House of Commons
Transport Committee

The future of aviation

First Report of Session 2009–10

Volume II

Oral and written evidence

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The Transport Committee

The Transport Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Transport and its associated public bodies.

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Rt Hon Jeffrey M Donaldson MP (Democratic Unionist, Lagan Valley)
Mr Philip Hollobone MP (Conservative, Kettering)
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Sir Peter Soulsby MP (Labour, Leicester South)
Graham Stringer MP (Labour, Manchester Blackley)
Mr David Wilshire MP (Conservative, Spelthorne)

The following were also members of the Committee during the period covered by this report:
Clive Efford MP (Labour, Eltham)
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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/transcom.

Committee staff

The current staff of the Committee are Annette Toft (Clerk), Adrian Jenner (Second Clerk), David Davies (Committee Specialist), Marek Kubala (Inquiry Manager), Alison Mara (Senior Committee Specialist), Jacqueline Cooksey (Committee Assistant), Stewart McIlvenna (Committee Support Assistant) and Hannah Pearce (Media Officer).

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**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

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Oral evidence

Taken before the Transport Committee on Wednesday 6 May 2009

Members present:

Mrs Louise Ellman, in the Chair

Witnesses: 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, and Mr Keith Mans, Chief Executive, Royal Aeronautical Society, gave evidence.

Chairman: Good afternoon and welcome to the Transport Select Committee. Do Members have any interests to declare? Mr Stringer?

Mr Stringer: Member of Unite.

Mr Clelland: Member of Unite.

Mr Martlew: Member of Unite and the GMT Union.

Mr Pritchard:

Q1 Chairman: Thank you. Could I ask our witnesses, please, to identify themselves with their name and organisation for our records.

Mr Murphy: Good afternoon. I am Vernon Murphy and I chair the Aviation Forum at the Chartered Institute of Logistics and Transport.

Dr Bush: I am Harry Bush. I am on the board of the CAA as the Economic Regulator, Group Director of the Economic Regulation Group at the CAA.

Mr Mans: I am Keith Mans and I am Chief Executive of the Royal Aeronautical Society.

Q2 Chairman: Thank you. Do you consider the 2003 Air Transport White Paper to still be a robust and credible document?

Mr Murphy: Good afternoon. I am Vernon Murphy and I chair the Aviation Forum at the Chartered Institute of Logistics and Transport.

Dr Bush: Shall I start? I think 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 and I think what has happened over time is that of course it has evolved through progress reports and various Government announcements, so whereas it started out saying a runway at Heathrow, a runway at Stansted by 2011–12, a runway at Edinburgh, a runway at Birmingham, I think partly through commercial decision making by the organisations involved, partly by the reality of how long some of these things take and partly policy evolution it is now more permissive about some of these issues and saying these things should proceed as commercial development requires it. So I think from that point of view, if you look at some of the text, the White Paper “not authorising or precluding development” and I think it has actually moved more into that territory with the exception really of Heathrow, where of course in that case you have actually got a very big surplus of demand over supply at the airport and it is a hub. You have very different characteristics and there has been an investigation into the environmental issues. I think looking ahead the Government, when it comes out with its national policy statement in due course as part of the new Planning Act, needs to build on the elements of flexibility and I think that would also go with the flow of what has come out of the Competition Commission’s recent report on BAA.

Mr Mans: I agree. At the time it was published I think it was an excellent document. I do think, though, there should be some method whereby we can update it and revise it at least every five years because aviation is a very fast moving area and I think increasingly it will become out of date if we do not do that.

Q3 Chairman: Thank you. Do any of the other witnesses want to add anything to that, or to disagree with anything?

Mr Murphy: I would just say that it probably was the most definitive policy document on aviation and airports that ever came out and I think the comments by the CAA are absolutely right. You have to be flexible as circumstances change over the years, but as a base document it is extremely useful and it particularly highlights, I think, the problems which have created the current shortage of capacity in the South East and in many ways the options open for the regions. As such, I think it still stands as a very useful document.

Mr Mans: I agree. At the time it was published I think it was an excellent document. I do think, though, there should be some method whereby we can update it and revise it at least every five years because aviation is a very fast moving area and I think increasingly it will become out of date if we do not do that.

Q4 Chairman: In the light of the current impact on passenger and cargo trades of the current recession, do you think the predicted numbers of air users is realistic? If you look at the latest figures, passenger demand fell in January from the January before by 5.6% a year and cargo traffic fell by over 23%. Do you think the predicted passenger numbers, even with the adjustments, are realistic or are they likely to be affected more long-term by the recession?

Mr Mans: I would argue that in the short term it is undoubtedly going to have an effect but previous recessions, although they have not been as extreme as this one, have indicated that air traffic very
quickly falls back onto the trend line, which is a growth of about 4.5% a year. So whereas I do not see that happening quite as quickly as it did after, say, 9/11 I think nonetheless it is likely to happen.

Q5 Chairman: What about the possible impact of terrorist attacks or fears of them, the increased cost of security? Is that going to make any significant difference?

Dr Bush: Yes. Could I just nuance one of the points Keith made, because I think he is right that you will recover towards a trend line. The question will be where will that trend line be and will it differ from what we thought before the recession? In general there is no reason to think that the economy will not grow or that it will not grow on a trend GDP, but the nature of the issues we have at the moment with both individuals and Government having to retrench following a period of borrowing means that almost certainly consumption will be growing much more slowly or somewhat slowly for some time than GDP growth. So even if GDP gets back to its trend line, it may be that consumption is less buoyant and that may have some effect on traffic trends, but I think you would still say we are going to have strong aviation growth long-term. This is a short-term issue which we are going to have to work our way out of.

Mr Murphy: We would agree with that, I think, with again one slight nuance. If you go back to 2003 the paper was written in the heyday of the surge of growth in low cost carriers and things like air passenger duty and increasing fuel prices would probably bring the growth of low cost carriers more back to a normal level. So I would think it is absolutely right that in about three or four years’ time it will be back on the long-term trend line, but you will not see quite the same buoyant growth which you did around 2002–04 when suddenly there was an enormous surge in low cost airlines with very cheap fares and people taking short breaks which are things they do when they have plenty of money to spend.

Q6 Mr Clelland: The Aviation White Paper encouraged the development of long-haul services from regional airports. Is there any evidence that this has worked at all and has it relieved the pressure on Heathrow?

Dr Bush: There is some evidence that it has worked up to a point. There have been services put in at some regional airports, but actually it is at the margin of, if you like, the Heathrow issue because there have not been enough particularly to relieve the pressure at Heathrow. One of the problems you have is that you need a fairly thick base of population and traffic to justify a long-haul service, so it is only really to somewhere like the States by airlines like Emirates, which I think put on a flight to Dubai from Newcastle and therefore enabled people from Newcastle to connect to points east of that. So it is a valuable contribution, but it is not going to really ease the pressure in the short term or even the medium term on Heathrow.

Mr Murphy: I think that is right. There are only two long-haul carriers which are of any significance in terms of regional growth and taking a bit of pressure off Heathrow, Continental to USA and Emirates to Dubai. It is just possible you may get some like Etihad putting up a bit of competition for Emirates as well, but those really are the two airlines which have diversified into Glasgow, Edinburgh, Newcastle, Manchester and Birmingham. They are the services which have taken a bit of pressure off Heathrow. It is pretty marginal.

Mr Mans: I think in a way the White Paper is right, we are getting more regional long-haul services, but they are from foreign airlines and in a sense you would expect that because if your base is in the UK and it is around Heathrow you are probably going to focus on that, whereas if you are a foreign airline wanting to get to some of the regional centres in the UK that is more attractive for you in the point to point operation. I think the other thing we are probably going to see is a number of mega-hubs across the world, of which Dubai is clearly going to be one where, when they have built the new airport, will have a total of six runways and the ability to handle 122 million passengers together with an existing airport which has got another two runways. You can see the size of that particular mega-hub, so I can see more flights to regional centres right across Europe, including the UK, from somewhere like Dubai.

Q7 Mr Clelland: If Heathrow is the only viable UK hub airport, should regional services to Heathrow be protected?

Mr Murphy: I think they have gone already mostly. I think this is the really critical issue for the future, as Heathrow is no longer performing for the UK economy and the regional economies in the way it should be, and the reason for that is quite simply that runway capacity is so scarce and the value of slots is so high that regional services just do not make sense. Compared with the opportunity cost of a slot, or two slots—you need one to get in and one to get out—so you will see more services to the US. What has happened in the last two years is that US carriers have moved from Gatwick into Heathrow. Lufthansa have started their long-term ambition of getting Berlin services. They fly to Milan with Lufthansa Italia. There are now four airlines flying to Lagos, which is of virtually no value to the regions whatsoever, but the regional services are progressively being squeezed out.

Q8 Chairman: The question is, should those services be protected?

Mr Mans: The way I would answer that is that I think you would have to re-impose the traffic distribution rules in order to re-create those regional services in the UK. As you know, the last Conservative Government got rid of them. The present Labour Government has not reintroduced them, but I think unless you do that inevitably airlines, as my colleague Vernon has said, are going to pick the routes which have got the highest load factors on them and the most profit.
Q9 Mr Clelland: How would a third runway affect the situation? How will that affect UK airports and the regional services?
Mr Murphy: A third runway may solve the problem. Of course, the difficulty at the moment is that there is very little point to point traffic from any of the English airports into Heathrow because rail has basically becomes dominant. Manchester Airport, for instance, its service to Heathrow in 2004 was 1.4 million passengers. Last year, 2008, it was down to 910,000. This year it will be even less, and it is not transfer traffic which has gone, it is the point to point traffic. It is the confidence in rail, and particularly the frequency. The frequency on London to regional services is absolutely fundamental to competing with air. It is not about high speed, it is about frequency and reliability. The same is true of Edinburgh and the same is true of Glasgow. From 2004 onwards there is a drop between 25 and 30% of passenger numbers on those domestic services into Heathrow. Now, if you then had a third runway you could get the sort of regional express commuter service you see in the States, which are primarily about the transfer of passengers, because what Heathrow should be doing for the regions is to give them the opportunity to get to the rest of the world. You will never get services to most of the destinations from Heathrow to a regional destination because there just is not the volume.
Dr Bush: I just differ slightly on this because I do not think a new runway at Heathrow would entirely solve the problem. It clearly will create more space for regional services, but you have to remember that on the Government’s formulation there will be a relatively limited initial increase in capacity, and also the important thing about a new runway is that it will create a little bit of space to enable a reduction in delays and better resilience at Heathrow. So there are a number of things which Heathrow’s third runway has got to do and one of them is to hopefully increase the commercial opportunities for the regions, but there is a number of other things against a relatively limited growth in capacity given the environmental constraints that there will be.

Q10 Mr Clelland: Do we still need a second runway at Stansted?
Dr Bush: I think what has happened on the Stansted case is that over time from the Government’s position, where it was to be built by 2011–12, I think the commercial realities are pushing it to the right. The Competition Commission did a report for us in relation to Stansted price control which talked about 2017 really being the earliest date at which it would be required and it might be a bit later than that.

Q11 Mr Clelland: What about the effect of the new ownership of Stansted and Gatwick as well as either Glasgow or Edinburgh, depending on which one it is? Will it lead to better services for passengers?
Dr Bush: I think it will. I think any degree of competition like that will lead to better services and better sharpness in the airports in looking both to passengers and how they service airlines better. For instance, if you look at Gatwick now, the way in which that airport has been transformed really from being basically a BA-led airport to one which now is offering a whole range of different services, even under common ownership. I think you will get much more of that differentiation of product between the airports trying to attract different sorts of custom. I think the same will be true in Scotland.
Mr Murphy: There does seem to be a hierarchy developing. I am not sure whether Harry will agree with me, but no airline has ever moved a service from Heathrow to Stansted, for example. The move is Gatwick’s airlines want to get into Heathrow and then Stansted has been losing easyJet services in particular to Gatwick. This is all about fare yield. The fare yield is better out of Gatwick than Stansted. So as capacity becomes spare in Gatwick with airlines moving into Heathrow, so there has been some move across to Gatwick and that has actually deferred the need for a second runway at Stansted.

Q12 Graham Stringer: Rationally the White Paper should then have had the second runway not at Stansted but at Gatwick. Do you agree with that?
Mr Murphy: Again, you have got to come to something which is really important to airport businesses, which is a viable business plan. If there is a third runway at Heathrow, then Gatwick’s second runway is never going to be viable, certainly in my lifetime. If, on the other hand, a third runway does not get built at Heathrow then a second runway at Gatwick is a very good commercial proposition. It cannot happen before 2019 because of a local agreement, unless there is legislation through Parliament to change that.

Q13 Graham Stringer: Thank you. Dr Bush, there have been terrific changes in aviation over the last 25 years and we are looking at scenarios over the next 20 or 40 years. How do you think over that period of time economic regulation of airports is going to change?
Dr Bush: I am assuming that the big step which we are seeing at the moment is the break-up of BAA and with that comes some consequences for economic regulation. The Government is also at the moment consulting about changes to the law which will give much more flexibility to CAA about how it conducts its regulation. Taking those things together, I think over time you would expect, as competition between the airports gets better embedded, the relaxation of economic regulation. I quote Manchester, which the CAA recommended should be de-designated, so did this Committee, and the Government agreed to that something like a year or more ago. We had, in the run up to that, very much encouraged that competition to grow between Manchester, Liverpool and the other airports by not too tightly price-capping Manchester so that it squeezed out the growth competition elsewhere and I think that is the way to go, to try and make sure that economic regulation promotes the growth of competition. That may mean in certain circumstances, for instance, having a loosen price cap than you would have on a pure monopoly because you are trying to encourage entry into the market.
Q14 Graham Stringer: Can you foresee a time in the timescales I have been talking about where competition would deal with pricing in such a way that you did not need to regulate it? Do you see a time when your job disappears?

Dr Bush: I think it is possible, but I think I take Vernon’s point, that Heathrow is perhaps in a special position, that because it is the single hub and is likely to remain that it has more market power than the other airports. The degree of competitive pressure it faces is accordingly a bit less, although it does face pressure from Schiphol, Frankfurt, Charles de Gaulle, so I think all that would have to be taken into account and I think Heathrow would be the last, if you like, but I would say that where you are talking about Gatwick and Stansted, we believe that Stansted is already in that position, frankly. We said so some time ago and the Government disagreed with us, but we still believe that. I think Gatwick will move into that position and we will get ourselves ready for that.

Q15 Graham Stringer: Given then that you see regulation at least for Heathrow, and probably for Gatwick, being with us for some time, do you foresee any changes in the nature of the economic regulation which, as we discussed before on this Committee, whilst it is good for the airlines in terms of pushing prices down, has the perverse effect of making very scarce resources very inexpensive? Do you see any change in the basis of regulation?

Dr Bush: I think you have put your finger on it because I think one of the issues for us facing now a competitive market in the South East is precisely setting price controls so that they encourage competition to come forward and so encourage other suppliers to offer services and to offer them in a competitive way. So in the case of Gatwick, which is more likely to be subject to competition, we would be very mindful of that. As I said, we did that at Manchester, where we set a slightly looser price cap than the Competition Commission recommended in order to encourage Liverpool, Leeds-Bradford and the others to come forward to the ultimate benefit of getting Manchester out of regulation. I think we would see ourselves pursuing that sort of approach in relation to Gatwick.

Q16 Graham Stringer: Can I just put one same sort of question not about economic regulation but about slots allocation. It is a pretty obscure subject, I know, but again it is at the basis of how runways and airports are used by airlines. Do you see any fundamental changes in the way slots are allocated?

Dr Bush: This is a very difficult area to bring change about because it is governed by European regulation and it took, what, 10 or 15 years for us to get the Europeans to accept what was already going on in the UK, which was slot trading, and that has now been legitimised. I think the things that are needed, particularly if you are going to put in a large slug of new capacity, for instance at Heathrow, is some lifting of the new entrant rule whereby 50% of new capacity goes to new entrants because all that will happen there is that you will get new entrants coming into Heathrow and selling up in a few years and taking the money. I think, therefore, you need some sort of auctioning of that new capacity to really discover who wants it. Those would be the things we would be pressing for, but getting that done in the European context is a long haul.

Q17 Graham Stringer: Thank you. That is very helpful. Can I just finish by asking the whole panel how you view the Mayor of London’s policy, the development of an airport in the Thames Estuary. Is it practical or is it just a way out of a political conundrum that he is in?

Mr Murphy: I will have a go at that. I remember the time when Foulness was going to be the new airport and at that time the Government policy was quite clear: the only way you could have any possible economic basis for running an airport in the Thames Estuary was to shut both Heathrow and Gatwick. Indeed, the costs of any new airport, let alone an estuarial airport, are enormous at start up and unless you transfer a whole slug of traffic to make it operate viably you have an economic disaster. It just does not stack up. If you then take forward what is being said now, it is not just an airport in the Thames Estuary, they have to find a way of getting a new rail access into Central London, a new road access certainly to the M25, if that can take it, and there is a whole load of support costs for infrastructure on land that has to be built to actually make an estuarial airport. It is an enormously expensive business. I remember the Foulness one. It was horrendous. In fact the loss of grade one agricultural land from an airport in the estuary at Foulness was two or three times the size of the loss of agricultural land on the other alternative sites like Stansted. It is an enormous undertaking.

Q18 Chairman: Do any other members of the panel want to comment on that? It is not compulsory!

Mr Mans: Let me just say this: in our note to the Committee, Mr Stringer, the Society pointed out that plans exist for a major London airport development located in the Thames Estuary submitted to the Brabazon Committee in 1944! It included rail and road access but also a flying boat lagoon for long haul routes. Really what I am saying is that this idea has been tried again and again and each time it has been rejected but it keeps coming back. There are perfectly good estuary airports in other parts of the world, offshore airports such as Hong Kong and Narita in Japan, therefore I do not take quite such a strident line. In the short-term I do not think it is viable, but one of the things about aviation is that you can never quite predict the medium and long-term. I think the only way it could be viable is if it became a proper European hub and not just one for Britain, but at the present time I think the immediate issue is how we increase capacity, particularly in the south of the country, using the existing airports.

