT and the industry does not pay any tax or excise duty on jet engine fuel.

22. Some opponents to the industry and environmental campaigners have questioned the viability of the industry if it did not enjoy VAT and fuel tax concessions. However, research is unclear on the exact demand and supply side effects the imposition of such taxes would have on the UK aviation industry. It is likely the cost of fuel tax would at least in part be passed on to the consumer which, coupled with VAT on air travel would have an effect on demand. This would in itself have knock-on effect for the UK aviation infrastructure and ultimately the Exchequer’s take.

23. The Aviation Environment Federation (AEF) estimated in 2003 that the extra tax revenue that would accrue to the Exchequer if the industry paid these taxes would be £9 billion.\textsuperscript{193} While the AEF is an organisation concerned with the environmental effects of aviation it is notable that the Government, in a DfT document which summarised responses to its consultation on the Aviation Emissions Cost Assessment, has since put a higher figure on potential lost revenue:\textsuperscript{194}

\begin{quote}
The Government’s proposals for an aviation tax, as set out below, would better reflect environmental impacts as well as ensuring that the aviation industry continues to make a fair contribution to the public finances. Were the UK to charge a fuel duty and VAT on tickets, this could result in revenues of around £10 billion.

Since publication of the aviation emissions cost assessment the Government has announced a reform of APD. In the 2007 Pre-Budget Report it was announced that from 1 November 2009, APD would be replaced with an Aviation Tax which would be levied on a per plane basis in order to send an improved signal of environmental costs. A consultation on the detail of this new tax was launched on 31 January 2008 and closed on 24 April 2008. The Chancellor intends to make an announcement on the policy in the autumn.

24. However, in the event, the subsequent Pre-Budget Report 2008 announced that the Government had decided to reform the existing air passenger duty regime rather than proceed with a per plane tax:\textsuperscript{195}

\begin{quote}
[... ] Reforming APD avoids the disruption and costs associated with the transition to a new tax, while continuing to send environmental signals to passengers and the industry alike, and ensuring that the sector contributes fairly to public services.

7.56 From 1 November 2009, APD will be structured around four distance bands, set at intervals of 2,000 miles from London. This reform will ensure that those flying

\end{quote}

\textsuperscript{192} Current rates of Air Passenger Duty are available on the HMRC website. However, please note, the 2008 Pre-Budget Report announced plans to reform the rates of Air Passenger Duty from 1 November 2009. For more information see: HM Treasury, 2008 Pre-Budget Report, Chapter 7, pp125-144.

\textsuperscript{193} AEF, The Hidden Cost of Flying, 2003, p18

\textsuperscript{194} DfT, Summary of responses to the Government’s consultation on the aviation emissions cost assessment (amended version), October 2008, p14

\textsuperscript{195} HM Treasury, Pre-Budget Report 2008, Chapter 7, p138
farther, and therefore contributing more to emissions from aviation, will pay more. Table 7.2 provides details of the reformed APD rates.

The ‘tourism deficit’

25. In 2008, the UK spent £36.6 billion on tourism abroad compared with £16.4 billion spent by overseas tourists in the UK, a deficit equivalent to £20.2 billion.\textsuperscript{196} It has been argued that the economic benefits of aviation are exaggerated and that if UK residents could be persuaded (or priced) into holidaying in the UK this money would be retained in the UK system.\textsuperscript{197} However, as well as spending more on tourism abroad, we are also spending more on domestic tourism. It is estimated that UK residents spent £21.2 billion on tourism in the UK in 2007.\textsuperscript{198}

26. The Oxford Economic report does not fully address the concept or cost of the ‘tourism deficit’ (i.e. the difference between what Britons spend abroad and what foreigners spend here as depicted above), how the aviation industry facilitates this, and indeed the effect increased capacity may have.

27. The travel account—the flows of tourism expenditure in and out of the UK—forms a significant part of the UK balance of payments. Anyone who intends to stay for less than twelve months is treated as a visitor, so the travel account includes business, education and family trips as well as leisure visitors.

28. The provision of UK goods and services to overseas visitors is treated as a balance of payments credit (an export) while the purchase of goods and services abroad by UK residents counts as a balance of payments debit (an import). So every pound spent by visitors to the UK on, for instance, hotel accommodation, souvenirs and domestic travel makes a positive contribution to the UK balance of payments, and vice versa.\textsuperscript{199}

29. According to the Tourism Alliance, Britain has achieved below the average world growth rate in inbound tourism over the past decade.\textsuperscript{200} This, coupled with the increase in outbound tourism by UK residents, is reflected in the tourism balance of payments, with the tourism trade balance having deteriorated significantly in recent years:

\textsuperscript{196} ONS, Overseas travel and tourism first release: December 2008, February 2009
\textsuperscript{197} See for example: IPPR, The sky’s the limit, May 2003
\textsuperscript{199} Expenditure financed from money earned or provided in-country is deducted. Spending on travel to and from the UK is not included in the UK travel account but in the civil aviation and sea transport accounts as appropriate.
\textsuperscript{200} Tourism Alliance, Submission to HMRC’s Aviation Duty Consultation, 2008, p1
### UK tourism balance of payments deficit

<table>
<thead>
<tr>
<th>Year</th>
<th>£ billion, current prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>4.7</td>
</tr>
<tr>
<td>1998</td>
<td>6.8</td>
</tr>
<tr>
<td>1999</td>
<td>9.5</td>
</tr>
<tr>
<td>2000</td>
<td>11.4</td>
</tr>
<tr>
<td>2001</td>
<td>14.0</td>
</tr>
<tr>
<td>2002</td>
<td>15.2</td>
</tr>
<tr>
<td>2003</td>
<td>16.7</td>
</tr>
<tr>
<td>2004</td>
<td>17.2</td>
</tr>
<tr>
<td>2005</td>
<td>17.9</td>
</tr>
<tr>
<td>2006</td>
<td>18.4</td>
</tr>
<tr>
<td>2007</td>
<td>19.0</td>
</tr>
<tr>
<td>2008</td>
<td>20.2</td>
</tr>
</tbody>
</table>

Sources: HC Deb 3 November 2008 c149W
ONS, Travel and Tourism First Release

## Aviation and business

30. Air transport is also vital for business, and the presence of air infrastructure and connections is of considerable importance to the location decisions of overseas companies. Business traffic currently accounts for approximately 25% of all terminal passengers in the UK, while DfT projections for unconstrained passenger demand estimate that this proportion will increase towards 30% of all passenger traffic by 2030, with the number of business passengers per annum by this date estimated to range between 126 million and 138 million. A survey of inward investors and large exporters in the mid 1990s found that if easy air access was not available from a location “it was not on the map”. The 2003 Transport Select Committee report on Aviation concluded:

> The aviation industry is not only a significant direct employer, but it provides vital support to other businesses. A modern economy needs the links to the outside world that aviation provides, both to ensure its own businesses are competitive and to attract business from overseas. The United Kingdom has a successful, open economy. It will not retain it if its air links are allowed to stagnate.