Dr Bush: I would just add a couple of practicalities. People often talk about airports as though they are just infrastructure, but of course they are people as well in terms of trying to recruit the vast numbers of
people you need to run a modern airport, whether it is security staff or the airline staff. All those people have to be within travelling distance of it and usually you are trying to promote something in the Thames Estuary or some distant place from London to avoid being near a population centre. Even at Stansted, BAA sometimes have much more difficulty recruiting staff than at Gatwick and Heathrow because they are much further from major population centres. So I think that is number one—where do the people come from to run it? Number two, of course, if you take Heathrow, a lot of businesses, small businesses, high technology businesses in the Thames Valley have been built up on the back of that access. I think Vernon is absolutely right that to build a new hub you would need to close the existing one because you cannot have two hubs. It would mean two sub-economic enterprises. So you actually have to think about the impact on those businesses. It may be it could be dealt with, but that has to be thought about. The third thing is that I just joined the CAA as Cliffe was being dispatched, so to speak. There tends to be a plentiful supply of birds in estuary areas and that was one of the big issues around safety at Cliffe, and the recent accident in New York just brings home what an important issue that is.

Q19 Mr Wilshire: Just to finish that particular point about building a new airport, is it not the case that the argument for putting it in the middle of nowhere to save people being inconvenienced is shown to be false when you look at Hong Kong, Denver, Dallas and Fort Worth? When I first saw those, they were out in the middle of nowhere. Whenever I visit them now there are more and more houses being built next door, which means hospitals and schools on site, because that is how people who work there like to live. Is that not also an issue with a new airport, that it would not achieve what people claim?

Mr Mans: I think you make a very good point, Mr Wilshire. The history is that when you build an airport, even though it may be some distance from the conurbation it serves, sooner or later you get development and Dallas Airport outside Washington is, I think, probably the classic example of that. Therefore, you are absolutely right, airports act as a magnet for employment even though they may initially be out in the countryside.

Mr Murphy: The only example where that did not actually work was in Montreal with Mirabel and in the end they shut Mirabel rather than move everybody out there. It is just totally incompatible with a busy airport to have it so far away from people.

Q20 Mr Wilshire: How do you see the future of Heathrow without another runway?

Dr Bush: I think what would tend to happen is that the present process would go on, which is that you would get a focusing down onto more long-haul. Short-haul would increasingly be that short-haul which served the long-haul, and you would get a dispersion, if you like, of other routes to the other airports. So you get quite a lot of good connectivity from London now, it is just not as much from Heathrow as there used to be. People can go to Gatwick or Stansted and I think you would get more of that happening over time. As London grew over time, in terms of GDP, you would tend to get less transfer traffic simply because there would be more origin destination traffic that was able to take up the capacity. So there would be ways in which it would evolve, less transfer, probably less short-haul and more long-haul, in ways which would still guarantee the future but it would be a very different future than one with a third runway.

Mr Murphy: I think the other difference is that you would not see new services starting to emerging economies and the problem with new services is that they are marginally profitable and they really could not stand the cost of the slot trading which goes on at the moment. The figures for Continental airlines which are being banded about, 20-30 million a pair of slots, if you were trying to start a new service before, somewhere in the States, for example, it is just impossible, it just does not make sense. So you would find that London increasingly would be serving the existing well-established routes with high volumes and the emerging economies would just be kept out. They would go to Schiphol and Frankfurt, maybe even Paris.

Q21 Mr Wilshire: But not to Stansted or Luton, or Gatwick?

Dr Bush: You might get some tourists long-haul going through Gatwick and Stansted, but I am doubtful that you would get the sort of marginal routes we are talking about.

Q22 Mr Wilshire: The thing that concerns me, if I heard you correctly earlier on when you were talking about this, is that this is really a competition issue. I must stress, I am not now about to say breaking up BAA is wrong, I am neutral on that and this is not the point. Earlier on I heard you say that at the other airports, at Gatwick, people have tried at Gatwick to build up a route structure and it has not worked, people have tried at Stansted to build up a route structure and it has not worked. Then we were told that no airline has ever moved from Heathrow to Stansted. It leaves me puzzled. If that is the case, how would competition overturn that, because people do not decide which airport to use because they like the wallpaper in the toilets or they like the restaurants, or they like the car park charges. Surely they choose the airport because of the route structure, so that they can go to where they want to?

Dr Bush: I think what we were saying earlier is that Heathrow would have less competitive pressure on it precisely for the reasons you are identifying—it has, in a sense, unique capabilities, unique routes, unique frequencies there. The process of competition would work very much more at the margin of Heathrow but much more fully with Gatwick and Stansted. You
are right, people go to an airport for the route structure, but to some extent the airlines are perpetually thinking about how to create a route structure that will attract people, often from fairly far afield, so that the things interlock in that way. **Mr Murphy**: There are two ways in which airlines compete: one is in price and the other is in convenience. If you are in the West London catchment area Heathrow is by far the most convenient, but you would go to Gatwick if the price was a lot less, so what you see with the competition, as has happened in Liverpool, Manchester, and in Scotland as well, is that there is a lot of competition between low cost carriers, and they move airports. They move the airports between Luton, Stansted, Gatwick, according to the market and the prices they have to pay to get in. The more traditional airlines, particularly long-haul airlines, have never done this in the London area for the very simple reason that I think the business market yield out of Heathrow is so strong. When I was at Gatwick, Gatwick prices were about 20–25% lower then Heathrow. Not a single airline moved. Certainly in the 1990s the figures I heard was that the average yield for a passenger out of Heathrow on similar services was about £48 more than out of Gatwick, so a very big incentive for the long-haul carriers and the legacy carriers to stay at Heathrow.

**Mr Mans**: If I may make a very short comment, I think there is a limit to the amount of competition that is going to take place once you have broken up BAA is broken up. I do not think we should think that when it happens there is going to be a sudden change. Where I think you will get some sort of change is on the margins where you are trying to encourage new airlines to come in and use a particular airport that you own. You will be much more attuned to the needs of that airline and the traffic they hope to gather, and I think in that respect you get the market operating rather better in the say way as I would argue that one of issues which will not arise again is BAA’s clash with the no frills airline, such as Ryanair at Stansted. If Stansted is owned by someone other than BAA, I can see the owner being much more attuned to the particular type of model that people like Ryanair have built up with their route structure, with perhaps not the same amount of infrastructure, the same amount of baggage handling or the same amount of overheads. So I can see a bit of competition on the margins but I do not think we should read too much into it.

**Q23 Mr Wilshire**: Can I take you back to the question of the White Paper and pursue that, particularly on the economic case. It has been said several times that the economic data is not as good as some of the other data, that it is out of date, and we had yesterday a group of business people saying much the same thing. What is your view of the quality of the economic data which is available which underpins the case for a third runway at Heathrow?

**Dr Bush**: Forecasting is often a matter of judgement. It is a matter of judgement of what you put in. There are the particular modelling capabilities. The modelling relationships may change. We find, as we were pointing out, aviation is a very fast-moving industry and circumstances change. Circumstances have changed a lot over the last three or four years. All of that has to be looked at. What that means is that if you are trying to forecast for individual airports as opposed to aviation growth as a whole through the economy, that will be much more difficult to do. You will get much more variability forecasting Stansted, Gatwick and Heathrow than you would for the whole economy, so you can have a reasonable go at the broad growth of aviation, although even in that there will be some perturbations. What you then say is that in relation to the individual airports Heathrow tends to be a more solid proposition. Its traffic tends to be less variable than, say, at Stansted and now at Gatwick, partly because, as Vernon says, it is very attractive. Airlines tend to move in, backfill any slots which become available, as the Americans have done in transferring their services from Gatwick. Gatwick, correspondingly, has lost out from that type of arrangement. So I think it depends precisely what you are forecasting, but you have to admit there are always ranges around forecasts and anyone who thinks they have got a pinpoint forecast for 2030—

**Q24 Mr Wilshire**: It was not the growth predictions, it was the argument about the importance of aviation to the British economy. I know perfectly well the importance to a Heathrow constituency because I represent one, but I keep hearing that the quality of the information about the importance is not as robust as some people would like. Is that a fair criticism?

**Mr Mans**: I think there is always the need for more economic information to get our predictions right but, as I say, aviation is a fairly fast moving occupation and therefore I would not expect it to be 100% accurate. As regards the various businessmen who have written to one of the major newspapers recently commenting on the case for aviation, I think you should look at who is writing because none of them know much about aviation. Some of them are retailers and I am certain if we are deciding where to build an out of town shed I would probably go to someone like the Sainsbury’s boss, but I would not go to him to actually get an indication of the importance of aviation to the economy.

**Q25 Mr Martlew**: There has been a passing reference to it with regard to the reduction in the amount of flights from Manchester to Heathrow because of the high-speed train. I have just attending a meeting at lunchtime where we were talking about high-speed trains from Amsterdam and Cologne. The people I was talking to were railway people, so they were perhaps biased, but their view is that it would take 60% of the traffic. What effect do you think high-speed Continental railways coming into the UK will have on the short-haul, even in the medium term?

**Mr Murphy**: I think the interesting issue is to look fairly closely at what has happened. Japan, France and even Germany are the three countries which are the best examples of this. The resilience of the
Japanese high-speed trains have not actually taken out domestic air services. If you look at the service from Tokyo to Osaka, for instance, there are something like 250 daily high-speed trains. There are also over 100 daily air services between the two places. If you go to France, even Lyon still has seven flights a day to de Gaulle. Marseilles has about 16 to 18 flights a day, despite the TGV.

Q26 Mr Martlew: But this will be people who are interlining, though, will it not?
Mr Murphy: Yes, exactly. What has happened is that about 80% of the market goes on high-speed and about 20% of the market stays with air. That has already happened on Paris-London because for about three years the airlines kept flying services to keep the slots until Bermuda 2 was abandoned, so you found Air France and British Midland were slot warming on Paris—because it is a route you can do that, you can offer low fares and actually get some reasonable loads—until they started using the slots for other destinations. But Paris-London now is largely point to point which is all about Eurostar.

Q27 Mr Martlew: You can see that happening with, say, Amsterdam?
Mr Murphy: Amsterdam is the only European destination at the moment which looks a really good bet for high-speed rail from London to replace air.
Dr Bush: Could I just add a point about people suggesting that somehow a high-speed rail link gets away from the need for a third runway, because I think you have to look at the proportions there. With something like the UK mainland (i.e. taking out the bits you have to get across the water for) about 11% of traffic is domestic, so if you assume that not all of that would migrate to high-speed rail because people still might, for various reasons of convenience, even if there was a good rail service, want to travel by air, then you are dealing with a proportion of that 11% that might migrate to a high-speed rail link. Now, if you then say 5%, just for the sake of argument, that is quite a small proportion in relation to the shortage of capacity at Heathrow, because you have to remember that at Heathrow what one wants to do, if possible, is to create a certain amount of headroom anyway to try and improve the resilience of the airport. So you could probably find the high-speed rail being put in and simply not generating any new flights but just improving the resilience of the airport, but it is a very high cost to pay for that very small increment in capacity.

Q28 Mr Martlew: Can I go on to something totally different—passenger protection? We have seen various airlines go down and this Committee—and I disagreed with the decision—suggested putting a levy on to make sure we get the passengers back. Is that still viable, and even more important, perhaps, Dr Bush, are we not in the situation where the tour operators, as opposed to the airlines, could well be in trouble because the amount of levy that there is will not cover the major tour operators going bust?

Dr Bush: The CAA is actually now consulting on putting up the levy.

Q29 Mr Martlew: That is because you do not think there is enough in there?
Dr Bush: Exactly. There has been the failure of XL and the general trend of the economic recession means that the position is a lot more fragile than it looked, obviously, when the new arrangements came into force and so the CAA is now consulting on the possibility of putting up the levy from £1 to £3 per passenger.

Q30 Chairman: Dr Bush, could you tell me, is the Air Travel Trust Fund in trouble?
Dr Bush: It is not so much in trouble—

Q31 Chairman: But there have been newspaper reports, have there not?
Dr Bush: I think what we are saying is that in order to prevent it getting into trouble we are consulting on putting up the levy on the tour operators.

Q32 Mr Martlew: If one of the major tour operators went down this summer, which hopefully will not happen, is there enough money to cover getting the people back and paying the monies?
Dr Bush: There is sufficient money in there at the moment to deal with what needs to be done. What we need to do is put it in a more robust position looking forward and given the risks—

Q33 Mr Martlew: Let us just say, the doomsday scenario, that there is not enough money. Would you suspect the government will bare the losses, the country of government?
Dr Bush: I think in those circumstances—there have been government guarantees on the trust, but the trust has to be met out of funds that come from the tour operators, as opposed to the airlines, could well be in trouble because the amount of levy that there is will not cover the major tour operators going bust?

Mr Mans: I actually think they are. I have a pamphlet here which if you like, Chairman, I can hand round to the Committee. It is the Greener by Design annual report which came out last week.
Q36 Chairman: You could leave it to be handed out after the meeting. Thank you.

Mr Mans: Just to give you a bit of background, we formed Air Travel—Greener by Design ten years ago together with assistance from the Society of British Aerospace Companies specifically to look at the challenge which we believe the environment posed to aviation and about three years ago now; as a result of the work done through the then DTI and the aerospace innovation growth team, we reckoned that if you took quite radical technological advances into account, improved air traffic management, you could actually reduce emissions in 2050 to the same level as they were in 2005. More recently we have been saying that if you take into account sustainable biofuels—not all biofuels but ones that come from sustainable sources, in other words not ones where you chop down the rainforest in order to get the fuel—we could even get them below the level in 2005 despite the expected increase in aviation that is likely to take place between now and the middle of the century. I do not want to underestimate the challenge, though, which exists. It means some radically new designs of aircraft, composite materials, ledged wing bodies, open rotors, unducted fans, in terms of engine design, just to mention a few, but I think it is a possibility. One of the other things that I think is fascinating about this is that this is a global problem, these are global emissions, and if you can actually generate the technology here, or indeed in Europe, then it migrates very quickly across all new aircraft across the world because there are only two major manufacturers, Airbus and Boeing, and two other supporters, Embraer, the Brazilian manufacturer, and Bombardier, the Canadian manufacturer. So if you produce a better engine, a significantly better engine—and unducted fans have the opportunity of reducing fuel consumption and increasing efficiency by 20%—then that migrates pretty quickly across a lot of new aircraft across the whole world fleet. So I think there is a real opportunity for us in Britain and in Europe to really make a difference across the world fleet in terms of technology over the next 20 or 30 years.

Q37 Sir Peter Soulsby: Do you really think the incentives and the regulation are likely to be there to drive the investment in that technology?

Mr Mans: I think there are some quite difficult decisions to be taken. Just to give you one example, if you focused on noise you probably would not go for an unducted fan, you would go for a gear fan. That has less fuel efficiency built into it, a less improvement of fuel efficiency built into it, but you probably get a lower noise from it, but even an unducted fan with the developments that are taking place will still be quieter than today’s engines. So there are some decisions you need to make as to the type of regulation, but I would argue, particularly with global emissions, that if you can pump enough resource into the technology then the more efficient engines will encourage an increased fleet turnover so that you get more modern aircraft and the older ones being retired earlier, simply because airlines can see the economic advantage of having a brand new aircraft with much more efficient operating capabilities.

Q38 Sir Peter Soulsby: Just to pursue that point, do you think the Government has yet done enough to ensure that the incentives and the regulations are there?

Mr Mans: You would expect me to say, “No, we’d like more,” like everybody does. I think the Society would very much like to see a lot more money spent on new technology. I am not decrying what is going on at the moment, it is very commendable, but we would like to see a lot more developing new technology in Britain, what I would call environmentally friendly technology, which will allow us to reach that goal of reducing emissions in 2050 to the same level they were in 2005, and alongside that extra investment, yes, I think we have to look very carefully at the sorts of regulations which would benefit the introduction of new aircraft more quickly. As an example, if you have a system where it paid people, rather like a scrapping policy similar to the car one, if you actually managed to increase the value of aircraft at the end of their operational life so that they can be taken off the books of airlines more quickly, that may well be something which could help as well.

Q39 Chairman: The Sustainable Aviation coalition suggest that CO₂ emissions can be reduced to 2000 levels by 2050 through a combination of technology and biofuels. Do you think that is actually achievable?

Mr Mans: Yes, I do. As I say, with a lot of new technology I would also like to see greater emphasis on improving air traffic management. There is an opportunity there of straightening out the routes across Europe, reducing the amount of holding time on the ground. Yes, this is a challenge, but this industry over the last hundred or so years of its existence has had a number of challenges in terms of safety, in terms of viability, in terms of actually flying far enough and fast enough. I just believe this century’s challenge for aerospace is the environment and I think we can meet that challenge in the same way as other challenges have been met in the past, so the answer, Chairman, is yes.

Q40 Graham Stringer: This Committee—and I am sure you will remember, Dr Bush—was critical of the Open Skies agreement with the United States—I cannot remember the exact words of our report but we felt it was biased in favour of North America and we were worried about the impacts in Scotland and the English regions. Now that we have had the Open Skies policy running for some time, have you done any assessment on the economic impacts of the Open Skies?

Dr Bush: We have not yet, but we are beginning to undertake one. Open Skies has been running for about a year, I think, and we are going to undertake one and certainly if the Committee is interested in the context of this inquiry we will try and bring that forward.
Q41 Graham Stringer: That would be very helpful, both in terms of the claims that were made for the policy, for index to growth, overall growth, that it might have a detrimental impact on Scotland and the English regions. If the Committee could have an early sight of that, that would be very helpful.

Dr Bush: We will need to complete it first, but we will certainly try and bring that forward to fit in with the Committee’s timetable.

Graham Stringer: Thank you.

Q42 Mr Wilshire: Would any of the three of you disagree with the proposition that aviation is such a global business that the unilateral imposition of things like VAT and duty would actually have minimal environmental benefit and very high economic damage for the country that did it?

Dr Bush: I agree with one strand of that, which is that in an international industry like this you cannot have environmentalism in one country, so whether it is talking about VAT or we are talking about some of the things Keith was talking about, you have got to have pressure from a lot of countries to get the sort of environmental effects and benefits which the Government is aiming for. In terms of the damage done by, say, putting VAT on in one country—and we have obviously been running an APD policy here—we have looked, just cursorily really, at whether you could track any changes in trend in terms of growth from APD increases—not, obviously, the most recent ones but, the years since the mid-1990s and we have not really been able to see any. So it has not been clear that there has been much of an impact in terms of passenger growth. In a way that is not surprising because if you think about why people travel abroad, they do not get on a plane just to fly, they get on a plane to take a trip abroad, a holiday, and therefore even the total fare is a relatively small proportion of the total trip cost and APD is an even smaller proportion of that, and a change in APD is an even smaller proportion than that. So the main driver of aviation growth tends to be income over time. That is what drives it and relatively small changes, or even quite significant changes in price may have a short-term impact but actually do not, up to a certain point, seem to affect the long-term trend.

Q43 Mr Wilshire: But will you not have an opportunity to test that? If I decide to take my family of four on an intercontinental holiday in the summer I can easily find myself having to pay about £500 between the four of us, or even more, on tax and duty and other things. Now that the Dutch have abolished their passenger duty because of the price of their airlines, if I was to do the same holiday by going from Heathrow to Schiphol, thus paying the minor amount of duty, and then going from Schiphol on my intercontinental holiday, would I be alone in seeing that I could save £500 and find lots of other people doing the same thing?

Mr Mans: I think you make a very good point, Mr Wilshire. You may have seen that we wrote an article in one of our journals a few months ago on this very point. I think the jury is out. At the moment, I agree with Harry, there has been no evidence that the imposition of APD has made a huge difference to the natural economics of airlines. However, it may well be that this latest change could have that effect and I think what we need to do is to monitor very closely the change which could take place with people doing precisely what you are saying, actually taking a short-haul flight to somewhere in Europe and then flying on to your destination on the other side of the world and actually avoiding the vast majority of APD. Whether or not what Harry says is right in terms of the overall effect it has on the cost of that trip we will have to wait and see, but I think it should be monitored.

Q44 Chairman: I would like to ask you now the final question, if you could give me very brief answers, please. If the UK’s transport needs could be met through other European hub airports rather than Heathrow, should that worry us?

Mr Murphy: Yes. I think this is a very real danger, particularly with including premium economy fares in the higher level of APD.

Q45 Chairman: Yes, but should it worry us? I want you to answer the question very briefly, please. We have not got long left. If that should happen and we would allow Heathrow, say, to decline, certainly not to expand, because transport needs could be met by other European hub airports, is that a problem for the UK?

Mr Murphy: I think it will push a significantly growing amount of traffic onto the Continent.

Q46 Chairman: Is that a problem?

Mr Murphy: This will in fact, I think, neutralise one of the benefits of aviation to the UK economy, which is that you have probably two of the most successful European airlines, Virgin and British Airways, based in this country and the basis of their success is the quality of their product. The quality of their product will be much more expensive and I think it will affect them significantly.

Dr Bush: I think it is quite a difficult counterfactual because I am not sure you could meet all the needs, but to the extent that you have vibrant hubs a very short distance away then you could meet some of our needs, but I think one of the issues would be that you might reduce, for instance, frequency and other benefits from Heathrow, which would have a detrimental effect. So it is more those second round effects of reducing the density of traffic and the quality of traffic going through Heathrow that might have an impact rather than the fact that some people are travelling through overseas hubs. I do not think we should seek to capture aviation business for its own sake but really rather for the benefit it brings to the passenger.

Mr Mans: Yes, I think it would. I do not think it would inconvenience passengers too much, but I think it would have an effect on the growth of the UK economy.

Chairman: Thank you very much for coming and answering our questions.
Q47 Chairman: Good afternoon, gentlemen. Could I ask you to identify yourselves, please, for our records?

Lord Turner of Ecchinswell: I am Lord Turner, Chairman of the Climate Change Committee.

Mr Kennedy: I am David Kennedy, Chief Executive of the Climate Change Committee.

Q48 Chairman: Thank you. Could you explain to us what role you have in relation to aviation and how that differs from the role of other organisations? What do you add to it?

Lord Turner of Ecchinswell: As you know, the Climate Change Committee overall has a responsibility to recommend to the Government what the UK carbon budgets should be, what the target reduction by 2050 should be, and at any time for 15 years ahead what the three sets of budgets should be, and we have responsibility to make that recommendation on the basis of an understanding of the economic impact of that, what is feasible, what is technically possible, what is economically possible, etcetera. We also then have a responsibility for monitoring progress against those budgets over time with annual reports to Parliament. That process in itself will cover aviation like any other sector of the economy, so that the first report of the Committee, which we produced last December, has a chapter on international aviation and shipping which addressed the issue of whether and how international aviation and shipping should be included in our 80% target and our objectives for 2020. We can go through, if you want, the conclusions we reached on that, but basically in some way they have to be accounted for and they have to certainly be within our 80% reduction target by 2050. So we will definitely be looking at international aviation like every other sector of the economy, so that we take account of the evolving international environment as we recommend what the budgets should be for the UK. Our main focus is driven by the Climate Change Act. The Climate Change Act says that the UK will have statutory targets for reduction. Our main focus is recommending what precisely those targets should be and then recommending in detail the practical policies by which we are going to hit those targets and those budgets once we have adopted them.

Mr Kennedy: There is a very small part of the aviation review which we are doing this year where we were asked that, at a high level, might a global deal look like and so, for example, we will consider is cap and trade better at a global level, or should aviation be included in national targets, but we have stressed in our letter to Geoff Hoon, for example, that we will keep this analysis very high level and that the focus of the review will be UK aviation emissions.

Q50 Chairman: Do you think that the Government’s current position is credible? The Climate Change Act requires 80% cuts in CO₂ emissions by 2050, yet the Government is set to allow aviation to expand. Is that a credible position from where you are?

Lord Turner of Ecchinswell: We are not directly involved as a committee on advice ahead of Copenhagen. Obviously what we have said in our report has implications for the Copenhagen summit, but we are not in the sort of front line of the UK Government, parliamentary or whatever process as it relates to international negotiations. Broadly speaking, we keep ourselves aware of what is going on at the international side of negotiations on the climate, and indeed they had a crucial influence on the recommendations we made last December where we mirrored the negotiating stance of the European Union at Copenhagen, which is a willingness to make a 20% unilateral commitment but 30% within the commitment for the context of a global deal, and we mirrored that within our recommendation for the UK budget, which should be a 34% cut unilaterally by 2020 but 42% if there was a good global deal. So it is not really the case that we directly feed into the UK negotiating or any other stance at Copenhagen, it is more that we take account of the evolving international environment as we recommend what the budgets should be for the UK. Our main focus is driven by the Climate Change Act. The Climate Change Act says that the UK will have statutory targets for reduction. Our main focus is recommending what precisely those targets should be and then recommending in detail the practical policies by which we are going to hit those targets and those budgets once we have adopted them.

Q49 Chairman: Can you tell us any more about what you are doing in preparing advice for the Copenhagen summit, what work you are doing in relation to that?
million would be aviation? The answer is that it is not completely incredible because clearly it is sensible within a total budgeted amount, an allowable amount and an allowable amount per capita, to focus our use of carbon, our carbon budget, on those areas where it is most expensive to find non-carbon ways forward. Therefore, we would very strongly believe that the optimal path to an 80% cut by 2050 is likely to involve more than 80% cuts in some sectors—for instance, we think it is quite possible that carbon emissions from the electricity generating sector could be down 90% by 2050 and some other sectors, which might include aviation and might also include agriculture, where there is a less than 80% cut. What we will be doing, however, this year is refining our point of view on, firstly, how we hit that target, and secondly, is it compatible with an 80% reduction. Clearly, that involves a point of view on the other hard to reduce sectors. At the moment we would probably have aviation, shipping and agriculture as specifically being the hard to reduce sectors. Now, one thing you need to do there is an exercise to see if the hard to reduce sectors came to more than 100% of the allowable budget by 2050, because then you have got a problem. We are thinking about that, but it is not totally impossible that an optimal path might be 80% overall reduction but within that considerably less than 80% reduction for aviation.

Q51 Chairman: I noticed the words you used before. You said it was not totally incredible to reach the Government target. Are you saying it is not absolutely impossible for the other sectors to make that major leap?

Lord Turner of Ecchinswell: Yes.

Q52 Chairman: Is it reasonable that that might happen?

Lord Turner of Ecchinswell: This is something we want to look at more. Let us take electricity generation. We think it is actually not only not impossible but very feasible and a highly desirable aim in any case that we should be aiming to reduce certainly the carbon intensity of our electricity generation by at least 90% by 2050. By the way, also then probably applying electricity to parts of the economy where it is not applied at the moment, such as surface transport. Put it this way: I am absolutely sure that the optimal path will involve for electricity a reduction considerably higher than 80% and I am also sure that the optimal path will involve a reduction in aviation which is not as high as 80%. Now, whether it can be flat or whether it has to be a reduction but still not a reduction of 80% is something we need to keep reviewing over time.

Mr Kennedy: Just to add, we set out a scenario in the December report where if aviation emissions in 2050 are back at 2005 levels we need a 90% emissions reduction in the sectors of the economy that are not aviation and we set out how we thought we could achieve a 90% reduction. So there is a plausible scenario which we have already set out there.

Q53 Mark Pritchard: Taking the economy as a whole—you have mentioned electricity, some transport sectors—and the country as a whole, do you think selecting, let us say, a figure of 34% reduction in CO₂ emissions by 2020 is pessimistic or perhaps a little too optimistic?

Lord Turner of Ecchinswell: We set it out as the recommended budget and the Government has now said that it accepts it as the recommended budget and indeed it will be producing an appropriate resolution of Parliament to confirm it as the budget. So we believe that 34%, which is not from today but 34% below the 1990 level, by 2020 is doable. It does require a lot of action. It requires the delivery of the renewable energy target, it requires the significant, rapid progress on transport system carbon emissions reductions, with new cars coming down to below 100 grams per kilometre. By then it requires some element of a large programme of insulation in buildings, but what we have done in the report, at a pretty detailed level, is set out why that is technically and economically doable, but clearly it will require the policy levers that make that happen to be continually pulled on an aggressive basis. It will not happen naturally, it requires Government policy, but we believe it is certainly possible and possible at a very relatively low cost to the economy.

Q54 Mark Pritchard: So you accept that there are necessarily obvious imponderables or variables which can impact upon achieving that target? It would be a matter of Government action or inaction?

Lord Turner of Ecchinswell: That is the whole purpose, of course, of the budget device, which is set out in the Climate Change Act. It is such that once we have recommended to Government, once the Government has accepted and put through Parliament that budget, it is then a statutory commitment of the UK Government and our annual reports on a year by year basis will be tracking whether we are on target to meet that budget over the first three periods and we will obviously in our annual reports be flagging if we think we are off-track to doing it and talking about in which sectors we are off-track and what policies are required to get back on-track. One of the exercises we will be doing for our regular annual report this year in September, the one which covers all sectors rather than the one which covers aviation, is that we will be taking each of the sectors of the economy and setting out what are the intermediate targets which we would have to be hitting on the route to 2020 in order to hit the 34% reduction by 2020. Let me give you an example. In renewable energy we are not going to simply wait until 2020 and say, “Is there 25% of electricity coming from renewable energy?” We will be saying, “Well, if that is to happen by 2020, this many wind farms have to have put in planning applications by 2015, this many have to have started construction.” We are going to try and create for each sector of the economy a set of forward variables which we can track, which we know we have to hit if we are going to have to hit the budget.
Q55 Mark Pritchard: But would you say they are achievable targets given the delays, for example, previously in the Renewable Fuels Obligation, or would you say they are robust aspirations?

Lord Turner of Ecchinswell: No, we think they are achievable. We think they are completely achievable targets. We have no doubt that the intended budget for 2020 is an achievable budget.

Q56 Mark Pritchard: But given that you have mentioned electricity and renewables, then obviously we are looking at aviation and transport issues but there is the cumulative impact of emissions across the country as a whole and given that you have touched on energy I just wanted to ask you about coal. Given that I think it was Tony Benn, a former minister, who said there is a future for coal and that was his last comment on the issue and given that we are likely to see in the UK the extraction of coal in old coal sites, to what extent do you think that will impact upon the overall targets you mention, given there were only a few pilot schemes announced a couple of weeks ago for carbon capture and storage, and yet energy companies, energy security issues, are really creating a demand for high sulphur content British coal to be burnt before that technology is in place?

Lord Turner of Ecchinswell: The situation on coal is that when we set out our vision of how to hit the overall targets by 2050, we placed a lot of emphasis on the decarbonisation of electricity generation and talked about the need to get that below, say, 100 grams per kilowatt hour by 2030. To achieve that we will need to have a mix of renewables, nuclear and coal, but only coal with carbon capture and storage and we are clear that the vision we have set out cannot have coal plants without carbon capture and storage continuing on into the mid and late twenties.

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Q57 Mark Pritchard: Finally, my belief is that we have too many diesel trains, only a third of our network is electrified, perhaps one of the lowest electrification of networks anywhere in mainland Europe. To use a fashionable word, do you think that is a lamentable record, one, and two, how do you think the lack of electrification is going to add to the targets you have set out today?

Lord Turner of Ecchinswell: I cannot give you a precise answer on that. We did look at the issue of electrification of the railways to a small extent and I am just trying to remind myself on that particular issue. It is an issue which we will be coming back to this year because within the context of aviation one of the issues we will be looking at is how much it is possible to move from aeroplanes to high-speed rail and how much of a difference that would make. Somewhere in there it does have, I know, the rates for diesel and electricity, and clearly it would help to drive greater electrification.

Q58 Mark Pritchard: To be helpful to you, we can read the statistics and figures later on, but perhaps you would like to set the principles?

Lord Turner of Ecchinswell: The principles are always that we are trying to find out what is the cost-efficient way of doing it. At the present time, the figure is that diesel is about 75 grams of CO₂ per passenger kilometre carried. At the present time, with the average mix of electricity that we have at the moment, electricity would be about 50 grams per kilometre. So at the moment it would be important to move, but if you multiplied that it would not be an enormous figure. The point is that as we decarbonise the electricity, the relative advantage of moving to electrification of the railway system shifts significantly. Therefore, we certainly would like, alongside the decarbonisation of electricity, to be essentially increasingly electrifying as much of surface transport as possible and that relates to both the railway system and, as I have said, to much of the car and light van fleet.

Q59 Graham Stringer: Does your Committee have a view on airport expansion?

Lord Turner of Ecchinswell: We have been given a particular responsibility for airport expansion in relation to Heathrow runway three in that the capacity of the runway could increase the flights from Heathrow from 480,000 to a little over 700,000 a year at full capacity. The Government, when it said it would go ahead with Heathrow runway three, said that it was already agreeing that, 125,000 of those flights, those slots, would be definitely allowed but that they would only go ahead with the full capacity slot release, the subsequent 100,000 or so slots, subject to the advice of the Climate Change Committee as to whether that was compatible with the aviation emissions flat at 2005 level. So clearly that is an issue which we are now going to look at in great detail this year. We will send this year and will produce by December a detailed report on aviation which will model what would happen to demand and emissions if we were not constraining it, how much of those emissions could be cut by modal shift to
railway systems, how much of that demand could be offset by technologies other than biofuels, how much could be offset by biofuels but within the constraint that the biofuels have to be sustainable at a global level. Once we have done all that, we will then end up saying, “What does that imply for what would happen to emissions from aviation if we did not constrain demand either by just refusing to build more capacity or by a price mechanism of a constraining demand?” I think one of the most important outputs of our report in December this year will be whether we believe there are technological ways of achieving these targets while having continued on-trend growth in aviation demand or whether we are only going to hit these targets by, in some way, constraining demand. So within that we will then look at the issue of airport capacity. That is how we will come to it within that total point of view.

Q60 Graham Stringer: I understand there is a lot of evidence that price restricts demand, reduces demand. What is your evidence that restricting runway growth reduces demand and just does not displace it elsewhere?

Lord Turner of Ecchinswell: I think it is almost certainly the case that you have to then get very precise about which types of runway capacity you are limiting. Clearly, if you are limiting runway capacity in a major hubbing airport—

Q61 Graham Stringer: Let us talk about Heathrow.

Lord Turner of Ecchinswell: Yes. Then it is possible that you may simply produce a shift to another country because international flights will hub through that, but it is also possible that you will essentially just put up the price of air traffic or make it less available on short-haul flights and people will either take less journeys or they will go a longer distance by rail, because I think one of the variables in this is how far into Europe do you think is the real viability of competition from rail. So I think the issue of the displacement to other countries is entirely an issue to do with the hubbing of international flights. I do not think we are going to have people driving to Paris to catch a plane. It is to do with people coming into Heathrow and then going on from Heathrow.

Q62 Graham Stringer: If you do not mind me saying so, that was quite a speculative answer to a specific question about what is the evidence that you will not get displacement to Manchester, or to Paris or Schiphol.

Lord Turner of Ecchinswell: The answer is, because we have just literally started on the work for this report in December these are precisely the sorts of issues we are going to look at, so we do not know what the evidence is on that because this is work we have just started.

Q63 Chairman: Are you going to be looking at this area specifically?

Lord Turner of Ecchinswell: We will certainly be wanting to make sure we understand the demand pattern of how much of the demand is British people coming in and out and how much is hubing traffic. That is one of the things we have to understand in our pattern of demand.

Q64 Chairman: How are you setting about that? Are you drawing on other sources of information?

Lord Turner of Ecchinswell: We are doing our own analysis. We now have three consulting projects which we have let. We have got one group of consultants who are going to help us build a demand model with a set of assumptions and a whole load of variables as to how rapidly demand growth will grow and how the different categories of demand growth will grow, separating between tourism and business, hubing and non-hubing, et cetera. We then have another project where we have some consultants helping us, which is on the specific issue of modal shift. Now, that involves a very careful look at of all the flights leaving the UK how many are going to Continental European destinations where you could possibly imagine that there is a replacement of air traffic to rail traffic and one would have to make a judgement as to what is the maximum possible hours beyond which you will never get that shift. Obviously a crucial issue there is the potential to change domestic air traffic by changing the nature of high-speed rail links, for instance into Heathrow from elsewhere into the UK so that people travel by rail to Heathrow rather than by plane to Heathrow. So we are developing with consultants fairly detailed models of what the demand patterns are, which have to involve all these points of view as to whether these are types of demand which can be constrained either by airport capacity constraints or by price constraints, which will be different according to the different nature of the demand.

Q65 Chairman: When do you expect that work to be completed?

Lord Turner of Ecchinswell: This is December. We are producing a report in December.

Q66 Chairman: It will be produced on time?

Lord Turner of Ecchinswell: Oh, yes, we will produce a report on aviation in December and I think by then we will be better able to answer these questions. I think you have to understand that in what we did last year aviation was one amongst all the sectors. It is, as it were, 15 pages out of this 500 page report, but by December we will have a report specifically on the aviation sector. That is what we are working on this year.

Q67 Graham Stringer: Would you accept that where we are now is that there is clearly restricted access to Heathrow? There is evidence, because of passengers using other hubs, and cargo for that matter using other hubs, that it may well be that the current restrictions are increasing carbon dioxide capacity because Heathrow is constrained?

Lord Turner of Ecchinswell: I do not know whether that is the case. I think that is something which we should not comment on until we have looked at it further. We have not looked at it in that degree of detail.
Q68 Graham Stringer: I think that is very wise. Do you think Lord Stern was as wise when he stated that airport expansion went against efforts to reduce greenhouse gas emissions?