31. However, air transport is not necessarily the only a factor that companies think is important in principle when making location decisions. Surveys by Oxford Economics for its 2006 report suggest that it also has an important impact on actual investment decisions. Most notably, 8% of companies surveyed reported that the absence of good air transport links had affected their own organisation’s investment here in the past. And, of those affected, 30% chose not to make the investment at all, although the majority (65%) went ahead with the investment anyway but faced higher costs. Overall, the 2006 Oxford Economics report concluded that improved air transport services encouraged more businesses to locate in an area as well as affecting investment decisions by existing companies. Other recent surveys have highlighted UK business’ reliance on air transport:

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201 DfT, UK Air Passenger Demand and CO₂ Forecasts, January 2009
203 ibid. p25
a) A 2008 York Aviation study found that approximately 73% of respondents to a survey of City of London businesses said that air services were either ‘critical’ or ‘very important’ in providing direct contact with clients and service providers. The survey also found that around 64% of respondents considered air services to be either ‘critical’ or ‘very important’ for internal company business. Furthermore, 82% of businesses specifically regard Heathrow as ‘critical’ or ‘very important’ to their operations.204

b) 73% of respondents to a recent CBI survey said that a third runway at Heathrow (built subject to strict environmental criteria) was either ‘important’ or ‘very important’ to their businesses.205

Aviation and the regions

32. While the relatively limited range of international flights to regional airports means that most international visitors originally arrive at a London airport, the aviation industry nevertheless facilitates tourism and business throughout the UK. VisitBritain estimates that in 2007 there were 16.1 million overseas visitors to England outside London spending £5.6 billion in total. Scotland had 2.8 million overseas visitors compared with 1.0 million in Wales with spending totalling £1.4 million and £300,000 respectively. The table below summarises visits and expenditure by region and country:

<table>
<thead>
<tr>
<th>Volume and value of overseas tourism by region and country: 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Visits (000s)</strong></td>
</tr>
<tr>
<td>East</td>
</tr>
<tr>
<td>East Midlands</td>
</tr>
<tr>
<td>London</td>
</tr>
<tr>
<td>North East</td>
</tr>
<tr>
<td>North West</td>
</tr>
<tr>
<td>South East</td>
</tr>
<tr>
<td>South West</td>
</tr>
<tr>
<td>West Midlands</td>
</tr>
<tr>
<td>Yorkshire &amp; Humber</td>
</tr>
<tr>
<td>Scotland</td>
</tr>
<tr>
<td>Wales</td>
</tr>
</tbody>
</table>

Sources: VisitBritain & ONS

The 2003 Transport Select Committee report on aviation concluded that:206

Every region needs access to the capital and the South East. The areas to the south and west of London where Heathrow and Gatwick are located are economically strong and businesses from many parts of the United Kingdom have commercial reasons for travelling there. Leeds-Bradford airport told us that only 25% of passengers travelling to Gatwick were interlining, indicating strong links to the South

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204 York Aviation, Aviation Services and the City, July 2008
206 House of Commons Transport Committee, Aviation, Sixth Report of Session 2002–03, p24
East of the United Kingdom for business. It pointed out that the choice for travellers was between a one and a quarter hour flight or a four hour train journey, involving a change. For some regions and islands air is the only viable travel option. They should not be frozen out by lack of capacity or because of a lack of co-operation from previous incumbents on the route.

The 2006 Oxford Economics report also noted that:207

Although many trips require use of a hub airport, regional airports are more convenient for the majority of businesses. Access from regional airports to a hub is therefore important for providing companies throughout the UK effective connectivity. This point was reinforced in a large-scale survey by the British Chamber of Commerce in 2004 in which companies deemed access to a local/regional airport as of “prime importance”, while accessing “Heathrow, Gatwick and the other London airports is not supported as strongly as regional access”.

33. It is also argued that aviation, through regional airports, has a vital role in connecting the UK’s regions both to London and through direct international links to the global economy. For example, a coalition of Scottish business groups208 recently published a letter calling for a third runway at Heathrow to protect the Scottish economy’s links into the global marketplace.

34. However, there is also evidence from regional groups against the expansion of airports and connectivity in the regions, particularly relating to the relatively higher impact of the ‘tourism deficit’ regionally which was highlighted in a 2005 report from Friends of the Earth titled Why airport expansion is bad for regional economies.

**Latest analysis and forecasts of future value**

Recent activity in the transport industry has tracked that of the overall economy, with demand weakening from mid–2008 and the downturn accelerating steeply in the final quarter, despite some relief on the supply side from lower fuel prices. The air transport sector suffered month-on-month falls of between 5% and 9% in passenger traffic in each of the four months from October 2008.209 A Spring 2009 briefing on prospects for the transport industry by Oxford Economics noted that, not accounting for ‘shock’ events such at the terrorist attack of 11 September 2001, the last quarter of 2008 and the first couple of months of 2009 represents the first real decline in the sector in 20 years, with little prospect of recovery during the rest of 2009:210

Small monthly declines in air passenger traffic through summer 2008 turned into steep falls in the last four months of the year, during which passenger traffic through main operator BAA’s seven UK airports was 5–9% lower than a year ago. In January 2009, the fall was 6.9%, leading the operator to claim that the rate of decline was

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209 CAA, Aviation Trends Q4 2008
slowing after November’s 8.9% decline. The January figure left BAA’s 12-month passenger traffic down 3%. Freight traffic, although only 1.4% lower over 12 months, was 15.9% down in January, suggesting the start of a commercial down-cycle slightly later than that for passengers. The January 2009 data showed that the greatest declines of BAA’s major markets were in European scheduled services (down 6%) and North Atlantic (a drop 5.9%). Other long-haul traffic fared better, down just 1.9%. Of the two leading London hubs, January 2009 traffic at Gatwick fell by 10.8% while Heathrow declined only 2.1%. The difference mainly reflected the impact of the transatlantic open skies regulatory agreement, which came into effect in Spring 2008, and led some airlines to move flights from Gatwick to Heathrow.

January 2009 figures from the flag carrier British Airways confirmed that recession has impacted hardest on the industry’s high-yielding premium traffic. In that month the airline’s total passenger capacity dropped by 2.6% year-on-year, while traffic fell by 1.3%—a considerably better performance than the overall UK industry. However, within those totals, BA reported that non-premium traffic growth of 1.4%, had been offset by a 13.7% fall in premium (business and first class) traffic. This greatly undermined profitability: in November 2008 BA announced a 92% fall in first-half profits, to £52m from £616m a year earlier. It cited the slowing economy, the fall in the value of sterling, and sharp rises in non-fuel costs as contributors to an expected operating loss of £50m in the last quarter of 2008, and of £150 million for the full 2008/09 financial year.

Data published by the Civil Aviation Authority (CAA) in March 2009 found that the number of passengers passing through British airports has fallen in 2008 for the first time since 1991. The CAA report Aviation Trends Q4 2008 showed that UK airports handled 234.2 million passengers in 2008, down 1.9% from the historical peak of 238.8 million in 2007. London airports, which accounted for 60% of all airline passengers, saw a 2% decline in traffic in 2008, Stansted Airport seeing the biggest fall with 1.4 million fewer passengers. Furthermore, in 2008, 45.2 million passengers took domestic flights. This represents a fall of 5.0% on 2007, a trend that has been apparent for a number of years and is driven in part by greater competition with domestic rail services. Announcing the release of the data, Dr Harry Bush, CAA Group Director of Economic Regulation stated:

> The early indications are that the larger falls seen in the last quarter of 2008 are continuing into the New Year, with the prospect of declining traffic in 2009 overall, which, if it occurs, will be the first time since World War Two that UK passenger numbers have fallen for two consecutive years. Current economic trends make this outcome more likely than not.

35. The outlook for UK operators was also discussed in the recent Oxford Economics briefing:

> The intensity of competition in shrinking premium business was underlined in January 2009 when BA’s main long-haul rival, Virgin Atlantic, launched a business-class fare war, with ‘sale’ reductions on some ticket prices of 40%. BA made similarly heavy cuts on a range of fares. While business traffic is generally resilient to higher

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211 “CAA Airport statistics show first fall in passenger numbers for 17 years”, CAA Press Release, 16 March 2009
prices, demand from the embattled financial sectors in the US and UK has fallen drastically since mid-2008. Both BA and Virgin were able to sharply reduce their passenger fuel surcharges in November and again in December 2008 after the price of crude oil slumped as the global downturn took hold. While that increases ticket affordability, the airlines were reluctant to let the revenue go.

The budget airline sector, led by Ryanair and easyJet, is weathering the downturn more successfully, assisted by the fall in crude oil prices. While both airlines cut back on their winter 2008/09 growth plans, they appear to be the chief beneficiaries of even more extensive cutbacks by other airlines, plus the failure in 2008 of leisure carriers XL and Zoom. Most recent figures from Ryanair, for December 2008, showed passenger numbers in that month up year-on-year by 11% to 4.37 million—though this was well down on its earlier growth rate of 19% between April and September 2008. While the airline lost £92 million in the last quarter of 2008 (chiefly due to 70% higher fuel costs), and average fares fell by 9%, both revenues and passenger numbers were up, and the airline expects to make a profit in its full year to March 2009. Its chief executive also said in January that the airline’s balance sheet remained strong, with more than EUR1.8bn in cash, and it had exercised its options for 13 new aircraft due for delivery in two years’ time. However, the airline withdrew in November from its base in Valencia, Spain after what it called a marketing support dispute with the local authorities there.

easyJet, too, suggested that both business and leisure passengers were switching in numbers to its flights, helping it to maintain high growth rates, although it said the outlook for summer 2009 remained uncertain. However, its growth rates fluctuated greatly towards the end of 2008 as previously announced service cutbacks took effect. Passenger numbers grew by 10% in the last quarter of 2008, comfortably outpacing its 6.7% capacity increase, but well down on the 20% growth reported in summer 2008. Total revenues in the quarter grew by 32% and average revenue per passenger rose by 14%.

With upturns in the UK and EU economies not expected until at least 2010, the International Air Transport Association predicted in December 2008 that EU airlines faced a collective loss of $1 billion in 2009, primarily because of extensive hedging having locked in high oil prices, and currency weakness against the US dollar. Furthermore, it is expected that the continued weakness of sterling will remain a problem for the UK aviation industry, both offsetting the cost saving from lower oil prices and curtailing international travel. The following table compares forecasts of UK air transport output growth with other areas of the transport industry.

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212 IATA, Financial Forecast: Lengthy Recession is Now Main Challenge, December 2008
UK transport services output growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Air transport</th>
<th>Land transport</th>
<th>Other transport</th>
<th>Sector total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>6.1</td>
<td>1.7</td>
<td>2.6</td>
<td>2.7</td>
</tr>
<tr>
<td>2008</td>
<td>-0.1</td>
<td>2.7</td>
<td>-0.6</td>
<td>0.9</td>
</tr>
<tr>
<td>2009</td>
<td>-5.1</td>
<td>-4.0</td>
<td>-2.9</td>
<td>-3.6</td>
</tr>
<tr>
<td>2010</td>
<td>0.4</td>
<td>1.1</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>2011</td>
<td>5.0</td>
<td>2.8</td>
<td>1.8</td>
<td>2.6</td>
</tr>
<tr>
<td>2012</td>
<td>5.7</td>
<td>3.3</td>
<td>2.2</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Note: Based on Gross Value Added in real local currency units
Source: Oxford Economics

Projecting benefits and costs of aviation

36. The DfT uses a range of econometric and statistical models to estimate the future effects and benefits of the UK aviation industry and in particular its expansion. Two are particularly important: forecasts of air passenger demand and forecasts of CO$_2$ emissions. Intuitively, they cover competing concerns: more demand for flights, if met, will result in higher CO$_2$ emissions. However, their interaction is crucial, in particular to the viability of Heathrow expansion and the other White Paper proposals: there must be sufficient future demand for flights to justify the infrastructure costs, but associated greenhouse gas emissions must not prevent the UK meeting its environmental obligations.$^{213}$

Air Passenger Demand

37. The DfT uses a two stage process for projecting passenger demand:

a) Forecast demand using the National Air Passenger Demand Model. This combines projections of economic data with projections of air fares, estimated through projections of fuel costs, carbon charges and duty rates.

b) Constrained demand through the National Air Passenger Allocation Model. This allocates passengers to airports and extrapolates corresponding air transport demand, taking into account future airport capacity constraints. The DfT’s central scenario for calculating constrained demand is based on maximum use of existing UK airport infrastructure plus a second runway at Stansted by 2015 and a third runway at Heathrow by 2020.