**Lord Turner of Ecchinswell:** I think you have got to distinguish between very specific airports where you could have issues of linkage to other parts of the country versus—in general it is clearly the case that if we constrained the capacity at all our airports versus if we increased capacity at all our airports by 30%, the latter policy would clearly make it much more difficult to hit our aviation targets unless you increased the capacity but then did not allocate the slots. So I think when you are talking about a specific airport you do have to think through what is the impact of that on shifts from other airports, but restricting airport capacity in general, the total number of slots of take off or landing out of the UK, will be a mechanism by which you could tend to constrain carbon emissions. I am sure that that is the case.

Q69 Sir Peter Soulsby: When he was giving his evidence earlier on, Mr. Mans, the Chief Executive of the Royal Aeronautical Society was really quite optimistic, quite upbeat about the potential of a combination of biofuels and practical efficiency measures and, perhaps most importantly, technology to hold down emissions. You have told us that this is obviously going to be part of the report you are doing for the end of December, but I just wonder if you could give us an initial view as to whether the prospect of a technological fix is a realistic one in the sort of timeframe we have to achieve this.

**Lord Turner of Ecchinswell:** This will be also a subject which we did begin to look at last year and will look at in much more detail this year. I think you have to break it down into technological fixes whilst still making the plane run on fossil fuel-based aviation kerosene and biofuel based or other new fuel based fixes. On the former, technological fixes without biofuels, we did set out in the last report a whole series of fixes. On the latter policy would clearly make it much more difficult to hit our aviation targets unless you increased the capacity but then did not allocate the slots. So I think when you are talking about a specific airport you do have to think through what is the impact of that on shifts from other airports, but restricting airport capacity in general, the total number of slots of take off or landing out of the UK, will be a mechanism by which you could tend to constrain carbon emissions. I am sure that that is the case.

**Mr Kennedy:** We have a headline figure that in 2025 a plane could be 40–50% more efficient than one in 2006.

**Lord Turner of Ecchinswell:** Once you have done that, you have then got to do two things. First of all, you have got to make sure that in our underlying business as usual projections which people have how much of that has been assumed already, because often when people give you business as usual assumptions they have got an efficiency improvement within that, so we have got to make sure we do not double count. The other thing is, once we have refined that point of view and really worked out how much of that is doable, one also has to work out how rapidly that will come into place, because of course the figures which are often quoted are, “How much more efficient will a new aircraft coming into service in 2030 be versus a new aircraft coming into service today?” But that is a different question from, “How much more efficient will the average fleet running in 2030 be than the average fleet running today?” So on this piece of work we will be developing a stock and flow model of, “Given the pace at which aircraft are replaced, how does the improvement in the efficiency of new aircraft roll back into the average fleet efficiency?” So that is what we will be doing. Conceptually what we are trying to do here is we are saying, “Here are our 2005 emissions,” let us say 37 million tonnes. If we did nothing, maybe they would grow to 70 million tonnes with demand growth and that comes out of our demand forecast. We are then adding some wedges which say, “Okay, how much can we bring that down by credible efficiency improvements?” So first we do that with things which are not changing the fuel use. Then changing the fuel use, I think it is almost certainly the case that biofuels will be a technically feasible possibility at some cost to get an aircraft off the ground. The big issue with biofuels, I suspect, therefore, is not the technical feasibility or even the cost, it is the sustainability impact of that, and there you have to have a global basis. What I do not think it is legitimate for us to do is to say, “Okay, if we want to replace 20 million emissions with biofuels, that’s okay, because I work out how much acreage of the world is required for the biofuels to replace 20 million emissions,” as if, as it were, we are the only people who are going to be laying claim to that. So this is where we will have to take a global point of view and we will have to have a global point of view on what could happen to global aviation emissions and then say, “Okay, if we want to replace 20 million emissions with biofuels, that’s okay, because I work out how much acreage of the world is required for the biofuels to replace 20 million emissions.”

**Q70 Sir Peter Soulsby:** So if the technological changes which are suggested to us are in fact potentially feasible, is it going to require a fairly significant change in the incentives and the regulations, and indeed perhaps an aircraft scrapping scheme to ensure that it is actually adopted in a way that is effective?

**Lord Turner of Ecchinswell:** Once one works out what is possible, we will then have to think through what the policy framework would be. Of course, one of the things which will drive it is that aviation is being included in the European Emissions Trading System. I think that is very wise. Do you think Lord Stern was as wise when he stated that airport expansion went against efforts to reduce greenhouse gas emissions?
Scheme and will be, therefore, subject to a carbon price. That carbon price we believe will steadily increase over time as the Emissions Trading Scheme is tightened. It will go steadily up through the 20s, 30s and 40s and therefore a logical airline thinking about what it will buy as an aeroplane in 2025 should be thinking about the impact of that price. So partly it comes through the price and that in itself might encourage a more rapid turnover, the economic of when you optimally replace an old aircraft will be somewhat changed by that. Whether there are other policies required, I think we do not know. What we want to do at the moment is a very model-intensive exercise which sets out all the figures of what needs to be achieved, which I think will then inform the public policy debate about how we actually achieve it, whether at a UK or at a global level.

Q71 Chairman: Lord Turner, you are leaving the Climate Change Committee at the end of the year, your decision. Should we read anything into that?
Lord Turner of Ecchinswell: I am not leaving the Climate Change Committee, and indeed the arrangement has been that it has been agreed I would at some stage leave the Chair of the Climate Change Committee, but it has been always clear that I would stay on the Committee, and indeed highly likely to stay as Deputy Chair of the Committee. The specific decisions about the timing of this are with the Secretary of State to consider.

Q74 Chairman: Could I ask our witnesses to identify themselves, please, for our records?
Lord Smith of Finsbury: Chairman, than you very much. I am Lord Smith, Chris Smith, Chairman of the Environment Agency. On my left is Paul Leinster, Chief Executive, and on my right is Tony Grayling, Head of Policy.

Q75 Chairman: Thank you. Can you reassure us that the Environment Agency has the resources and the expertise to address its functions in relation to aviation? Could you tell us what your major work will be?
Lord Smith of Finsbury: The answer is, yes, although of course our responsibilities that we have been specifically asked to undertake in relation to the future development of Heathrow will not actually clock in until any third runway is up and running, but we will adopt exactly the same very professional approach to the monitoring and regulation of emissions that we do for any large scale industrial plant or power station, of which, of course, we have very considerable expertise and experience.

Q76 Chairman: You have got the resources, including the expertise, to do all that?
Lord Turner of Ecchinswell: Yes, although we will, of course, need to have the dedicated personnel specifically relating to Heathrow as and when they are required.

Q72 Chairman: Should we read anything into that decision then?
Lord Turner of Ecchinswell: Oh, no, no, no. Look, it is absolutely clear. I was asked to do the job of Chair of the FSA. There is a global financial crisis going on which takes up a certain amount of time! So there is simply the matter of the ability to balance these jobs. If I was not doing that job, I would have absolutely no intention of doing anything other than staying as Chair of the Climate Change Committee, and indeed even if it ends up as Deputy Chair I will stay very committed to it in the slice of my time which is not taken up with financial activities. The financial services job was, I think, somewhat optimistically described in the recruiting brief as perhaps three, three and a half days. I think it was always going to be four days or so, but it need not be absolutely full-time once the world financial system calms down. When exactly that occurs, when we put up the flag to say that that has occurred, is something we will have to judge.

Q73 Chairman: So you decided to put the global financial crisis ahead of the global environmental crisis! I will not ask you to comment on that.
Lord Turner of Ecchinswell: No, I think as a member and as Deputy Chairman I can continue to make a strong contribution, and indeed over the last six months I have been running the two in parallel.

Chairman: Thank you very much and thank you for coming today.

Witnesses: Rt Hon Lord Smith of Finsbury, 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, gave evidence.
manufacturing, how much by shipping? All of these are potentially carbon-intensive activities. Even if we have de-carbonised the whole of electricity production and shifted all ground transport—trains and cars—to a non-carbon emitting form there will still be major demands for carbon emission from a variety of human activities and precisely where aviation fits into that picture and to what extent seems to me to be the most important question we need to decide if we are looking at the long-term future of the aviation industry.

Q78 Chairman: We have just taken evidence from Lord Turner of the Climate Change Committee and he has told us about various studies which are ongoing into looking at just those points you have made, looking at what contribution could be made by specific sectors. How does your agency link up with the work of the Climate Change Committee in that respect?

Lord Smith of Finsbury: We liaise on a regular basis with the Climate Change Committee. We will provide whatever evidence from our own monitoring experience they require. The work which needs to be done on judging where aviation fits into that overall picture is something which will not just be up to either the Climate Change Committee or ourselves to determine. It is a much broader issue which needs to be decided by Parliament and Government.

Q79 Chairman: So you see yourself as providing information to the Committee as it investigates the impact of the various sectors?

Lord Smith of Finsbury: Yes, indeed, providing information, providing advice. We have a statutory role as the Government’s principal adviser on environmental matters. We will fulfil that role in the future as we have up until now.

Q80 Chairman: The sustainable aviation coalition suggests that the CO2 emissions from aviation can be reduced to 2000 levels by 2050 through a combination of technology and biofuels. Is that something you have any view on? Do you think that is a reasonable assessment?

Lord Smith of Finsbury: In layman’s terms I suspect the answer to that is that we would be overjoyed if that happened. I suspect that it is a difficult success to achieve, but I am going to ask Tony Grayling, who has done a specific study on this, to flesh out that answer.

Dr Grayling: Quite big efficiency improvements are built into the Department for Transport’s emissions forecasts for aviation. They incorporate the advice of the Advisory Council on Aeronautical Research on Europe’s estimate that you could achieve a 40% improvement in fuel efficiency in new aircraft by 2020, so to believe that you could go a very long way beyond that, whilst it is not totally incredible would require quite big technological leaps of the kind that earlier witnesses were suggesting. I would say that we do not have a policy framework in place which will assuredly deliver those kinds of technological changes. Now, we could see that policy framework develop in future and it will require an international effort, but it is not something the UK could do alone. I do not think we can rely on that at the moment.

Q81 Chairman: Do you have concerns about the ability of the EU Emissions Trading Scheme to deliver our targets?

Lord Smith of Finsbury: Yes, in two respects. One, the carbon price which is attached to the scheme at the moment is not really sufficient to drive carbon emissions down in the way we hope in due course the EU Trading Scheme will develop, but at the moment it is not as effective a tool at achieving that as will be required if we are going to meet these very substantial targets. The second part of the answer, however, is that I think it would be foolish and probably wrong for us as a country to assume we can simply export the responsibility for reducing carbon emissions in this sector, or indeed any other sector, by trading our way out of it. Obviously it is a tool which can be used, but it should not be the only tool we look to in order to achieve reductions in emissions.

Q82 Chairman: What other tools would you like to see?

Lord Smith of Finsbury: The progressive reduction in carbon emissions from the obvious sectors where it is possible to make reasonably rapid progress, such as the insulation of buildings, such as the decarbonisation of electricity, such as the development of electrical and hydrogen powered cars, such as the electrification of rail transport, along with progress on technology to reduce emissions from aeroplanes and other emission sources.

Q83 Graham Stringer: I am sorry, Christopher, I missed it, but in your first answer to the Chairman’s question about whether or not aviation met its environmental costs I did not quite catch whether you said yes or no to that.

Lord Smith of Finsbury: I think the answer at the moment is no, I do not think aviation does because the environmental costs of most human activity are not fully reflected in the price we all pay for them and making judgments about how in the future human activities can better reflect the environmental impact they have, these are issues which are going to be very important as we move towards the 80% target.

Q84 Graham Stringer: Can you be more precise and quantitative about why you say no?

Lord Smith of Finsbury: I think the answer to that is the environmental cost in terms of carbon emissions, other greenhouse gas emissions, local pollution impacts such as nitrogen oxide emissions have very substantial consequences in terms of the impact on climate change, in terms of the impact on human health in the local environmental impacts. I do not think those are reflected in the cost which currently is paid by passengers to travel or by airlines properly.
Q85 Graham Stringer: That is a generalised answer, is it not? We know how much the aviation industry pays in tax. We know how much carbon dioxide, noxes, etcetera, are produced. In our written evidence some people agreed with you and other people disagreed with you in saying the costs are covered. What I am looking for is the sort of evidential base that you are tying it back into to say no.

Lord Smith of Finsbury: I am going to ask Tony in a moment to amplify, but the general point I would make is that I do not think at the moment we fully reflect the environmental costs of any human activity in the standard economics that we tend to use for human activities.

Dr Grayling: I guess it is partly because of what you think the price of carbon should be in relation to aviation’s emissions and whether you use the standard shadow price of carbon, and indeed incorporate the non-carbon dioxide impacts of aviation into your calculation, but the last time I looked at it I did not think that you could argue that, for example, air passenger duty was covering the full climate change impacts of aviation, notwithstanding the fact that that tax has been increased recently by Government.

Q86 Graham Stringer: You listened to the discussion we had with Lord Turner about whether or not increasing airport capacity increased or decreased carbon dioxide. I understand you have said that you are against the third runway at Heathrow. Can you take us through your arguments as to why you are against the third runway at Heathrow?

Lord Smith of Finsbury: Yes. Our advice to Government was to express concern about the proposal for a third runway at Heathrow.

Q87 Graham Stringer: I do not want to interrupt, but was it concern or opposition?

Lord Smith of Finsbury: It was concern that led to opposition, yes. The reason was primarily related to the local environmental impacts, the nitrogen dioxide impact in particular, the acceptable level of nitrogen dioxide which will in due course become the legal level and the EU directive is 40 micrograms per cubic metre. Already in the vicinity of Heathrow our monitoring shows us that those are levels which are regularly breached. That is on current numbers of aircraft movements in and out of Heathrow. The proposal to put a new runway in place and to use it for at least 125,000 extra flights a year would, in our view, place those nitrogen dioxide levels at serious danger. In answer to a question you asked of Adair Turner, if a new runway was built and no extra flights were deployed in and out of Heathrow it would actually probably have a beneficial impact on nitrogen dioxide levels because of less taxiing, less stacking, and so forth, but that is not the proposal which is on the table.

Q88 Graham Stringer: As I understand it, a lot of the nitrogen dioxide and other noxes come from cars and some of you think that is wrong. Most of the proposals for reducing our dependency on carbon I think rely on decarbonising electricity production and moving the motivation of cars to electricity, so in a sense if your main opposition to expansion at Heathrow is noxes will that not in itself be cured by the other actions which are being taken against climate change?

Lord Smith of Finsbury: Our current analysis leads us to believe that something like 45% of the nitrogen dioxide created in the environs of Heathrow comes from aviation directly and most of the remainder comes from ground transport. If you move to a complete decarbonisation of all ground transport, then of course the equation changes, yes. However, the chances of that happening between now and the expected date for the creation and use of a new runway are, I would say, rather thin.

Q89 Graham Stringer: But you accept it is a schedule of when those two timetables meet?

Lord Smith of Finsbury: If we successfully make that shift, then levels of nitrogen dioxide from car traffic will fall and will be extremely welcome to us. The other point to make, however, is that whilst our primary focus on Heathrow specifically relates to those local environmental impacts, we do also make the point that you have to take account of the overall impact of the carbon dioxide and other greenhouse gas effects of aviation which would come from increased air traffic at any airport, not specifically just Heathrow.

Q90 Graham Stringer: That brings me to my final point, that in reducing airport capacity there is evidence that what happens is that the passenger or the cargo moves to another airport and there may well be more carbon dioxide produced by just restraining airport capacity. Therefore, you are left with only the price mechanism really to restrict demand, which has the consequence that many of the people I represent, and you used to represent in Islington, would no longer be able to afford to fly. I would just like you to comment on that.

Lord Smith of Finsbury: The equity argument which that represents is a very serious argument and serious issue if you simply approach the environmental goals through the use of a price mechanism. That is not up to us to propose or decide but, for example, one way around that issue might be the creation of, say, individual carbon budgets which you would have a right to as a citizen which you could then deploy for a certain amount of carbon generation, which could be at your choice, the use of air transport. Those are possible mechanism you could use to tackle what is an absolutely genuine argument about the equity impact of just relying on a price mechanism.

Q91 Chairman: The Environment Agency has an enforcement role in relation to local air quality. Have you had any guidance from the Transport or Environment Secretaries of State on how you can enforce that?

Lord Smith of Finsbury: We have. I do not know if, Paul, you want to explain exactly what powers are proposed by the Secretary of State for Transport in relation to our duties on Heathrow.
Dr Leinster: What we would be proposing in this situation is that the operators would come up with a plan, a clear action plan, on how they were going to address the reduction in oxides of nitrogen in particular. As part of that we would need to get agreement from a broad range of parties who were interested, local authorities, the different agencies, because, as Mr Stringer was saying, what we need to get agreement on is the proportion of the emissions of the oxides of nitrogen levels which come from air transport, what is coming from road transport and what is coming from background levels. So we need to get agreement as to that mix, how you monitor it, what success looks like and then what we will be looking for is the operators to demonstrate how they are going to deliver the reduction. We would then monitor the delivery of their action plan.

Q92 Chairman: But are you going to have the powers to ensure that reduction takes place? How can it be made to work?
Dr Leinster: I think in conjunction with the CAA we would have the powers, but we would be giving advice back to the Secretaries of State that we believed, or did not believe, that the action plan was going to deliver what was being required.

Q93 Chairman: So you could not enforce anything, you would be giving advice to the Secretaries of State. Is that right?
Dr Leinster: This is something we are still in discussion with as to what that actual enforcement action would look like and what potential penalties would be associated with it.

Q94 Chairman: When are you going to get a definitive answer on this?
Lord Smith of Finsbury: To be fair to the Secretary of State for Transport, he has said that we will have whatever powers are necessary in order to ensure that the limits are abided by. Precisely what the requirement is in relation to those powers both for ourselves and ourselves acting in concert with the CAA will be a matter for us to determine over time with the Secretary of State, but he has been very clear that he will make sure we have whatever powers are needed.

Q95 Chairman: What is the timetable for this?
Lord Smith of Finsbury: It is the timetable between now and the creation of the third runway.

Q96 Mr Martlew: At the very end of your answers to Mr Stringer you mentioned what I felt was the individual carbon ration card. Is that right, that individuals would have a certain amount? Can you explain and expand on that?
Lord Smith of Finsbury: I purely refer to it as an idea which has emerged from some quarters, and I am not saying necessarily it is the answer. It was proposed, I think, by the then Secretary of State for the Environment about a couple of years ago, which would be for each individual citizen effectively to have a carbon budget which they could make decisions about how they wanted to deploy in the activities they undertook.