38. With the exception of short-term fluctuations associated with factors such as recessions and oil price shocks, air passenger demand in the UK has shown a strong upward trend over several decades. The DfT projects that constrained demand will continue to grow broadly in line with the long-term trend. This is demonstrated by the chart below:

$^{213}$ Passenger demand is a key element of projecting CO$_2$ emissions. CO$_2$ emissions also feed into the demand forecasting model through environmental charges and air fares.
39. The DfT projects that constrained UK air travel demand will double from 228 million passengers per annum (mppa) in 2005 to 455 mppa in 2030, within a range of 410–480 mppa, under the 2003 White Paper proposals (including Heathrow and Stansted expansion). In contrast, unconstrained demand is estimated to be within a range of 415–500 mppa by 2030 (the central case being 465 mppa). The difference between constrained and unconstrained demand, based on the central case forecasts is, therefore, only 10 mppa in 2030, Given the recent reductions in demand (passenger numbers fell in 2008) and the lower passenger forecasts for 2030, it is conceivable that there will be no significant infrastructure constraint on demand before 2030, assuming expansion of Heathrow and Stansted. Less complex modelling for the period beyond 2030 suggests that growth in demand will slow as capacity constraints become “more significant”, to around 525 mppa by 2050.

40. This projection for a long-term continuation of strong demand growth is made despite recent slowdowns in observed demand. The DfT argues that this is because the recent slowdown in demand growth is short term and cyclical, rather than an indication of any change in the underlying trend and way economic growth and air fares drive demand growth.

41. The DfT goes on to quote a CAA report on aviation demand, saying slower growth in the past two years was a result of “the current economic environment and competition from domestic rail services, rather than any longer term, structural change in demand for air services.” It might be argued that competition from domestic rail services constitutes a longer term, structural change. In addition, two key questions regarding the reliability of the DfT model, which has so far only been tested during a relatively stable period of economic growth, can be addressed:

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215 DfT, UK Air Passenger Demand and CO2 Forecasts, January 2009, section 2
216 Ibid.
217 Ibid., quoting CAA, Recent Trends in Growth of UK Air Passenger Demand, January 2008
a) Whether the model adequately takes into account the current economic downturn.

b) Whether the downturn has potential long-term implications for the model.

42. The economic data used in the National Air Passenger Demand Model do not take into account the latest circumstances. This is partly unavoidable, as data are being continuously published, but in other cases the latest available statistics have not been used. For example, the model uses as part of its central forecasting assumptions:

a) UK GDP projections from the 2008 Budget, rather than the more pessimistic projections in the 2008 Pre-Budget Report.

b) Western Europe GDP projections from the 2007 IMF *World Economic Outlook* and a proviso that the rate of growth in Western Europe will not exceed that in the UK in any period over the years to 2030.

c) The assumption that future dollar exchange rates will equal the average of the twelve months to September 2008.

43. Recent falls in air passenger movements do not necessarily imply that long-term projections of demand growth are wrong. Looking at the last recession, passenger numbers continued to rise rapidly through the 1990s following a fall in 1991.\(^{218}\) It is, however, conceivable that short-term changes in behaviour associated with a recession could translate into differences in long-term trends. For example, to reduce flight costs a company might introduce video conferencing equipment that they subsequently retain. Any increased tendency for people to avoid taking flights on environmental grounds could have a similar effect.

**CO₂ Emissions**

44. The DfT’s projections of constrained air passengers feed into their CO₂ Forecasting Model, via a fleet mix model which takes into account the projected fuel efficiency of the air fleet. Domestic and international UK aviation emissions have followed an upward trend over recent decades, doubling since 1992.\(^{219}\) The DfT estimates that they will continue to rise, as demonstrated by the chart below:

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218 DfT, UK Air Passenger Demand and CO₂ Forecasts, January 2009, figure 2.1

219 Data from the Defra e-Digest of Statistics, including both domestic aviation emissions and international aviation emissions as reported in national estimates.
45. The DfT estimates that, under constrained demand forecasts, UK aviation emissions will rise rapidly from 37.9 MtCO₂ in 2007 to 50.3 MtCO₂ in 2020 (on a range of 45.1–52.9 MtCO₂). The rate of growth is then projected to slow, with emissions falling between 2040 and 2050, when it is estimated they will be 59.9 MtCO₂ (on a range of 59.9–65.0 MtCO₂). The DfT stresses that there are “elements of conservatism” in their technological assumptions which may mean that CO₂ emissions from aviation do not grow as much, or as quickly, as projected:220

A challenging but achievable target for fuel efficiency is assumed, but beyond this we do not assume any further major technological advances, nor do we assume the use of low carbon fuels. If such developments take place in the period to 2050 then CO₂ emissions would be lower than the central case [...].

46. Forecasts of CO₂ emissions are used when calculating the estimated monetary value (i.e. cost) of UK aviation’s climate change impact. In an annex to its UK Air Passenger Demand and CO₂ Forecasts 2009, the DfT estimates that the undiscounted central value of the climate change impacts of UK aviation is estimated at £1.6 billion in 2005, and is expected to rise to £4.1 billion in 2030 (in 2006 prices). However, when discounted to 2008,221 the 2030 figure is estimated at £1.9 billion (again in 2006 prices).222

Heathrow expansion

47. Plans for the addition of a third runway at London Heathrow airport were first outlined in the 2003 White Paper. The Government reiterated its support for this development in its 2006 Progress Report, noting:223

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220 DfT, UK Air Passenger Demand and CO₂ Forecasts, January 2009, section 3, p77
221 Discounting is the process whereby costs and benefits are adjusted for the timing of their incidence by applying a discount rate in order to obtain their present values. It is a separate concept from inflation, and is based on the principle that, generally, people prefer to receive goods and services now rather than later. This is known as ‘time preference’.
222 DfT, UK Air Passenger Demand and CO₂ Forecasts, January 2009, annex J, pp166-69
Demand at Heathrow is now far in excess of runway capacity, and over the last five years passenger growth at Heathrow was just 5% compared to 27% at UK airports overall. Heathrow is in an increasingly uncompetitive position in relation to other major European airports. Although it handles more passengers per year than any other European airport, it has less runway capacity than competing major European hub airports, such as those shown in Table 5.1.

Table 5.1: Comparison of major European hub airports

<table>
<thead>
<tr>
<th>European hub airports</th>
<th>Number of runways</th>
</tr>
</thead>
<tbody>
<tr>
<td>London Heathrow</td>
<td>2</td>
</tr>
<tr>
<td>Frankfurt/ Main</td>
<td>3</td>
</tr>
<tr>
<td>Paris Charles de Gaulle</td>
<td>4</td>
</tr>
<tr>
<td>Amsterdam Schipol</td>
<td>5</td>
</tr>
</tbody>
</table>

As a result, Heathrow’s route network is now largely static. Without additional runway capacity, Heathrow’s competitive position will diminish to the disadvantage of the UK economy and to the advantage of continental hub airports which are continuing to grow.

BAA itself notes on its website Heathrow’s potential vulnerability to foreign competition if it does not expand.224

Heathrow has two runways operating at 99% of their permitted capacity. Frankfurt has three runways, Paris Charles de Gaulle has four, Amsterdam Schipol has five, and all operate at less than 75% of their capacity. The number of destinations served by Heathrow has fallen from 227 in 1990 to 187 today. Over the same period Frankfurt, Paris and Amsterdam have all increased their destinations and can offer new slots to emerging economies. The number of British regional airports served from Heathrow has also fallen, from 21 to 8. But Heathrow’s loss has been the continent’s gain. Amsterdam and Paris now serve more British regional airports than Heathrow.

48. In January 2009, the UK Government gave its formal support for a third runway and sixth terminal at Heathrow airport, a £9 billion project which could add an annual 220,000 flights to the airport’s capacity. Assuming that a planning application is submitted in the near future, construction is expected to start in 2015, with the first flights using the new runway in 2019 or 2020. However, a third runway at Heathrow has many opponents including the opposition Conservative Party, and increasingly well-organised environmental objectors make the timetable uncertain. The Government also announced the establishment of High Speed Two, a company to advise the Government on the feasibility of a new high-speed rail link to between the West Midlands and London, including a link to Heathrow.

224 BAA Website “Economic Benefits” section
Cost-benefit analysis\textsuperscript{225}

49. In assessing the case for Heathrow expansion, the DfT used a technique known as cost-benefit analysis (CBA). In CBA, the relative costs and benefits of a scheme over time are expressed in monetary terms. This incorporates both elements usually expressed in financial terms, such as profit, and those that have to be assigned an estimated monetary value, such as pollution. These costs and benefits over time are discounted over time to give a present value, reflecting the time value of money and uncertainty.

50. Using CBA, the policy proposals for Heathrow expansion can be assessed on the basis of monetised net benefits: total benefits expressed in financial terms less total costs. The DfT estimates that the monetised net benefit of a third runway and a new terminal from around 2020 is £5.5 billion in present value terms at 2006 prices. The table below summarises the components of this figure, together with noting other potential costs and benefits that were not monetised by the DfT:

<table>
<thead>
<tr>
<th>Cost-benefit analysis calculations: third runway and sixth terminal from 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefits</strong></td>
</tr>
<tr>
<td>Passenger benefits</td>
</tr>
<tr>
<td>Airport operator</td>
</tr>
<tr>
<td>Government (Air Passenger Duty)</td>
</tr>
<tr>
<td>Air freight users</td>
</tr>
<tr>
<td><strong>Total monetised benefits</strong></td>
</tr>
<tr>
<td><strong>Costs</strong></td>
</tr>
<tr>
<td>Infrastructure costs</td>
</tr>
<tr>
<td>Greenhouse gases</td>
</tr>
<tr>
<td>Noise</td>
</tr>
<tr>
<td>Local air quality</td>
</tr>
<tr>
<td>Accidents</td>
</tr>
<tr>
<td><strong>Total monetised costs</strong></td>
</tr>
<tr>
<td><strong>Net monetised benefit</strong></td>
</tr>
</tbody>
</table>

Source: DfT, Adding Capacity at Heathrow Airport: Impact Assessment, January 2009

51. Potential criticisms of this CBA fit into two broad categories:

a) The monetised analysis does not account for various factors. On the costs side, the calculations do not consider the value of lost greenfield and agricultural land, or the community severance implications of the loss of the village of Sipson. Conversely, the calculations also fail to take into account the advantages of potential reductions in flight delays and wider economic benefits through improved productivity and competitiveness as identified in the Eddington Report.\textsuperscript{226}

b) The CBA can be criticised on the basis of the estimates and assumptions used by the DfT. Prominent among these are complex models of air passenger

\textsuperscript{225} Based on section IV.A of: House of Commons Library, Expansion of Heathrow Airport, February 2009

\textsuperscript{226} The Eddington Transport Study: The case for action: Sir Rod Eddington’s advice to Government, December 2006
demand and greenhouse gas emissions. These are covered in more detail in section 3.2 above.

52. It is also important to bear in mind that the DfT CBA does not consider the net benefits or costs of alternative potential infrastructure schemes. For example, the investment required for Heathrow expansion might be spent on a new airport in the Thames estuary, a high-speed rail scheme, or indeed a hospital. Such schemes may also have positive net benefits if considered independently. Understanding the choice between desirable but mutually exclusive results uses the concept of this ‘opportunity cost’. In the context of this analysis, it means that projecting a net benefit from Heathrow expansion does not necessarily imply it is the most efficient allocation of resources.

53. In addition, the impacts of Heathrow expansion will not be even. Some groups will benefit disproportionately, while others will be negatively affected. Differing opinions of the relative importance of each group will result in differing assessments of the merits of the proposals.

**Sensitivity analysis**

54. In its analysis, the DfT acknowledges that many of its assumptions and projections are subject to considerable degrees of potential error. For example:

   a) There is still considerable dispute among scientists about the effects of greenhouse gases emissions at high altitude, accounted for in the DfT’s model by a ‘radiative forcing factor’.

   b) Projections of the costs of flying require the projection of volatile economic data such as oil prices and exchange rates.

To take into account these uncertainties, the DfT conducted ‘sensitivity tests’, evaluating the net monetised benefit under a range of different assumptions. The chart below summarises the results:

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227 Although in addition the CBA used a number of other projections and assumptions including: Estimates of the land, capital and construction costs associated with Heathrow expansion; Estimates of the financial value of the air quality implications; An assessment of the landscape and visual impact; An appraisal of the historic environment impact; An assessment of possible biodiversity implications; An Equalities Impact Assessment. These documents are available online on the DfT website.

228 DfT, UK Air Passenger Demand and CO2: Forecasts, January 2009, p8
55. There are several points of note:

a) All the net value estimates are positive: under none of the circumstances considered do the costs of Heathrow expansion exceed the benefits.

b) There is considerable variation in the results: under these different assumptions the estimated net monetised benefit ranges from £8.2 billion to £2.0 billion in present value terms.

c) The DfT does not consider combinations of alternative assumptions in its sensitivity analysis. For example, a combination of factors which would, all other things being equal, reduce the benefits of expansion, such as a high radiative forcing factor, plus lower GDP and a higher oil price, are not considered together. Likewise, combinations of factors that would serve to increase benefits are not considered.

d) Revised forecasts and tax changes made in the November 2008 Pre-Budget Report are included in the DfT analysis as sensitivity tests, rather than in the base scenario, which uses 2008 Budget rates.229

Further details of the sensitivity tests are provided in the DfT’s forecasts.230

Conclusion

56. While the aviation industry has an impact on the UK economy, both in positive and negative terms, what is less unclear is the exact magnitude of these costs and benefits. This is partly due to the difficulties in classifying the industry within the SIC system by which much of the relevant data are collected. There are other methodological problems which mean attributing monetary value is subject to some uncertainty. In particular, the sensitivity analysis carried out by the DfT associated with the Heathrow expansion illustrates the degrees of potential variation in the net present value of such a proposal.