Q97 Mr Martlew: I am sorry, I forget who the then Secretary of State was.
Lord Smith of Finsbury: He is now the Foreign Secretary.

Q98 Mr Martlew: What happens when your credit runs out?
Lord Smith of Finsbury: Then the price mechanism would clock in.

Q99 Mr Martlew: Just a bit like the black market used to work during the war!
Lord Smith of Finsbury: I do not think that is an entirely fair analysis.

Q100 Sir Peter Soulsby: In general the Environment Agency’s remit does not run to noise, but you have been given a very specific role for the future with regard to Heathrow. Would it not make sense to have noise as part of that specific remit for Heathrow?
Lord Smith of Finsbury: We have not been given the task of monitoring and regulating noise in relation to Heathrow and that, I think, is largely because we simply do not do it anywhere.
Dr Leinster: It is not a core area of our expertise.

Q101 Sir Peter Soulsby: I realise it is not a core area of your expertise and not part of your general remit. I just wonder whether, given the specific role you have been given skeleton argument to Heathrow, it might not be more joined up to have that specific responsibility?
Lord Smith of Finsbury: Air pollution is something that we do and that we do a lot of in terms of monitoring, regulating, permitting, and so forth, therefore it is something we can bring a lot of experience and a lot of knowledge to bear in undertaking. I think in relation to noise we would be much more acting as novices and I am not sure that is the best way to approach what will be a serious issue in relation to aircraft use at Heathrow.
Sir Peter Soulsby: Thank you.

Q102 Graham Stringer: I was surprised at the answer you gave before about the breakdown between oxides of nitrogen coming from ground transport and cars and from aviation. Is that a figure which is agreed with the aviation industry?
Dr Leinster: The figures from the studies which were carried out on behalf of the Department for Transport are where we got our information from and those show that somewhere between 30–45% comes from airport operations, about 30% comes from traffic and about 30% comes from a regional background level. Those are generally accepted figures in the vicinity of Heathrow.
Q103 Graham Stringer: Because three or four years ago there was a lot of controversy, was there not, about the monitoring and the actual figures being used, controversy about where the measurements were actually taking place? Is that all resolved now? Are all the parties content that the measurement is fair and objective and as good as it can be?

Dr Leinster: As I tried to allude to earlier, this is going to be one of the key tasks in the role going forward, to get agreement as to that attribution, to be very clear that all parties agree what type of monitoring should be carried out, where that monitoring should be carried out and how you do the analysis, because unless we can get agreement between all parties as to that then this whole thing will flounder.

Q104 Graham Stringer: So that agreement is not there yet?

Dr Leinster: I am not sure at what stage it is.

Q105 Graham Stringer: It is very important and absolutely vital.

Dr Leinster: Yes, it is. We can find out more and let you know.

Q106 Graham Stringer: That would be helpful.

Lord Smith of Finsbury: I think the point you made is that as we get to the crucial role of undertaking the monitoring of the limits for a third runway at Heathrow getting common agreement that the monitoring sites we are using, the type of monitoring we are undertaking, the assumptions upon which all of that is based, getting agreement across the airport operators, the aircraft operators, our scientists, their scientists and the Department for Transport, getting agreement before we start actually doing the monitoring is going to be absolutely crucial.

Q107 Chairman: In the context of the answer you gave me about the assurance you had that you will get the powers you need, do you feel that as an agency you have or will have sufficient powers to deliver what you want to see?

Lord Smith of Finsbury: We have confidence that we will have the powers because we have been given a very explicit assurance from the Secretary of State that that will indeed be the case. If we were trying to undertake it with our current raft of powers we might be stretched.

Chairman: Thank you very much for coming and answering our questions.
Witnesses: 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, gave evidence.

Mr Snelling: From the freight perspective, in terms of the importance to the economy, a lot of the business that we would like to attract to this country is quite dependent on air freight. We are looking at high-end technology firms, pharmaceuticals, and a lot of these are very dependent on express and air freight operations. Those would be the ones I would particularly pick out as important.

Q111 Chairman: In terms of the regional impact, are there any particular types of businesses that depend on aviation for their success?

Mr Wilson: I think inward investment has been particularly affected. For instance, the car industry in the north-east would not be there if you had to struggle your way to Newcastle. Not everyone who goes to the north-east will fly, but the fact they can fly into the UK and then have the opportunity to transit or, better still, fly direct into the north-east is hugely important. Any region that is attempting to attract inward investment quite rightly puts the focus on good air links particularly with the markets that they are targeting.

Ms Dee: I would just add service sectors like financial services and companies that operate globally. They value strongly the links that they can have to other parts of their businesses and that is why aviation is such an important driver.

Q112 Chairman: Will aviation continue to grow on the scale that is predicted? We have had evidence suggesting that video-conferencing and other innovations might reduce the need for air travel for business purposes. Do you have any views on that?

Ms Dee: The CBI’s position is that the aviation sector as a whole is important to the economy. There are a number of ways in which it is important. Firstly, as a sector in its own right it employs a considerable number of people, generates economic activity itself but also in supporting businesses elsewhere in London and the general economy. It is also important to regional activity, so it is not just about London, it is about supporting the economies of the regions and the local areas.

Mr Wilson: I would agree with everything that has been said. It is particularly important to make the regional point. Sometimes the aviation debate tends to concentrate on London, or even Heathrow, but in every part of the UK the existence of a strong regional airport is something that people rightly covet and which is a major economic benefit to a region. It is something that helps to attract inward investment, certainly it is something which encourages business people to visit the UK with all sorts of spin-offs. The biggest economic consequence is simply jobs. Airports are huge generators of employment, both directly and indirectly.

Q110 Chairman: Are there any particular types of business that are more dependent on aviation?
jobs. Anyone who tried to say at this point that people should not travel or it is wrong of them to travel would be a King Canute act. There is a demand for that travel and whatever the short-term blips because of economic circumstances the long-term trend, both in terms of UK citizens and even more so globally, will be in line with the projections.

Q113 Chairman: So you do not think that the current recession will result in a long-term reduction in air travel, a reduction on the predictions?

Mr Wilson: Not in the long-term. The history of recessions is that you get short-lived downturns but then for all the reasons we are discussing, whether it is in freight or passenger travel, air travel is so built into people’s expectations and requirements that it will go back on the projection that has been set for it. Mr Snelling: From the freight perspective, we certainly expect it to continue to grow for two reasons. One is that in future years as more prosperity will bring more demand for products around the world international trade will increase and air freight will play a part in that. Second, as the type of trade changes, increased globalisation, companies will be based around the world, they will specialise in operations in different areas and there will be an increasing need to move commodities between those points.

Q114 Graham Stringer: Mr Snelling, I always think the air freight industry as a very valuable part of the economy is a bit of a Cinderella part of the system. We have lost out to the major integrators based at Brussels and Charles de Gaulle. What would be the biggest improvement the Government could make to support the air freight industry?

Mr Snelling: I think the commitment to expanding Heathrow is the right line. The recent rejection of aviation duty was also a good move. Political issues are holding it back at the moment. It is that expectation that we may not get that expansion of Heathrow and an issue like aviation duty may come back on the political agenda in the near future that I think will be holding back potential long-term investment in the UK because it is seen as perhaps not the best one in which to do business out of the European areas.

Q115 Graham Stringer: Are you concerned about possible restrictions on night flights anywhere in the UK?

Mr Snelling: Yes, there is a generic concern if you take Stansted, for example, that in order to get agreement for a second runway there might be an increase in restrictions on night flights and I think we would see that as a concern at other airports as well through a lack of understanding of business needs why night flights are so important. Certainly were there to be more restrictions on night flights we would see more operations switching to continental airports away from the UK.

Q116 Graham Stringer: Over the last 30 years we have seen a terrific change in the aviation industry from the controlling of where flights go, the structure base of airports to a lot of low-cost carriers going point-to-point. How do you see the industry developing over the next 30 years?

Mr Wilson: I think the demand will drive it, particularly the expectation which has been created, and in my view healthy expectation, that people do want to travel, do want to broaden their experience, and aviation is very much part of that. The aviation industry has to respond, and is responding, to the environmental issues that produces and I think there will be an increasing emphasis on meeting the environmental responsibilities to match that growth in travel. What is important is to keep a sense of proportion so we do not get the scapegoating of a particular sector; every sector makes its own contribution towards meeting these environmental targets. All the surveys show that in any year about 50% of people in the UK now fly, but maybe just as interesting is that of the 50% who do not fly the vast majority of them aspire to fly, which is absolutely rightly in my view. Even in times of recession they will protect that as far as possible as one of the highlights of their year. I think there will be increasing demand for aviation, for destinations and the kind of variety in life that many of us would take for granted.

Q117 Graham Stringer: I am not sure if this is to you or the CBI, but what impact do you think the EU Emissions Trading Scheme will have on the aviation industry?

Ms Dee: The CBI is very supportive of aviation’s inclusion in emissions trading. It will be challenging for the industry but we see that as the most economically efficient way of driving the sorts of behaviours that we want to see so the focus on cutting emissions will be heightened for them and that is a good thing. That will be the stimulus that we see driving some of the good records they have already got in terms of technology, et cetera.

Q118 Graham Stringer: We have had different submissions about whether or not aviation pays its environmental costs. What is your view? Can you quantify how you come to that conclusion?

Ms Dee: The CBI has not done its own statement although Ruth Kelly, of course, when she was Secretary of State for Transport made her own statement suggesting that through what was collected already via air passenger duty that it did. We have not done anything separately.

Q119 Graham Stringer: You accept those Government statistics?

Ms Dee: We have no reason to challenge those Government statistics.

Mr Wilson: It is a very important and probably not well enough understood fact that the air passenger duty, which was not created as an environmental tax, it was created before that was regarded as such a big issue, does meet that environmental obligation according to the Government’s own figures. That is worth bearing in mind when you relate it also to emissions trading because the danger there is there is a bit of double-jeopardy that on environmental
Can I clarify with the CBI’s Chairman: branch line for the continent. Everything being trucked across, and we become a you lose that freight network and operators will start share your view. The view of the majority of CBI Heathrow, in an organisation you are inevitably important and controversial, if you like, as most people would appreciate, when an issue is as The CBI’s position has not changed. As Mr Wilson: their statements from a number of your members who were position with you, Ms Dee. Last week there was a particularly pernicious e narrower number of destinations which has profitable passenger routes which will mean a restriction on the capacity then, increasingly, what slots there are will focus on a small number of profitable passenger routes which will mean a narrower number of destinations which has particularly pernicious effects for freight because you lose that freight network and operators will start to orient out of other airports, which means everything being trucked across, and we become a branch line for the continent.

Q120 Mr Clelland: You all appear to be in favour of additional capacity at Heathrow. Could you tell us what you think the principal benefits of that will be? Ms Dee: We do support the provision of a third runway and passenger terminal capacity, but subject to the environmental criteria that Government has set. I suppose the principal reason for that is that Heathrow is absolutely full. When you are operating so close to capacity, and probably beyond what in an ideal world you would want to be operating at, then the resilience and service that the airport is able to offer to passengers is being undermined. We are also seeing that its effectiveness as a hub is diminished and we are seeing the number of UK destinations decreasing.

Q121 Mr Clelland: They are the problems, but what will be the benefits? Ms Dee: You would be able to continue to enhance those links with UK regions. You would be able to provide more efficient services to the range of destinations that would be there to meet the needs of business. Mr Snelling: I would certainly echo that. I think it is about the maintenance of Heathrow’s status as a hub airport, about particularly maintaining that number of destinations. The majority of air freight goes in the hold of passenger planes so it is very important for freight that we should have a high standard of international destinations attracted here so that we can keep that freight network and things from all over the world can move in and out of the UK easily and efficiently rather than having to go through Charles de Gaulle or wherever. If you see a restriction on the capacity then, increasingly, what slots there are will focus on a small number of profitable passenger routes which will mean a narrower number of destinations which has particularly pernicious effects for freight because you lose that freight network and operators will start to orient out of other airports, which means everything being trucked across, and we become a branch line for the continent.

Q122 Chairman: Can I clarify with the CBI’s position with you, Ms Dee. Last week there was a statement from a number of your members who were opposing the Heathrow expansion. How does that relate to the statement from the CBI Ms Dee: The CBI’s position has not changed. As most people would appreciate, when an issue is as important and controversial, if you like, as Heathrow, in an organisation you are inevitably going to have businesses that do not necessarily share your view. The view of the majority of CBI members through the process that we have for arriving at our position is that they will continue to support the third runway.

Q123 Chairman: Mr Wilson, did you want to add anything? Mr Wilson: No, I think the arguments are well made.

Q124 Mr Clelland: I am not quite clear whether you see an expansion at Heathrow merely relieving the pressure at the moment, as it were, or whether there is an opportunity for using that expanded capacity for other purposes, new purposes. How would you like to see the expanded capacity used? Ms Dee: We have not taken a view on exactly how that should be used, but certainly we would want to ensure that the regional links are enhanced and the range of destinations continues to grow. Clearly that is going to be market driven, so it is difficult for me to sit here and predict exactly how that will be in 30 years or whatever.

Q125 Mr Clelland: Is the business community united in its support for an expanded Heathrow? Ms Dee: As I just said, clearly there are always going to be differences of opinion. The view of the majority of CBI members is that a third runway is important. Certainly that comes out in things like the most recent CBI London Business Survey where 73% said it was either important or very important.

Q126 Mr Clelland: Does the CBI or any of our witnesses have a view on high-speed rail as an alternative to domestic flights? Ms Dee: The CBI thinks that high-speed rail is a very good thing and has a role to play in providing good transport infrastructure that the UK needs in the 21st century. Where we are sceptical is about its ability to substitute for a third runway. Certainly there are some flights that might easily transfer on to high-speed rail, but we do not see it as an either/or, we feel that they are compatible and it should be part of a network. There is a key role that we would see linking into Heathrow to increase the number of passengers that arrive by public transport rather than car, so that would be a good thing.

Q127 Mr Clelland: So the third runway and high-speed rail? Ms Dee: Yes. Mr Wilson: I want to support that very strongly. Erstwhile colleagues will recall that I have got a long record of supporting high-speed rail links and, indeed, I would very much like to see the tunnel link continuing into the north of the UK, which was the original intention. The more that can be done to speed up the West Coast or East Main Line, or any other main line, the better. Certainly I do not see any conflict whatsoever. What we should be moving towards is what we have now been talking about for decades, which is an integrated transport policy and a healthy network of airports and high-speed rail links should be part of that, there is no conflict.
Q128 Mr Clelland: Do you agree with the CBI that high-speed rail would not necessarily replace domestic airlines?
Mr Wilson: I do not think it would replace them because there are issues of convenience. It depends very much on the journey. What you see in practice between London and Manchester is a significant transfer from air to rail, and that is fine, that is people making their choice, but they have to have the choice before they can make it. The idea that you frustrate the aviation industry for fear in advance of these high-speed links actually existing does not make a lot of sense and certainly would be very negative for the kinds of places that you and I come from.

Q129 Mark Pritchard: Is it not the case that a lot of airlines have already cut routes within the UK and in the absence of access from cities to, let us say, London, an alternative such as an improved railway service would be a positive thing, for example, for CBI members?
Ms Dee: Yes. Access to high-speed rail is a good thing that would be highly valued by business and the CBI supports that. Where we are sceptical is the ability of a high-speed link to remove the need for expansion at Heathrow. People travelling by high-speed rail are not going to remove demand sufficiently to free up the kinds of slots at Heathrow that would allow it to continue to function effectively.

Q130 Mark Pritchard: My point is that there clearly is not the demand right now, let us say flying from Birmingham to Heathrow or Manchester from Heathrow, or is not the level of demand that requires or encourages airlines to put on those routes.
Ms Dee: You assume that airlines can continue to operate all of those within the constrained slots that they have at Heathrow. The point is that some routes are cut if they are less commercially viable than others and when slots are a scarcity then inevitably they will be used for routes that are more profitable.

Q131 Mark Pritchard: So should the travelling public, whether business or leisure, or even foreign business into the UK, leisure or business, be held to ransom by the vagaries of some directors of some airlines that prefer one particular route over another?
Ms Dee: I would not say they are being held to ransom. It is supply and demand. If there is not demand that allows them to continue to operate those commercially then they will not run them.

Q132 Mark Pritchard: Perhaps I could ask Mr Wilson, representing Flying Matters, I thought Ms Dee did say there was demand, it was just there was greater demand on other routes and a decision was made to put resource into where there was more demand rather than less demand. So there is demand, it is just a matter of what level and in a way it is relative but, nevertheless, important.
Mr Wilson: I think that inevitably happens. I remember the example of the Inverness flights being moved out of Heathrow to Gatwick and there was a great furore because of the loss of interconnection at Heathrow. In a way that reinforces the point that regions value these links and they should be as strong as possible. It is understandable that unless you have a system that very clearly protects domestic routes with low volumes, where there is a supply and demand conflict then the international routes are likely to be given precedence. The best way to deal with that is to try to ease the constraints and have a sensible mixture of domestic and international.

Mr Snelling: When it comes to the issue of talking about high-speed rail as an alternative to an additional runway, I think the element that is lost there is freight. Freight trains probably will not even be able to run on a high-speed rail line, it will just be passenger dedicated. I think that is fairly well agreed. Even if they could, the kind of stuff that is air freighted is almost always time sensitive so will need to be delivered direct to its final destination, which will inevitably mean more in the way of road transport for freight. It really does not do anything for the freight interest, so I think it would still damage all the business interests that rely on that.

Q133 Mark Pritchard: Just on that point, Mr Snelling, your organisation represents rail freight operators as well?
Mr Snelling: Yes, we do.

Q134 Mark Pritchard: I am surprised at your last comment saying it is accepted that some elements of freight cannot go on the railways. Can you give me an example of one of your rail freight members?
Mr Snelling: I am not saying that it absolutely cannot, it is something that people are trying to do at the moment, particularly on the continent where greater distances can be involved. The tendency with air freight is that it needs to get directly to its destination, so once it has come off the plane it wants to go unimodally so it can get direct to a final depot. There may be some elements of that that can be rail freighted but it is really very minimal to non-existent at the moment out of somewhere like Heathrow and we do not see much potential for it.

Q135 Mark Pritchard: So what are the options if I am an importer/exporter for moving freight at the moment?
Mr Snelling: Once you get your freight into Heathrow it would be to truck it out.

Q136 Mark Pritchard: No, what are my options for moving freight into the United Kingdom, not once it is in the United Kingdom?
Mr Snelling: Moving freight to the United Kingdom would be deep-sea boats to Southampton, Felixstowe and the London ports.

Q137 Mark Pritchard: No, modes of transport.
Mr Snelling: Shipping, aviation. It depends where you put the ferries, whether you count those as part of road transport or an element of sea transport. Then you have got an element of land transport through the Channel Tunnel.
Q138 Mark Pritchard: Do you think shipping is getting away with it in relation to some of the scrutiny we see today on aviation?

Mr Snelling: Shipping delivers an enormously good performance in some senses because of the bulk that it carries. Of the sheer size, the actual carbon efficiency of the products that it can carry quite long distances is actually very good. Could the shipping industry be doing more? Yes, it could. As FTA we would certainly support the efforts to work with the shipping industry to improve its environmental performance. There is more scope to improve environmental performance within shipping than there is in aviation.

Q139 Mark Pritchard: Over the whole issue of congestion and efficiency, reducing pollution, do you think there is an argument for single-use airports, that is designated freight airports, rather than having this juxtaposition at the moment? I understand some of the commercial arguments, but for trying to achieve some of the targets and outcomes that we all hopefully agree on—reducing pollution, congestion, increasing efficiency and effectiveness—if we saw designated airports for freight that would answer a lot of those issues and would contribute to the expansion of jobs into the regions and, indeed, the creation of further robust hubs, albeit bespoke to freight.

Mr Snelling: I do not really see that as a way forward, no. The freight that goes by freight-only planes at the moment makes up, according to different estimates, between 10% and 30% of the amount of air freight that is moved. The vast majority is going in the belly hold of passenger planes and that is the efficient, effective way to do it. That is also what gives the UK through a big airport like Heathrow access to the global markets. If there were a great efficiency to be found by having a lot of freight-only airports then the market would have found that.

Q140 Mark Pritchard: Do we have any?

Mr Snelling: To the extent that East Midlands Airport, for example, is freight-centric the market is already doing that in that there is a need for that which has been provided by that airport but it is not something that we would want to see artificially created by Government.

Q141 Mark Pritchard: What is the demand on East Midlands at the moment?

Mr Snelling: The type of demand?

Q142 Mark Pritchard: Yes.

Mr Snelling: Express services largely because they will tend to operate their own planes and those will be freighters dedicated for freight so that they can operate as part of an—

Q143 Mark Pritchard: So you accept that there is a successful freight-centric airport that clearly has demand for a particular type of service and yet perhaps you are suggesting there is not a demand.

Mr Snelling: I am suggesting that the market has delivered the most efficient solution, which in the case of East Midlands Airport is a very good freight-centric airport, but the majority of air freight in this country goes into Heathrow because it is efficient to make it move with the passengers so you can make use of the passenger jets that are flying.

Q144 Mark Pritchard: In relation to that airport, is the market static or stagnant? I do not think so.

Mr Snelling: The freight market?

Q145 Mark Pritchard: Yes.

Mr Snelling: Obviously, like most markets at the moment in the current economic climate, it has suffered a downturn but we see that as short-term. The long-term is definitely for growth in all kinds of air freight.

Q146 Mark Pritchard: If East Midlands is freight-centric, and we accept that post-recession there will be growth then hopefully, logically, we would also accept that there is only a certain amount of growth that can go to one airport, which are some of the discussions we are having about Heathrow today, and, therefore, one would expect an expansion for other airports to become freight-centric, designated airports to be freight airports.

Mr Snelling: Certainly there would be pressure to see expansion of those airports. Whether or not they could see a business model which worked for them in terms of being freight-centric instead of passenger-led, as most airports are, is a matter that we would want to see left to them because we think the market is the most efficient deliverer of that decision.

Q147 Sammy Wilson: Can I go back to one of the responses you made to Mr Stringer, Mr Wilson earlier on. Quite rightly you stated that it was right for people to have the opportunity to fly and even in times of recession, et cetera, it is important they keep that right. How does that fit with the welcome that you have given to the inclusion of aviation in the Emissions Trading Scheme? I wonder whether you have any estimate of the additional cost which that is likely to impose on the industry and how that is then likely to feed through in the costs to passengers.

Mr Wilson: The answer to the last question is no. I asked about this as well because it would be nice to have a convenient figure, but it is just too hypothetical at this stage to say. All that can be said is that it will be a cost and it will be another challenge to the industry. In answer to your wider question, the aviation industry, or an organisation like this, cannot be in denial about responsibilities, it is about how you face up to these responsibilities and how you try to marginalise the unreasonable demands as compared to the reasonable expectations. Clearly the aviation industry makes a contribution to carbon emissions and has to address that within the sector it operates and has to meet the targets it has set for itself and which others will set for it. We see
that an international approach is absolutely essential because by definition it is an extremely international, global industry and, therefore, isolated actions by countries have very, very limited and probably counterproductive impact in terms of competitiveness. That is one of the reasons why we would support the European trading system but ideally, and much more satisfactorily, it would be a global system because there is still the danger of anomalies and anti-competitive consequences arising from it. There are different views on anything within any umbrella organisation, but in general you face up to your responsibilities and look for the most responsible and effective way of doing it, and in this case we think that the emissions trading system is one that should be embraced, even at a cost.

Q148 Sammy Wilson: Is it not odd for an industry to welcome the imposition of additional costs when, as you have said in your own words, you do not know what the cost impact of the Emissions Trading Scheme is going to be? Secondly, you do not know how the competition is going to be affected because, of course, airlines outside Europe and the United Kingdom might well be exempt from it. Surely you must have some idea of what the impact is likely to be on the costs for travellers. The one thing that I would not want, and I am sure you would not want it either, is to see air travel become an opportunity only for the rich and the mass market being squeezed out as a result of embracing a system where you have said you do not know what the impact is likely to be on the industry.

Mr Wilson: I have got two points to make on that. The reason I am involved in this is precisely as a reaction to the over-zealous demands of so-called “environmental organisations” in many cases that have alighted on aviation as a sort of social evil, which is the exact opposite of my view. I regard one of the great liberating factors in society over the past 20 years that people can travel, they can broaden their experience, and that is not restricted to wealthy people as it used to be. If the impact of policies hostile to aviation was to push it back into being the preserve of better off people then that would be a completely unacceptable outcome to me. We agree on the objectives of this. What you then have, taking that as a starting point that this is never again to be an elitist industry, and even if it was in this country it certainly would not be in the rest of the world which is also getting to like air travel, you have to find other ways of addressing the legitimate issues. Emissions trading is one such way. To me, technological advance is the way in which Britain can make the biggest contribution because, as I often say, Rolls-Royce will do more for combating global warming than Greenpeace ever will because the impact of what is done by our engineers here will go all around the world to every country where aviation exists. That is the general approach. Obviously everything to do with the European trading system is up for discussion and detailed negotiation and views will vary. A final point I would make on that is sometimes there are either/or and the industry would generally see embracing that system as being a very strong argument against any increase in air passenger duty because for the reasons I mentioned earlier it becomes a double-taxation.

Q149 Sammy Wilson: You are quite right, aviation is one of the industries that is being targeted now by the climate change zealots. Last week we received some evidence from Lord Turner who indicated that if we were to reduce emissions in the aviation industry to 2000 levels by 2050 then all of the arguments about technology and fuel efficiency and changing the shape of aircraft, et cetera, given the projected increase in passenger numbers, would still not lead to a reduction in emissions. The conclusion he came to was if we want to stop the growth of aviation emissions then there must be a significant constraining of demand. Is that the view of the industry or is Lord Turner wrong in his assessment of the improvement of technology?

Mr Wilson: I hope wearing his hat as Chairman of the FSA he is going round the City of London telling people that they must not fly. I hope that is not the case. I do not agree with those who cannot fly. That is the trap that is very quickly fallen into.

Q150 Chairman: Do either of our other witnesses want to say anything different on that point?

Ms Dee: The only thing I would like to add is emissions trading is a key tool and it will drive some of the behaviours and technological improvements, but there are other things that industry is doing anyway that will help reduce emissions. Improving surface access and improvements in air traffic control are things that can be done as well. It is not emissions trading on its own but that provides the financial framework which will help drive some of the behaviours.

Mr Snelling: The Emissions Trading Scheme is something that we would support for aviation. We think the advantage of the Emissions Trading Scheme is that because it is holistic it can recognise the fact that aviation is the hardest one in which to improve environmental performance. If aviation can to some extent subsidise improvements in other areas where it is easier to achieve change, such as coal-fired power stations, then so much the better and that benefit is achieved, you do not need to demonise aviation itself.

Q151 Mr Martlew: I am a bit disappointed by the witnesses because they have downplayed the high-speed train. It is my opinion that you are doing that because you want to boost aviation. The reality is the Edinburgh and Glasgow shuttles would be almost totally destroyed if you had a high-speed train going to Heathrow. The Manchester one has nearly been destroyed anyhow and it is still two hours. Mr Snelling, you said you will not be able to get on the high-speed train and that is totally inaccurate, you have no evidence for that, you are just saying high-
speed lines are not going to make any difference. We all know that with the high-speed line from Amsterdam we will be in the centre of London in just over three hours, so it will make a difference. I accept that aviation will grow, but let us not downplay the effect that high-speed lines will have on the aviation industry especially in near Europe and the UK.

Mr Wilson: In fairness, I specifically quoted the Manchester example as one where—

Q152 Mr Martlew: I was expecting you to quote the Scottish examples as well, for obvious reasons.

Mr Wilson: But they remain hypothetical. As journey times increase the use of the shuttles will decrease, there is absolutely no doubt about it.

Mr Snelling: To address your point about rail freight, we are certainly assuming that if a high-speed rail link is built then freight will not be allowed access to it.

Q153 Mr Martlew: Why?

Mr Snelling: That is based partly upon the practice on the continent. Freight trains do not operate on the high-speed network in France. That is also the assumption across the industry. The only bit of high-speed rail that we get access to at the moment is the Channel Tunnel and its links because obviously that is literally the only rail line, so you have to use it, but even there we are priced off it, to be honest, and it has been very hard to get a successful service.

Q154 Mr Martlew: I would have thought you would be coming here advocating that we should allow you on it, not just saying, “We’re not going to get on”. That is a bit negative.

Mr Snelling: It does not work very efficiently if you are trying to combine a high-speed passenger service with freight services which do not need to travel at that speed and, therefore, there is no industry justification for spending the money on getting services that would travel at that speed.

Q155 Mr Martlew: There is going to be about a six or seven hour gap during the night when we are not going to put high-speed trains on, are we?

Mr Snelling: If we had a good experience of getting access to the rail network at night rather than it being closed down for maintenance we might be more excited about that.

Q156 Mr Martlew: I would have thought you would have been a bit more optimistic.

Mr Snelling: It does not really work with the air freight industry is all I am saying. When we talk with our rail freight operator members about where they want Government to concentrate its efforts to improve rail performance and get trucks off the road they are not talking to us about airports, it is all about Southampton, Felixstowe and the London ports and improving those links. That is where the massive upscale for rail freight lies.

Q157 Chairman: Are your comments about high-speed rail based on experience of High Speed One?

Mr Snelling: High Speed One has proved, and is proving, very difficult for freight combined with the Channel Tunnel. We are charged very high access charges to be able to get on it. I would say our impression is that the people who run it are obligated to allow a certain quantum of freight pass on their line but they have no real incentive in that the design of the lines and their business is around delivering high-speed passenger services. Certainly we anticipate that with High Speed Two there will not be any freight access at all anyway.

Q158 Chairman: Have you been told that or is that an assumption?

Mr Snelling: It is the industry assumption and that certainly has not been challenged by DfT telling us that is not the case.

Q159 Mr Martlew: I was talking to the Minister and that is not his view at all, so where did you get that from?

Mr Snelling: As I say, it is common practice whenever high-speed lines have been developed and, in terms of how to optimise rail freight, having freight services on the high-speed line might not be the best way to do it. If there is money available to spend on rail freight there may be areas you could spend it on that would produce far more improvement in terms of getting trucks off the road.

Q160 Ms Smith: The comment I would make is you mentioned the big freight ports of Southampton and Felixstowe, but Immingham is the biggest freight terminal in the country, as I understand it, so that should not be forgotten. My point is this: is it not the case that a lot of the distribution centres for freight are focused in the Northampton area of the country? Is that not the case?

Mr Snelling: Yes.

Q161 Ms Smith: Is it not the case, therefore, that even if high-speed rail is ruled out as an option on freight, existing rail routes could be adapted for freight via St Pancras, thinking of the Midland Main Line in particular, thereby offering a highly effective rail route for freight from the continent?

Mr Snelling: Absolutely, yes. If we are talking about direct rail freight coming into the UK we think that there are quite a lot of interesting opportunities and the Government has talked about upgrading the Midland Main Line to a much higher gauge clearance for precisely that reason. We think that is a big opportunity and we would like to see that taken advantage of.

Q162 Ms Smith: That could be quite an interesting competitor in terms of air freight.

Mr Snelling: It could be for the intra north-western European services, yes, but when it comes to an issue like should we build a third runway at Heathrow our perspective is more about the global supply chain for the UK and connecting intercontinentally. That is why those kinds of rail services do not really connect into that.
Q163 Ms Smith: The picture for rail freight is not quite as bleak as perhaps might have appeared from your initial comment.

Mr Snelling: As you know, my comments about rail are purely in relation to is this an alternative to a third runway at Heathrow. Talking about rail freight we are very optimistic. I think this is a very good time for rail freight generally both in terms of what is happening in it as a business but also Government policy. We are very supportive of a lot of what the Government has done in the last five or ten years and we think we are seeing some real progress on rail freight.

Q164 Mark Pritchard: I am importing goods from Ukraine or somewhere else coming into Southampton and I am going to Inverness or Edinburgh. Which is the lowest cost to ship it, by rail or by air?

Mr Snelling: If you were coming into Southampton by air, there is very, very little domestic air freight in this country, hardly any, and, in fact, sometimes it is not even measured.

Q165 Mark Pritchard: All things being equal, let us say Southampton is shifting a lot of freight out of its airport or by rail link.

Mr Snelling: It will always be cheaper to go by road or rail than it will be by air. Things only move by air if there is a very good reason for them to do so. It is multiples more expensive than any other mode of transport.

Q166 Chairman: If other hub airports on the continent other than Heathrow could serve the UK’s travel and transport needs, is that something that should concern us?

Ms Dee: We would be concerned about that because, as I said at the start, one of the reasons we support Heathrow is because there is a value in having the hub airport within the UK.

Q167 Chairman: How high is that value?

Mr Snelling: I do not have figures at my fingertips, but one of the things we know in addition to supporting businesses that are already here is that good international transport links are a factor—not the only factor—in encouraging big companies’ decisions, global companies’ decisions on where to locate. A lot of companies are here because they can travel internationally. If you did not have an effective hub and those airlines were basing themselves anywhere else there is a direct economic impact from those businesses and the employment they create going to another country.

Q168 Chairman: If Heathrow expanded, does that automatically mean better links to the regions or does something further have to be done?

Mr Wilson: It has to be accompanied by the integration of transport links to the rest of the UK. I do not think anybody here is playing off one mode of transport against the other, except possibly rail against road. I would see the improvement of rail links as absolutely crucial to the regional transport policy in the UK.

Q169 Chairman: Are there any specific mechanisms that you could identify to make sure that happened?

Mr Wilson: That is a bit outside my remit. I just want to make the point that this is not any sort of anti-rail argument, quite the contrary. I certainly hope, as a user of both air and rail services, I have more viable choices in the future and the result of that will be that more people will use rail, which is a socially desirable consequence, and if that lessens the pressure on airports then so be it.

Q170 Chairman: What about air links to the regions? Would this automatically happen or would it need some additional mechanism?

Mr Wilson: I think the market sorts it out pretty well. It is a very lively market. Where people want to fly to Heathrow by and large they can, but equally desirable is that they should be able to fly from regional airports to other destinations. Again, that is a factor in taking pressure off the London airports. Every region aspires to having as many destinations as possible where you can fly from direct.

Q171 Sammy Wilson: I am thinking of this in a Northern Ireland context here. Given the importance of having access to Heathrow from the regions, and this is especially true for business links and onward movement of passengers, I listened to what you said about the market, Mr Wilson, but is there not a danger if we leave it simply to market forces then places like Northern Ireland, which has already lost a lot of slots into Heathrow, could find themselves bereft of opportunities to link to the main hub airport? If we are to have an expansion of Heathrow, which I support, should there not be some assurance that slots for regions and flights from regions are guaranteed?

Mr Wilson: As someone who lives in the regions and has always lived in places that depend on links into Heathrow I am sympathetic to that argument. I am sure there are other arguments within the industry and I will not pretend that would be a united view of the organisation I am representing here.

Q172 Chairman: Should air travel be subject to VAT and fuel duty?

Ms Dee: Aviation is not the only form of transport that is not subject to VAT and fuel duty. It depends what you are seeking to achieve by it. If you have got emissions trading and other forms of taxation then you need a transport system and transport pricing relative to each other. We have talked already about international companies and aviation is global, they have to compete with other airlines, and you would not want to necessarily impose costs on British airlines that—

Q173 Chairman: You think this would do that?

Ms Dee: Potentially, yes. On fuel duty, for example, you can only impose duty on fuel that is purchased here, so what kinds of behaviours would that drive. It all depends what you are trying to achieve through the policy.
Mr Snelling: The most important thing is that whatever you do the UK should not act alone. Aviation is a global industry and if you want to change aviation you have to work at a much larger scale, at the very least at the European level. If you take action as the UK alone you do not change aviation, all you do is disadvantage the UK economically. If you were to introduce fuel duty here on the freight side what you would see is a lot of the dedicated freight services would immediately start to pull out of the UK, they would operate out of their European hubs and then truck things across probably by road. You would not see any improvement in environmental performance but you would see increased journey times, cost and unreliability to our supply chain and in the long run that would act as a disincentive for other businesses to base themselves in the UK if the quality of those services were reduced and the competing services in France and Germany were much better.

Mr Wilson: A distinctive taxation system has developed and just to keep adding taxes ignores the fact there are other taxes which are unique to the aviation sector.

Q174 Chairman: Are you all comfortable with the forecast from the Oxford Economic Forecasting report? You all quote that in your written evidence but it has been suggested that it might overplay the economic importance of aviation.

Mr Snelling: I have been involved in different ways for a number of years with different Oxford Economic Forecasting reports. There have been several different iterations and variations of that and the findings have always been fairly comparable. Yes, we think it is very robust.