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229 The economic assumptions used are considered further in section 2.3 above.

230 DfT, UK Air Passenger Demand and CO2 Forecasts, January 2009
57. Furthermore, any analysis of the economic impact of the industry in the UK is hampered by the relative scarcity of rigorous, peer reviewed research on the subject. As discussed above, much of the existing information is drawn from a single 2006 study by Oxford Economics which has been contested by some for the relatively pro-aviation industry picture that the study paints.
Wednesday 2 December 2009

Members present:

Mrs Louise Ellman, in the Chair

Mr David Clelland
Rt Hon Jeffrey Donaldson
Mr Philip Hollobone
Mr John Leech
Mr Eric Martlew

Mark Pritchard
Ms Angela C. Smith
Sir Peter Soulsby
Graham Stringer

Draft Report (The future of aviation), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraph 1 read, amended and agreed to.

Paragraphs 2 to 24 read and agreed to.

Paragraph 25 read, as follows:

“The 2003 White Paper, The Future of Air Transport, continues to provide a sound basis for aviation policy. It identifies the likely airport infrastructure requirements without authorising or precluding them. However, the Government needs to set out more explicitly the role envisaged for aviation within its overall transport policy as well as the inter–relationships between aviation and other transport modes. It should ensure that the policy is kept up-to-date, taking full account of proposals for high-speed rail and climate change.”

Amendment proposed, in line 1, to leave out from “The 2003” to “However,” in line 3.— (Mr John Leech.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 2

Mr Philip Hollobone
Mr John Leech

Noes, 4

Mr David Clelland
Rt Hon Jeffrey Donaldson
Ms Angela C. Smith
Mr Graham Stringer

Paragraph agreed to.

Paragraphs 26 to 35 read and agreed to.

Paragraph 36 read, amended and agreed to.
Paragraphs 37 to 51 read and agreed to.

Paragraph 52 read, amended and agreed to.

Paragraph 53 read, as follows:

“The Government is right to support the sensible development of air transport in the UK. Choices between economic benefits and environmental costs sometimes need to be made. The “balanced strategy”, set out in the 2003 Air Transport White Paper, requires a good evidence base. The Government should regularly update its assessment of the economic value of aviation to the UK economy and ensure that it is subject it to independent external scrutiny.”

Amendment proposed, in line 1, to leave out from “The Government” to “base.” in line 4.—(Mr John Leech.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 2    Noes, 4

Mr Philip Hollobone    Mr David Clelland
Mr John Leech    Rt Hon Jeffrey Donaldson
Ms Angela C. Smith    Mr Graham Stringer

Paragraph agreed to.

Paragraphs 54 to 63 read and agreed to.

Paragraph 64 read, amended and agreed to.

Paragraphs 65 to 67 read and agreed to.

Paragraph 68 read, as follows:

“Reducing the carbon emissions from aviation is crucial both to the success of climate change policies and to the future of aviation. The aviation industry believes that it can rise to the technological challenge but this will happen only if appropriate ‘sticks and carrots’ are in place. The work of the Committee on Climate Change, due for publication in December 2009, is likely to be crucial in helping to determine what is feasible and how it might sensibly be achieved. It would be wrong for us to try to second–guess or prescribe the outcomes. We believe the following principles should apply to future UK policy on aviation emissions:

a. aviation and climate change are global in nature, and as far as possible, global solutions should be sought;

b. aviation should be treated equitably in climate change policy—it should not be demonised or assigned symbolic value beyond its true impacts, and
c. carbon reduction measures should be cost–effective and take account of the economic value of aviation.”

An amendment made.

Another amendment made.

Another amendment proposed, in line 10, at end insert “but this must not be used as an excuse for not taking the lead on tackling emissions.”—(Mr John Leech.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 3 Noes, 4
Mr Philip Hollobone Mr David Clelland
Mr John Leech Rt Hon Jeffrey Donaldson
Mark Pritchard Ms Angela C. Smith
Mr Graham Stringer

Another amendment proposed, to leave out lines 13 and 14.—(Mr John Leech.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1 Noes, 6
Mr John Leech Mr David Clelland
Rt Hon Jeffrey Donaldson Mr Philip Hollobone
Mark Pritchard Ms Angela C. Smith
Mr Graham Stringer

Paragraph, as amended, agreed to.

Paragraph 69 read, amended and agreed to.

Paragraphs 70 to 80 read and agreed to.

Paragraph 81 read, amended and agreed to.

Paragraphs 82 to 86 read and agreed to.

Paragraphs 87 read, amended and agreed to.

Paragraphs 88 to 95 read and agreed to.

Paragraph 96 read, as follows:
"At first sight, it might seem logical to take pressure off Heathrow by developing intercontinental services from other UK airports. Moreover, many businesses and individuals would no doubt welcome a greater range of direct international air services from their regional airport. However, attempts to do so, notably at Gatwick and Manchester, have had only limited success as they have been unable to sustain the level of demand for international services that is necessary to operate a hub airport. There has been a further concentration of long-haul services at Heathrow since the Air Transport White Paper, and services at Gatwick and Manchester have been relocated to Heathrow following the implementation of the Open Skies agreement with the USA."

Amendment proposed, in line 4, after “airport” insert “and have had to contend with successive Governments’ obsession with expanding Heathrow Airport”.—(Mr John Leech.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1  
Noes, 6

Mr John Leech  
Mr David Clelland  
Rt Hon Jeffrey Donaldson  
Mr Philip Hollobone  
Mark Pritchard  
Ms Angela C. Smith  
Mr Graham Stringer

Paragraph agreed to.

Paragraph 97 read and agreed to.

Paragraph 98 read, as follows:

“In contrast to the USA where airports are government-owned, usually by the state or municipality, UK airports are mainly private businesses with little investment from the taxpayer. The issue of new infrastructure is, therefore, not so much one of affordability but of planning permission. The economic benefits must be set against noise, air quality, increased traffic and urbanisation, on which a public interest judgement must be made. We accept that these are significant concerns with regard to a third runway at Heathrow. The Government has made specific conditions in order to moderate the local environmental impacts but it cannot eliminate them entirely. These conditions include a legally-binding process to ensure that additional flights will only be permitted if this can be done without breaching noise and air quality limits. It has also proposed a new “green slot” approach, to incentivise the use at Heathrow of the most modern aircraft. Air quality may improve, but significant noise problems are likely to remain. Ultimately, a judgement has to be made regarding the economic benefits to the UK and the environmental costs.”