Q175 Chairman: Friends of the Earth say that there is a tourism deficit of £15 billion a year of money that would be spent by tourism in this country if people were deterred from flying abroad. You all made some comments earlier about the impact of stopping people on lower incomes being able to fly, but do you have any other comments?

Mr Wilson: I would not like to be the Member of Parliament who legislated for people not being able to fly!

Chairman: Let me make it clear I am not advocating that, it was just a question. Thank you very much for coming and answering our questions.

Witnesses: 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, gave evidence.

Q176 Chairman: Good afternoon, gentlemen. Would you identify yourselves for our record, please?

Mr Duthie: I am Dave Duthie. I am the Director of HITRANS, the Transport Partnership for the Highlands and Islands of Scotland.

Mr Mason: I am Graeme Mason. I am Head of Planning and Corporate Affairs at Newcastle International Airport Limited.

Mr Hoey: I am Uel Hoey. I am Business Development Director at Belfast International Airport.

Mr Paul: I am Nick Paul. I am here representing the eight English Regional Development Agencies.

Q177 Chairman: What is the importance of aviation to the regions?

Mr Paul: Massive, and not only for local employment—in the English regions there are some 180,000 people directly employed by the airports—but also the impact it has on a wide-ranging sector of our businesses. When we talk to Chambers of Commerce and the CBI and businesses in our regions, they all tell us how vital it is to have very good connections between the regions and their global partners. I could not help overhearing before, because I was sitting in the back row. The Regional Development Agencies have done some work, and I am not certain whether we have shared it with you, but we will, which actually takes the list of business sectors and identifies what business sectors use air travel as a key component of their business travel. It is fair to say that if we look across the regions, one of the lowest is the North East where about 30% of those employed are by the business sectors using airports and air travel, very importantly, in their business and they see it as important, up to something in the south-east which is approaching 70% of all those employed are by businesses which depend on air travel. It includes manufacturing because I remember a lot of folk were talking about financial services. There is a massive need for air travel right across the spectrum of businesses in the regions as we see it.

Q178 Mr Clelland: The thing about aviation, particularly when it comes to tourism, is that it does not just bring people into the country but also takes people out of the country. How confident are you that aviation has a positive impact on the local economy?

Mr Mason: If I could speak from the point of view of the northeast of England. The first thing I would say is airports are jobs generators, and you are probably aware of that already. In the example of Newcastle there are 3,000 people who work at Newcastle Airport and all of their expenditure and the expenditure of the companies at the airport creates a contribution to regional GDP. Picking up on the point about connectivity, it is particularly important for a more geographically remote region. The companies within the northeast that we consider to be our partners, such as Nissan, Sage and Procter & Gamble, all require people to be travelling in and out of the region both on a UK and international basis. In order to deliver those services there needs to be an
acceptance particularly for a regional airport that there are also going to be people going off on holiday. A regional airport needs to be a business that is balanced between the revenue generating outbound passengers but also the passengers who are coming in and out of the region for business purposes.

Q179 Mr Clelland: This goes for other regions as well, but is there a net inflow or a net outflow of spending as a result of aviation?

Mr Mason: I do not have the figures available to hand. If you were to look at the tourist element and you were to look at the example of North East England there would be more people going out of North East England on holiday than there are coming in, but if you looked at it from a business point of view, if the companies in the North East region and indeed the universities in the region put across the same message on this then it would be far more balanced between the two.

Q180 Mr Clelland: Any other region? Uel?

Mr Hoey: From a Northern Ireland perspective I would echo the same issues in terms of Newcastle. We are obviously more peripheral even than some of the other regions within Great Britain and certainly air links are vital. We have a sea to cross in order to get to mainland Britain and we have two seas to traverse in order to make it into mainland Europe. The issue in terms of the balance of outbound versus inbound, again on business it is probably reasonably balanced, but on leisure because of the history of Northern Ireland as much as anything else, much of the leisure has been outbound. There is a deficit certainly in terms of visitors.

Q181 Mr Clelland: There is a deficit in terms of visitors but what is the net deficit in terms of aviation, in terms of spending as a result of aviation?

Mr Hoey: Again, I do not have the figures to hand but I would not have thought it is a vast deficit.

Mr Duthie: If I could come in here, obviously in terms of services in the Highlands and Islands of Scotland we are unique in that we have services working within the region to get people to and from centres. That is an issue for us which others do not have and therefore if you look at what you have in terms of air services as being the same for the Highlands and Islands as the rail services that they have elsewhere, we need those services to get to the hospital, to get to the commercial centres and also a lot of the inward investment we have attracted in the Highlands and Islands on the world stage has very much come on the basis of having good air links, particularly into Inverness, and as these have declined over the last 10 to 20 years there is a difficulty attracting more investment for that reason.

Q182 Mr Clelland: But again we do not seem to be able to quantify this at all. I do not know whether Mr Paul can help.

Mr Paul: I am sorry I cannot add anything in terms of quantification, but what I would like to add is that my understanding is that the bulk of tourists come into Heathrow when visiting this country and one of the objectives of all of the tourism organisations throughout the English regions is to get more of the visitors who arrive in London to get further. At the moment if you can get them to Stratford that is a start and you may get them to Edinburgh, that is another possibility, but really it is down to the regions to be attracting folk into them because they are arriving but they have focused on London thinking “We can do London in a day” and that is Britain.

Q183 Ms Smith: Oxford and Cambridge.

Mr Paul: Oxford and Cambridge and, as I say, possibly Stratford—I keep saying Stratford because it is in the West Midlands where I come from.

Q184 Mr Clelland: If we can focus on Newcastle for instance, we have had some figures about Newcastle. In the evidence, Mr Mason, you say that the airport contributes £400 million or 1% of total GDP in the North East region. Does that include the impact of outbound tourism?

Mr Mason: It does not, that figure does not; we have not calculated that. It is a fair question and it is something that should be looked at but I do not have that information available.

Q185 Chairman: Is it something you have thought about? Is this an area you have considered at all?

Mr Mason: It is not something that we have considered because it is clearly a pan-industry issue, but it is certainly something in the work that we are doing with the Airport Operators Association at the moment that we can build into our work programme going forward.

Q186 Mr Clelland: Given the fact that it would appear—although we have not got the figures—that because of outbound tourism we may not be in a net gain position so far as aviation is concerned, would it not be better for airports to be encouraging business and freight rather than outbound tourism?

Mr Mason: For a regional airport business the nature of the business is that we are reliant upon broadly four types of income—income from airlines, and that might be a landing fee or a per passenger charge, and that as a percentage of a regional airport’s income is declining because of the competition within the marketplace. The second element is expenditure by people travelling through the airport, in the shops and in the restaurants, the third element is in relation to what they pay to park their car and the fourth element is in relation to rent that the airport gets from tenants and property developments. Really for a regional airport business to survive, particularly in these very challenging times, they need to maximise all of those elements.

Q187 Mr Clelland: I can see how they would all make a positive contribution to making a successful business out of the airport, but in terms of the impact on the regional economy it would not appear that we are too clear as to whether there is a net benefit or not.

Mr Mason: What I am saying is that in order to deliver the facilities that are required and make the deals with the airlines that provide those critical
scheduled services from a business point of view, the airport needs to generate income from customers who want to travel overseas on holiday.

**Mr Paul:** Again coming back to the regional development agencies, all our efforts in conjunction with airports and regional airports are focused around the business routes and the freight routes. We have little or no interest in the tourism element of outbound; we have a lot of interest in tourism on inbound so when we are working with airports that is what we focus on.

**Q188 Sammy Wilson:** Just coming back to the argument about the deficit on tourist passengers is it not a bit of a false argument really in so far as the regional airports we know from the Northern Ireland experience are very, very important when it comes to business links and the generation of economic activity et cetera, and without the mix of aircraft you would not have regional airports.

**Mr Mason:** No.

**Sammy Wilson:** If we believe that they are drivers for economic growth is it not then essential that we allow that kind of mix of travel, and anyway to a certain extent people should have the freedom of choice as to where they go on their holidays.

**Q189 Chairman:** Everybody is nodding vigorously but who would like to comment on this?

**Mr Duthie:** The Highlands and Islands are probably one of the areas that do attract tourists but even in the Highlands and Islands the vast majority of our tourists are actually from within the UK and the ones that come in from abroad, as has been said, do come through Heathrow. The problem is that we do not have that link to Heathrow so we lose a lot of tourists on the inbound journey because they come into Heathrow, then they get to Glasgow and Edinburgh and then they cannot get down, so the number who actually get into the core Highlands and Islands is very much restricted because of the lack of development of some of these regional airports.

**Q190 Sammy Wilson:** That brings me to a point that Mr Paul made and I would just like your comments on this, that if most of the tourists come in through Heathrow a lot of businessmen of course come in that way. That brings me to a point that Mr Paul made and I would just like your comments on this, that if most of the tourists come in through Heathrow a lot of businessmen of course come in that way. Heathrow and pass them on to the regional airports but what we should be doing is looking at the mechanism such that any growth of any nature at Heathrow is channelled by a process into allowing regional access so the whole country can gain benefit from the growth of Heathrow.

**Q191 Chairman:** The issue is how can this be done. Mr Paul, is this something that the regional development agencies can deal with?

**Mr Paul:** Not precisely. We have not thought about constraining slots because with supply and demand what happens is that because there is limited capacity at Heathrow and limited slots at Heathrow, businessmen and others will find ways of overcoming that and using foreign hubs. One of the things that many businesses say in the regions is that we want direct flights from the region to key markets in the Far East and also on the West Coast of America, and some of the infrastructure that we have—for example in terms of Birmingham International Airport—the runways are not long enough to in fact provide those direct flights, so it is incumbent on us to provide the infrastructure to allow the airlines to come in and actually supply the routes that folk need. That is part of it and the other aspect is that we have got to improve the links with Heathrow, particularly the rail links with Heathrow. A lot of people are put off by the fact that at the moment you arrive in Euston by train or St Pancras or wherever, you get on the Tube and you get on the Heathrow Express at Paddington and eventually you arrive at Heathrow; by that time you could probably have flown to Amsterdam if not direct to your own destination, so this is where we have got to have some sort of integration of the transport policy to ensure that we get people in the most efficient way and the most environmentally-friendly way to their destination.

**Chairman:** Mr Stringer, is it on that point?

**Q192 Graham Stringer:** It is on that point because it is an absolutely fundamental one. The fact is that over the last 15 years the number of intercontinental routes from Birmingham and Manchester has shrunk and the total number of passengers using regional airports has also shrunk. Some of that is the recession but some of it is structural within the industry. What is the RDAs' response to that?

**Mr Paul:** We are working with partners and working with government encouraging partners and government to look at regional airports as a key part of the economy, which is why you can see us working in Birmingham, as I say, with the extension of the runway, you can see us working in Manchester in fact helping to build the third platform at Manchester Airport, you can see it in the North East because in Newcastle I know with route development for businesses One North East is working there. All of the regional development agencies see it as vitally important to ensure that you get the growth and the expansion of their regional airports.
Q193 Graham Stringer: That does not quite answer the point. It is true, but the capacity has been there — there have been flights to LA from regional airports that have gone, BA has withdrawn all its intercontinental services from the regions even though the capacity is there, so is there another way of tackling that issue with the regional development agencies say?

Mr Paul: I would like my fellow-panellist from Newcastle here to answer that question if he could.

Graham Stringer: I have tried to bring many of these flights to the UK myself and I want to know the answer.

Q194 Chairman: Is there anything that the RDAs as organisations looking at regional economic development have thought of on this issue?

Mr Paul: We have certainly looked at where there is a problem because of the infrastructure in the airport not being adequate, and we have certainly looked at route development. I know some RDAs have supported route development and One North East is one of them, which is why I am suggesting that Graham answers the question. I do not think anywhere — that I have heard of anyway — that there is a silver bullet and that is the answer to it. I am not aware of it.

Q195 Graham Stringer: What I am trying to really say is that 10 or 15 years ago it was possible to think of Birmingham, Glasgow and Manchester building smaller but substantial intercontinental routes to the States and to the Far East. All the evidence is that that is going. All the RDA plans as you say have the development of these routes as fundamental to the region; I hope the answer is “No” to this but one has to be as objective as we can be. Has that time gone and do your RDAs need to rewrite their plans, or is there some evidence that these intercontinental routes will come back, because the carriers are by and large consolidating at Heathrow and other European hubs and not at those three big airports. Are the proposals in place now?

Mr Mason: I can help. I am speaking in relation to North East England again and the experience at Newcastle, and bear in mind that the North East is a smaller marketplace and therefore it is not necessarily capable of supporting the same scale of services that perhaps Manchester and Birmingham have supported in the past. Our strategic long term plan is for two long haul services, scheduled long haul services; we have delivered one of them which is the Emirates service to Dubai and the second one that we would aim for is the New York service, and that would then serve the North East from a global point of view with the long haul carriers from the Middle East and from North America coming in to a UK region to compete with the hub carriers that are operating in Europe such as British Airways, Lufthansa, KLM and Air France, but really that is the limit of the potential in our view in the next ten years.

Mr Hoey: Can I make a comment in terms of Northern Ireland? I have not compared notes with Graeme prior to this but we have exactly the same aspirations, except we have got it back to front or front to back. We have the New York service and we would have the same aspiration to develop a service into the Middle East and possibly also Canadian services, but to touch on some of the questions that have been asked, the critical issue is sustainability. In Northern Ireland the issue of Heathrow access is very important, has historically been very important and, indeed, other attempts to open up mainland European hubs have not been particularly successful and Heathrow still plays a very important role in the mind’s eye of business and consumers in Northern Ireland. In terms of other routes we have been varying successful in terms of opening up mainland European routes, but for various reasons — volatility in the market, economic changes and the influence of Dublin which is another variable that we have to deal with outside of our own economy — achieving a balance in order to retain services and get the capacity and service provision correct remains a challenge. I suppose the bottom line issue on sustainability is we want to get to a point in terms of the development of services to and from our region where we avoid volatility and retain confidence from an operator perspective in order to build.

Mr Mason: If I could make a very, very brief comment to add to what I have already said, and that is that it has been an extremely difficult process to deliver long haul scheduled services into a peripheral region. I am sure my colleagues on either side would concur with this and it does require regional partnerships to come together to attract an airline and then to retain it and ensure that the public within the region support the service. This very much applies to the current Emirates service into the North East.

Q196 Chairman: Does the 2003 White Paper pay sufficient attention to regional development in terms of airports or does it need changing? Mr Hoey.

Mr Hoey: That is, I suppose, our central concern, that the Aviation White Paper in terms of Northern Ireland is very light and our concern moving forward is that any review of it would make it more fortified and robust in terms of giving guidance as to how air services to and from Northern Ireland should be developed.

Q197 Graham Stringer: I would assume the two Belfast airports are still separately owned.

Mr Hoey: Yes.

Q198 Graham Stringer: Do you think it would be to the benefit of the Northern Ireland economy if they were amalgamated?

Mr Hoey: I suppose to a degree it is a hypothetical comment in that at the moment they are both under separate ownership and private ownership. I suppose the issue in terms of developing air services in our region is that both ourselves and Belfast City Airport have to secure private funding in order to develop the facilities. We do compete with and are
impacted seriously by the influence of Dublin and I suppose the issue going forward is to gain a position of stability and remove volatility so that we can get a platform in order to develop the Northern Ireland economy from a strong base.

Q199 Graham Stringer: I believe I am right in remembering—but correct me if I am mistaken—that about ten years ago there were proposals to amalgamate the two Belfast airports and the competition authorities said that it would be anti-competitive. BAA exists in London and it always struck me as very odd, but what you are saying is there are no proposals at the moment.

Mr Hoey: Certainly not that I am aware of. I suppose it is an entirely unique situation. I do not believe there is anywhere else in the world with a population the size of Northern Ireland that has a similar situation.

Q200 Graham Stringer: It must make it much more difficult to compete with Dublin.

Mr Hoey: It is very difficult in terms of volatility and in terms of the advantages which Dublin possesses in respect of scale, in respect of taxation benefits, in respect of road access, and the challenge is that if routes start and fail it becomes even more difficult to compete with Dublin in the medium to long term.

Q201 Chairman: Is there sufficient co-ordination between the Department for Transport and the devolved administrations in relation to aviation policy?

Mr Hoey: The challenge that we face in Northern Ireland is that we have got a number of devolved remits such as economic development, enterprise, trade and investment et cetera which need to dovetail into aviation so that aviation and a line of development for aviation can support economic development. But aviation remains a reserved matter to Westminster so I suppose there is a sort of bifurcation there in terms of how those two things can work together.

Q202 Chairman: Mr Duthie, have you any comment on that?

Mr Duthie: Yes, I would agree entirely with that. Obviously we have some devolved powers in terms of dealing with the PSOs and we also have the Government who run a number of airports in the Highlands and Islands, so we do have some direct input into the process within the Scottish system, but if I can go back to the question asked originally which was how one might manage the increase in the capacity of Heathrow, there have always been three means of doing that, either through a PSO, through licensing or through some planning process. Clearly the French have tended to use the PSO mechanism—not necessarily without direct subsidy but at least they are constrained to guarantee that slot—and we certainly see that the planning process may be a means of doing that in the future if there is growth at Heathrow by perhaps putting a planning constraint on the nature of that growth on the basis of the economic benefit it should bring to the UK. That may be a way of going forward.

Q203 Chairman: If the UK’s transport needs could be met by hub airports outside the UK should that be a problem for us?

Mr Paul: I believe so. It goes back to a point that was made some time before. Businesses require as much as possible direct flights and at the moment Heathrow provides that, although at the moment it is constrained as we know because it is full. There is an interdependence—to come back to a point that was made before—between tourism and also business in order to make a flight economic, in order to have the sustainability of that flight and therefore it is not a distinct business flight or a distinct tourism flight, is it, it is a mixed flight; therefore the UK needs as a matter of extreme priority to have a very, very efficient hub international gateway. That was the key message—going back to an earlier question—of the 2003 White Paper, and certainly from a regional development agency point of view we think that that White Paper was very good because for the first time it set the direction of travel and the strategy for air travel in this country. Secondly, it has stood the test of time because here we are five or six years later and, on the face of it, the key parameters in there are still the key parameters going forward albeit that it needs a bit of refreshing, and I understand that that is what is going to happen. To my mind it was a good document and it set the direction of travel.

Q204 Chairman: Mr Mason.