Amendment proposed, in line 7, leave out “specific conditions in order” and insert “piecemeal attempts”.—(Mr John Leech.)

Question put, That the Amendment be made.
Another amendment proposed, in line 10, after “limits.” insert “There is little chance that these conditions will be met, but the Committee expects that the Government will allow the third runway to go ahead in any event”.—(Mr John Leech.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 3
Mr Philip Hollobone
Mr John Leech
Mark Pritchard

Noes, 4
Mr David Clelland
Rt Hon Jeffrey Donaldson
Ms Angela C. Smith
Mr Graham Stringer

Paragraph agreed to.

Paragraph 99 read and agreed to.

Paragraph 100 read, as follows:

“We are not persuaded that refusing a third runway at Heathrow would be helpful in reducing greenhouse gas emissions. Heathrow’s competitor airports have expanded their runway capacity and have plans to increase flights and passenger numbers. Constraining Heathrow will only shift flights to other European airports. Climate change and emissions from aviation are international problems that cannot be solved by isolated restrictions on airport development.”

Amendment proposed, in line 2, after “emissions” insert “; in fact, it could increase them”.—(Mr Graham Stringer.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 3
Mr David Clelland
Ms Angela C. Smith
Mr Graham Stringer

Noes, 4
Rt Hon Jeffrey Donaldson
Mr Philip Hollobone
Mr John Leech
Mark Pritchard
Question put, That the paragraph stand part of the Report.

The Committee divided.

Ayes, 3    Noes, 3

Mr David Clelland    Mr Philip Hollobone
Ms Angela C. Smith    Mr John Leech
Mr Graham Stringer    Mark Pritchard

Whereupon the Chairman declared herself with the Ayes.

Paragraph 101 read, as follows:

“BAA announced in September 2009 that it would not submit a planning application for the third runway until after the General Election. Lord Adonis told us that he is not unduly concerned at this stage. “We have always made it clear […] that it is a matter for BAA when it brings forward the planning application. They have chosen not to bring it forward so far, but that is a matter for them.” This introduces an additional uncertainty into the timescale for obtaining planning consent and constructing the runway. The application, if submitted, will be determined by the Infrastructure Planning Commission which will operate from March 2010. The Government intends to publish a National Policy Statement on airports in 2011.”

Amendment proposed, in line 5, after “them.” insert “This is wholly inconsistent with the Government’s assertions of the present need for a third runway”.—(Mr John Leech.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 4    Noes, 3

Rt Hon Jeffrey Donaldson    Mr David Clelland
Mr Philip Hollobone    Ms Angela C. Smith
Mr John Leech    Mr Graham Stringer
Mark Pritchard

Paragraph, as amended, agreed to.

Paragraph 102 read, as follows:

“In view of the economic benefits to the UK, we endorse the Government’s January 2009 decision to support a third runway at Heathrow and an additional terminal. We note the conditions for noise and air quality, imposed by the Government, and arrangements to limit CO2 emissions from aviation generally. It is crucial that these are applied effectively. We are concerned, however, about the lack of clarity on the timescale for completion of this project.”
Amendment proposed, in line 1, leave out “economic benefits to the UK, we endorse” insert “environmental damage to the UK, we oppose”.—(Mr John Leech.)

Question put, That the Amendment be made. The Committee divided.

Ayes, 3  Noes, 4
Mr Philip Hollobone  Mr David Clelland
Mr John Leech  Rt Hon Jeffrey Donaldson
Mark Pritchard  Ms Angela C. Smith
  Mr Graham Stringer

Another amendment proposed, in line 4, after “generally” insert “but have no faith in their ability to meet those conditions”.—(Mr John Leech.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 3  Noes, 4
Mr Philip Hollobone  Mr David Clelland
Mr John Leech  Rt Hon Jeffrey Donaldson
Mark Pritchard  Ms Angela C. Smith
  Mr Graham Stringer

Another amendment proposed, in line 4, leave out from “generally.” to end of paragraph.—(Mr John Leech.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 3  Noes, 4
Mr Philip Hollobone  Mr David Clelland
Mr John Leech  Rt Hon Jeffrey Donaldson
Mark Pritchard  Ms Angela C. Smith
  Mr Graham Stringer

Paragraph agreed to.

Paragraphs 103 to 105 read and agreed to.

Paragraph 106 read, amended and agreed to.

Paragraph 107 read, as follows:
“The case for an additional runway at Stansted is less clear than that for Heathrow. It is heavily dependent on the development in passenger demand after the current downturn. The Government should update its passenger demand forecasts annually, using the latest economic and demographic data.”

Amendment proposed, in line 3, leave out “should” to the end of the paragraph, and add “rule out expansion of runway capacity in the South East”.—(Mr John Leech.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 3    Noes, 4
Mr Philip Hollobone    Mr David Clelland
Mr John Leech    Rt Hon Jeffrey Donaldson
Mark Pritchard    Ms Angela C. Smith
                 Mr Graham Stringer

Paragraph disagreed to.

A paragraph (now paragraph 107)—(Mr Graham Stringer.)—brought up, read the first and second time, and inserted.

Paragraphs 108 and 109 read and agreed to.

Question put, That paragraph 110 stand part of the Report.

The Committee divided.

Ayes, 4    Noes, 3
Mr David Clelland    Mr Philip Hollobone
Rt Hon Jeffrey Donaldson    Mr John Leech
Ms Angela C. Smith    Mark Pritchard
Mr Graham Stringer

Paragraph agreed to.

Paragraphs 111 to 130 read and agreed to.

Paragraph 131 read, amended and agreed to.

Paragraphs 132 to 136 read and agreed to.

A paragraph—(Mr Graham Stringer.)—brought up and read, as follows:

“We support the Government decision to continue with a per-passenger tax, as to change to a per-plane tax would damage regional airports.”—(Mr Graham Stringer.)

Question put, That the paragraph be read a second time.
The Committee divided.
Ayes, 3  Noes, 4
Mr David Clelland  Rt Hon Jeffrey Donaldson
Ms Angela C. Smith  Mr Philip Hollobone
Mr Graham Stringer  Mr John Leech
                      Mark Pritchard

Paragraph 137 read and agreed to.

Paragraph 138 read, amended and agreed to.

Paragraphs 139 to 153 read and agreed to.

Annexes agreed to.

Motion made, and Question put, That the Report, as amended, be the First Report of the Committee to the House.

The Committee divided.
Ayes, 3  Noes, 2
Mr David Clelland  Mr Philip Hollobone
Ms Angela C. Smith  Mr John Leech
Mr Graham Stringer

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Wednesday 9 December at 2.30 pm]
Witnesses

Wednesday 6 May 2009

Mr Vernon Murphy, Chairman of CILT Aviation Forum, Chartered Institute of Logistics and Transport; Dr Harry Bush CB, Group Director Economic Regulation Group, Civil Aviation Authority; Mr Keith Mans, Chief Executive, Royal Aeronautical Society

Lord Turner of Ecchinswell, a Member of the House of Lords, Chair of the Committee on Climate Change, and Mr David Kennedy, Chief Executive Officer of the Secretariat to the Committee, Committee on Climate Change

Rt Hon Lord Smith of Finsbury, a Member of the House of Lords, Chairman, Dr Paul Leinster, (Chief Executive) and Dr Tony Grayling, (Head of Climate Change and Sustainable Development), Environment Agency

Wednesday 13 May 2009

Ms Karen Dee, Head of Infrastructure, Confederation of British Industry; Rt Hon Brian Wilson, Chairman, Flying Matters; and Mr Christopher Snelling, Head of Rail Freight and Global Supply Chain Policy, Freight Transport Association

Mr Nick Paul, Chairman, Advantage West Midlands, English Regional Development Agencies; Mr Uel Hoey, Business Development Director, Belfast International Airport; Mr Graeme Mason, Head of Planning and Corporate Affairs, Newcastle International Airport Limited; and Mr Dave Duthie, Partnership Director, Highlands and Islands Transport Partnership

Ms Tina Tietjen, Chairman, Mr Simon Evans, Chief Executive, Air Transport Users’ Council, Mr Anthony Smith, Chief Executive, Passenger Focus, and Mr Andrew Cooper, Director of Development, ABTA (formerly Association of British Travel Agents),

Wednesday 17 June 2009

Mr Andrew Lee, Chief Executive, Sustainable Development Commission, Mr Peter Lockley, Head of Transport Policy, WWF-UK (World Wildlife Fund), Mr Jeff Gazzard, Board Member, Aviation Environment Federation and Mr Brian Ross, Aviation Economics Advisor

Wednesday 1 July 2009

Mr Steve Ridgway, Chief Executive, CBE, Virgin Atlantic Airways, Mr Andy Harrison, Chief Executive Officer, easyJet, Mr Michael Carrivick, Chief Executive, Board of Airline Representatives in the UK, and Mr Noel
Josephides, AITO Director, Association of Independent Tour Operators

Mr Colin Matthews, Chief Executive Officer, BAA Airports, Mr Ed Anderson, Executive Chairman, Airports Operators Association, Mr Neil Pakey, Deputy Chief Executive Officer, Peel Airports Group, and Mr Brandon O’Reilly, Chief Executive, TAG Farnborough Airport

Wednesday 8 July 2009

Mr Tony Deighan, Director of Strategic Projects, Eurostar, Dr Alan James, Chief Executive, UK Ultraspeed, Mr Richard Eccles, Head of Route Planning, Network Rail and Sir David Rowlands, Chairman, High Speed Two

Wednesday 15 July 2009

Mr Justin Kempley, Member, Mr Usman Ali, Deputy Member, Mr George Lindars-Hammond, Deputy Member and Mr Harrison Carter, Member, of the UK Youth Parliament

Rt Hon Lord Adonis, a Member of the House of Lords, Secretary of State, and Mr Jonathan Moor, Aviation Director, Aviation Directorate, Department for Transport

List of written evidence

1. Mr Kevin Lister, Ev 96
2. TAG Farnborough Airport, Ev 99
3. British Helicopter Association, Ev 103
4. Stop Bristol Airport Expansion, Ev 105
5. The Royal Society for the Protection of Birds, Ev 107
6. Eurostar, Ev 110
7. Department for Transport, Ev 111, 115, 116, 121
8. Stop Stansted Expansion, Ev 122
9. Flybe, Ev 128
10. FlyingMatters, Ev 133
11. CBI, Ev 137
12. Environment Agency, Ev 140, 143
13. Greenpeace UK, Ev 143
14. Aviation Environment Federation, Ev 149, 156
15. Newcastle International Airport Ltd, Ev 157
16. Mr L Price, Ev 159
17. London Luton Airport, Ev 164
18. WWF-UK, Ev 168, 173
19. Virgin Atlantic Airways Limited, Ev 173
20  Belfast International Airport Ltd  Ev 177
21  Freight Transport Association  Ev 181
22  The Northern Way  Ev 185
23  Friends of Richmond Green  Ev 189
24  English Regional Development Agencies  Ev 191, 197
25  SBAC  Ev 198
26  NetJets Europe  Ev 201
27  2020*Vision Ltd  Ev 205
28  Strategic Aviation Special Interest Group  Ev 210
29  British Air Transport Association  Ev 216
30  The Tees Valley Joint Strategy Unit  Ev 220
31  Air Transport Users Council  Ev 224
32  City of Edinburgh Council  Ev 227
33  Civil Aviation Authority  Ev 232, 248
34  ABTA  Ev 250
35  International Air Transport Association  Ev 253
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37  Association of Independent Tour Operators  Ev 260
38  Prospect  Ev 262
39  Heathrow Associates  Ev 263
40  Institution of Civil Engineers  Ev 266
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42  Airport Operators Association  Ev 271, 283
43  World Development Movement  Ev 283
44  Natural England  Ev 295
45  Manchester Airports Group  Ev 299
46  Dr M Givoni and Prof D Banister  Ev 305
47  Saffron Walden & District Friends of the Earth  Ev 310
48  Mr T Anderson  Ev 314
49  Dr S Cairns and Ms C Newson  Ev 316
50  Plymouth City Council  Ev 317
51  Guild of Travel Management Companies  Ev 322
52  Chartered Institute of Logistics and Transport (UK)  Ev 326
53  British Airways plc  Ev 330
54  2M Group  Ev 336
55  Public and Commercial Services Union  Ev 340
56  London Councils  Ev 345
57  Lydd Airport Action Group  Ev 346
58  VLM Airlines  Ev 350
59  Nestrans  Ev 356
60  Mr J Russell  Ev 359
61  West Windsor Residents' Association  Ev 360
62  Fresh Produce Consortium  Ev 362
63  Board of Airline Representatives in the UK  Ev 364
64  National Union of Rail, Maritime and Transport Workers  Ev 368
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<tr>
<td>65</td>
<td>Mr J Strickland</td>
<td>371</td>
</tr>
<tr>
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