Mr Mason: Despite a lot of the work that we have done over the last few years to improve connectivity to the North East regions it is still not as well connected as the region it is competing with. For that reason we and our regional partners have an objective to retain as many of our hub connections as possible. If you look at Europe we have a hub connection to Heathrow, a hub connection to Paris, a hub connection to Schipol, they are the three main European hub connections. Over the course of time they will all come under threat in terms of our ability to connect into them, so if we were to say as a region let us just forget about Heathrow, we will rely upon the overseas hub airports, then it is a short term strategy unfortunately because they will all come under increasing pressure and we will not have the option of going back to Heathrow. We did think long and hard about our position in relation to Heathrow runway 3, we understand all of the arguments against it, but on balance we decided that we would be supportive of it, but it would be a conditional support, and this hopefully answers the question you have asked a number of times this afternoon, and that is that our view is that the only mechanism to link a decision on Heathrow and protection of some of the regional services is to impose a planning condition on the third runway. That may not be palatable to BAA or British Airways but it is the sort of put your money where your mouth is scenario to
us when we are asked to give that proposal support. That is the way forward as we would see it. That does not necessarily bridge the gap in terms of the threat to our slots into Heathrow because let us say the runway is not constructed for 10 to 15 years, we are still going to have to work very hard to retain the slots in the intervening period.

Q205 Graham Stringer: Would a high speed rail link that went from Newcastle to Manchester Airport and down to Heathrow be a threat or an opportunity to Newcastle?

Mr Mason: We see it as an opportunity. We have again given it a lot of detailed thought in terms of high speed rail and obviously this is in an if scenario, if it happens—we let us not get into the argument about whether it is going to happen, but if it does then we believe that it would be very, very positive for UK Plc. If it connected into the North East region then it would be very good news for the North East region to be part of that network and if it did come into the region then our strong view is that the station should be located at the airport. That delivers all of the connectivity and interchange benefits with very few of the disbenefits because we would still have the passengers, the passengers would still come into the airport and, potentially—for example if they are travelling to Heathrow—they could clear security and get on the train, their bags could be checked in and you would have a seamless transfer. We are therefore not losing a huge chunk of our passenger numbers, thereby undermining the regional airport business, so that scenario would be a win win.

Q206 Chairman: The Government has proposals for reform of the economic regulation of airports; what impact would that have on the regional airports? Does anyone have a view on that?

Mr Hoey: I suppose it depends on how stringent the economic reform would be. In the earlier session there was some discussion about influences that might deplete demand or marginalise the number of people who might be able to fly and I suppose there are a number of issues—there is the taxation issue, there is increased security and demands on a number of aspects which are going to make it more difficult in terms of cost retention going forward. I suppose where I see some value in economic regulation is if you have a scenario where the structure market is in danger of breakdown because the free market is actually creating too much instability and regulation would actually help airports to retain a level of margin. Perhaps there is then some value in regulation.

Q207 Chairman: What does all that mean? Does that mean the Government’s plans would be helpful or unhelpful?

Mr Hoey: If there were regulation that said, for instance, airports have to have certain charges—there is a danger in terms of mergers from the tour operator side and the scheduled airline side where carriers are going to become so strong in terms of their negotiating position that potentially in a free market circumstance they can actually force airport charges down to an unviable level. At that point if charges were regulated to a certain level there may be some value in terms of retaining and sustaining the viability of airports in the regions.

Mr Mason: The consultation document that is currently out would suggest that a lot of the regional airports might fall into the intermediate category where there would be an increased level of regulation and a requirement to consult and potentially publish details of our airline deals. We would be concerned in a situation where we had to publish our commercially confidential airline deals; that would be bad news for regional airports. The nature of the regional airport marketplace is that airports are competitive and do competitive deals in order to get airlines in. All of that hard work that I have already described is complemented by a razor-sharp deal for the airline and it could put those airports that, by virtue of their size—over five million passengers has been suggested—fall into that category at a competitive disadvantage to the ones that, by virtue of their size, are just under and do not have to publish the deals that they do with airlines. A deal that is done at Newcastle could be an open book to the airports down the road that are not subject to that particular regulation, and that is not a good situation to be in. The other element of regulation where there is a requirement for those intermediate airports to publish more formally environmental information we would wholeheartedly support.

Q208 Chairman: There are new provisions in the Policing and Crime Bill in relation to security in particular; how would those regulations affect regional airports? Does anybody have a view on that?

Mr Duthie: If I can start from there being a low level of security, obviously when we talk about regional airports you get to local airports beyond that in the Highlands and Islands and the issue there is that basically we would prefer everything was done on a risk basis whereby we looked at even levels of risk across the complete network. If you are dealing with an airport that is licensed and is dealing with 200 people on an island you do not need a Heathrow-type security system but you do need security. We need to assess the correct level of security relative to the risk that is involved. The other issue in aviation is that aviation has been particularly focused on in terms of security, other modes have not done to the same extent yet, but it is obviously an issue to make sure everything is dealt with on a reasonably equitable basis; that is the challenge.

Q209 Sammy Wilson: This is probably more particular to Northern Ireland than the other regional airports but in terms of the introduction of e-borders and the problem that there is in Northern Ireland with the common travel area and the fact that there are not the same rules and regulations and restrictions for people coming through the Republic, what assessment has the international airport at Belfast made of the impact of the e-borders
legislation and requirements on passenger travel in terms of additional security, the cost of additional security and delays?

**Mr Hoey**: That is a very good question and I do not have the whole answer to it, but I know there is ongoing assessment. Obviously the concern that we have and probably would share with all other regional airports is that security is a fact of life. The costs are there and they are going to have to be borne and passed on in terms of eventually the cost of the air fare I suspect. There is also an investment burden that exists in the system as a result of changed security requirements where, in order to take credence of changed passenger behaviour, there are a number of initiatives which most airports are having to undertake to invest in and change their infrastructure around in order to basically maintain levels of commercial spend, and certainly we are engaged at this point in time along with a number of other regional airports in reconfiguring the inside of our terminal to make less of the facility land-side and more of the facility air-side in order to assuage the concern that passengers have about passing through the security system in order to be relaxed. I suppose the e-borders matter is an issue, along with a number of other security initiatives. It is peculiar to Northern Ireland and it is going to potentially add another burden to the airports in Northern Ireland but as I say the issue at this point in the review of the costs and the full implications of that is still on-going.

Q210 Sammy Wilson: How helpful has the Home Office been in terms of the arrangements and indeed in terms of supplying the kind of information which is going to be required for passengers? It has been diluted somewhat now but at one stage people who were travelling through Northern Ireland airports or ports were going to have to give two or three days notice of their travel; has there been any clarification as to the degree of notice so that security checks can be done for people moving from Northern Ireland to other parts of the United Kingdom as to the amount of detail, how far in advance that information has to be given and who is going to do the checking, how it is going to be done?

**Mr Hoey**: For me to give you an answer to that question I would be unfortunately straying into territory that I am not fully au fait with. I know there has been a large amount of toing and froing on the subject and it is being dealt with within the airport management team at the moment, but I am not quite sure what point we have reached in terms of the amount of information that is coming and going between the parties.

Q211 Chairman: Are the needs of general and business aviation dealt with adequately at regional airports; does anyone have a view on that?

**Mr Duthie**: Certainly within the Highlands and Islands there is a lot of general aviation and there is always a bit of a challenge to keep general aviation and commercial aviation going in that kind of middle size airport, which is probably smaller than Newcastle and Belfast Airports. It is a challenge for everyone but as airports grow you have to look more towards the commercial side of the equation.

**Chairman**: Thank you very much for coming and answering so many questions.

*Witnesses:* Ms Tina Tietjen, Chairman, Air Transport Users’ Council, 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), gave evidence.

Q212 Chairman: Good afternoon, could I ask you all to identify yourselves, please, for our record?

**Mr Cooper**: I am Andrew Cooper, I am the Director of Development for ABTA.

**Mr Smith**: Anthony Smith, Chief Executive of Passenger Focus.

**Mr Evans**: Simon Evans, Chief Executive, Air Transport Users’ Council.

**Ms Tietjen**: Tina Tietjen, Chairman, Air Transport Users’ Council.

Q213 Chairman: Would you say that UK air passengers get a good deal? Who would like to comment on that; you must have a view. Mr Evans.

**Mr Evans**: The short answer has to be yes and I say that principally because of the explosion of the different services we have had, starting with the no-frills carriers and then the responses from all the other carriers in terms of the vastly increased range of choices that we have now from all airports throughout the UK. One of the huge benefits of liberalisation in the EU has been that it has facilitated the development of many, many more routes and, particularly within the EU, people no longer have to travel to London for example from the regions to access their destination. Certainly in terms of fares it has to have been good news as well, when you see newspaper adverts for fares to Europe for £10—whatever you might think about what that is doing to the environment, for air passengers that is certainly a benefit that they did not have ten years ago. We would say that one of the areas where passengers perhaps are not getting as good a deal as they might do is not in terms of the pricing or the product choice and so on, it is in areas where the rush for liberalisation and the commercial imperatives under which the airlines operate, they perhaps are cutting corners in areas of customer service where we think they might be on the margins of what is acceptable and maybe there are areas where more could be done to bring them in line with consumer protection legislation which has accompanied the legislation that has facilitated the liberalisation in Europe. As I said, the short answer is yes but it comes with caveats from our perspective.

**Mr Smith**: It was very interesting this afternoon that a lot of discussion has been about the railways as well as the airports and airlines. From some of the initial analysis we have done on the consumer view...
of air and rail travel it is remarkably similar in that four out of five air passengers and four out of five rail passengers state that they were overall satisfied with the journey they just undertook, but it is very interesting looking at the issues which passengers raise in terms of concerns. For long-distance rail they are very similar to air in terms of punctuality, the way that delays are dealt with, the presence of staff, access to the airport and how capacity is allocated, which were some of your discussions this afternoon. The short answer to your question therefore appears to be that rail and air seem to enjoy a similar level of satisfaction and a very similar level of concern about some of these underlying issues. **Mr Cooper:** If I could just add to that very briefly, I would agree entirely that air travellers do generally get a good deal, and if you just take as a very simple measure of that the fact that in general the British are probably one of the most travelled races on earth. Our population are willing to travel and do travel more widely than virtually any other country in the world, and that is probably a sign that they are doing it because it is a good means of travel.

**Q214 Chairman:** How do our airports compare with other European airports? **Mr Cooper:** In general it varies enormously in that there are good aspects and bad aspects. If you look at somewhere like Heathrow, Heathrow suffers from too many people trying to go through too small a space with a limited amount of investment over a period of time in terms of passenger facilities. If you compare that to the other big hub airports of, say, Schipol or Charles de Gaulle, they have had more investment in the passenger facilities and therefore the overall passenger experience I would argue is probably better. If you take the airports in the UK as a whole it is very hit and miss, there are some airports where service is generally good and some airports where it can be a bit lacking, so the experience could be better but is not bad.

**Q215 Mr Clelland:** Will additional capacity at Heathrow be beneficial and, if so, what will the principal benefits be? **Ms Tietjen:** We advocate additional capacity at Heathrow. We put forward our view that in terms of sustainability the polluter pays, therefore the passenger would pay, but we believe in terms of economic arguments as well as passenger arguments increased capacity would be helpful to the economy as well as helpful to the passenger in terms of increased choice. **Mr Evans:** That is absolutely the view we have and if you look at the number of destinations that are served from Heathrow compared with some of the competing hubs—which I am sure you have done in your inquiries—there is plenty of timeline reporting that shows how the number of destinations has gone down. That is a subjective decision and a discussion as to whether or not it is desirable to have more destinations, but clearly the hope would be that passengers will be offered a greater choice of destination and possibly additional capacity would facilitate greater competition so we might have competition between carriers at the airport in terms of fares competition and perhaps competition of product, but in the liberalised environment in which we operate there is no guarantee that what you hope for from additional capacity will transpire and who knows that you would not just have the incumbent carriers using the capacity to increase frequencies to the destinations on which they make more money. It would come with caveats, therefore, and the discussion in the earlier session was particularly interesting because of course part of the rationale for a third runway is that you could facilitate improved services to the UK regions. The jury would be out as to whether the airlines would decide that was the best use of the slot.

**Q216 Mr Clelland:** Is that how you would like to see the additional capacity used? **Mr Evans:** It is a question that, as an organisation, we have ducked in a way because we have tried to avoid putting ourselves in a position of choosing between different sets of air passengers because obviously if we promote the interests of one we possibly are prejudicing the interests of another group of passengers. In the response as I remember to the discussion over runway 3 our formal position was that we would not object to some mechanism being put in place to hypothecate some of the slots for regional services. As I say, that is our position with caveats. **Mr Cooper:** One of your witnesses made the comment earlier about the fact that Heathrow is effectively a completely full airport as it stands. Adding additional capacity at the very least enables it to be a more resilient airport. One of the big problems we experience at the moment is that at the first hint of bad weather, the first hint of any problems at all, flights are taken out of Heathrow just because they cannot physically fly. From a simple commercial perspective an airline like British Airways is going to focus first of all on taking out its more easily replaceable routes so the domestic and short haul flights are the first ones that are dropped if bad weather hits. At the moment it is domestic and short haul passengers who lose out at the time of bad weather. If you have more capacity you have more resilience, therefore you have less risk of that type of problem occurring, irrespective of any overall increase in the volume travelling through Heathrow.

**Q217 Mr Clelland:** Would it, for instance, provide greater reliability or more destinations? **Mr Cooper:** It should do. There are two aspects: one is that if you have more capacity you have more opportunity to travel to more places so there is potential if the market demanded for the airlines to supply because quite clearly it is a simple economic model. From the resilience perspective as well there has to be an improvement in overall service if there is more capacity, there is more opportunity to deal with problems. **Mr Smith:** It would be interesting to draw an analogy with what is happening on the railways. As you know, there are parts of the railway system which are absolutely bursting and have been highly
successful, and the attempts to produce more capacity are proving quite painful. One of the debates that is going on at the moment is about how you allocate some of that extra capacity and it is interesting that on the railways the Government takes the view that it is the one that hypothecates the long distance routes and it is the smaller operators who are trying to provide the direct services which we heard a lot about this afternoon. Given the consumer viewpoint it is difficult because everybody wants a direct train, but some of these hard decisions have to be made on a better basis than they have been made in the past.

Q218 Mr Clelland: Talking about trains do you think that high speed rail is likely to merely reduce the demand for domestic flights or will it add to the demand?

Mr Smith: All the history of adding extra capacity to the railways shows is that it is soaked up very, very quickly. The increases we have seen in Welsh rail services and in Scottish rail services—they have been massively over-subscribed and there is a huge untapped demand for rail travel. The provision for high speed rail as previous witnesses have said is not an either/or, it is something you would probably do in addition, but the facts show that these are consumer issues; people choose the mode of transport that is the most convenient, the most cost-effective, the fastest for them or whatever. In many cases where higher speed rail is put in air markets do decline, but that is not always going to be the case, it is very market-specific.

Mr Evans: We would agree with that analysis. The one point I would add is this rather inconvenient factor of us being an island, and an island on the periphery of the continent, so there is always going to be a limited extent to which rail services really give viable alternatives for journeys into Europe, particularly for people who would have to travel a long way south in England to access the high speed rail. The complementarity, yes; substitution possibly but not for all passengers who want to get into Europe.

Q219 Mr Clelland: Should we be concerned if other European hub airports were used as an alternative to Heathrow?

Mr Evans: Not significantly, and for the users in the regions if what they want is access to a hub through which they can connect to international destinations, then nobody should be prescribing which hub they should travel through. In some cases the choice would be based on geography—if they were going East it might be more convenient for them to transfer at Frankfurt for example, whereas if they were going West they might prefer actually to transfer at Heathrow or something like that. There are the regional development and the economic arguments which of course we understand, but in terms of passengers it is a moot point whether they should need to fly over Heathrow as opposed to somewhere in Europe.

Mr Smith: It is quite interesting to see the way that the pattern of use of Eurostar services has changed completely since its terminus altered from Waterloo to St Pancras. Now when you look at the spread of how passengers are using Eurostar the boost from the east of England and the north-east of England has been immense whilst the use from the south-west of England has declined. The use in Kent: the jury is still out as to what might happen, but clearly the location of those types of hubs makes an enormous difference to the choices that people make.

Q220 Mr Clelland: What difference do you think it would make then if these hubs were used as an alternative to Heathrow?

Mr Smith: It is a consumer choice issue. If consumers are best served by that well so be it because as previous witnesses have said if the air industry is not driven by consumers who is it going to be driven by?

Q221 Mr Clelland: What would be the economic impact in terms of the UK?

Mr Smith: I am not sufficiently qualified, sorry, to answer that question.

Q222 Chairman: You are answering this purely from the point of the traveller, Mr Smith.

Mr Smith: Yes.

Q223 Chairman: There are other issues. Mr Cooper.

Mr Cooper: One of the concerns would be that if you move your hubs to other countries then you are likely to reduce the total number of destinations from Heathrow and you are reducing the choice of the British traveller because whilst there will be some people who would move their departure point and would travel over Amsterdam or Paris you would actually lose the accessibility for a number of destinations, so our view is that you would lose out if you did end up encouraging hubs elsewhere. From a personal perspective as a traveller based in Manchester I find myself preferring to fly through Schipol to Heathrow purely and simply because the travel experience is better, but from the point of wanting to travel from the UK to other countries, having the choice through Heathrow is beneficial overall and there would be an economic downside. I have not got the numbers to demonstrate this but I have seen numbers on this which show that the economic benefit of a flight far outweighs the cost of putting it on, therefore there has to be a downside. If you reduce the amount of traffic you reduce the economic benefit being produced by the aviation.

Q224 Ms Smith: I just wanted to talk about passenger protection because of course we have all seen the horrendous scenes when passengers are stranded, as was witnessed when XL collapsed last year. ABTA and the Air Transport Users’ Council both believe that comprehensive and mandatory protection should be introduced, but the Government rejected the scheme suggested by the Civil Aviation Authority, which was a £1 levy on
Q225 Chairman: Mr Evans, what argument has your organisation pursued in the interests of passengers?

Mr Evans: That passengers should be protected against the risks to them of an airline going bankrupt, the risks being for those who have not yet travelled that they will lose their money, and for those who are overseas they will be stranded and they may find it very difficult to get home in terms of practicability, and you will not necessarily always be able to resolve that one for them at the time, but it can be very costly to get home. Those are the risks that we think there should be some protection against. There are various ways, as I know you have discussed in previous inquiries, in which passengers can protect themselves but that really brings us back to the point about information and understanding and we all would like passengers to be aware of the risk and aware of the measures they can take to protect themselves from the risk. The fact is that it is very difficult to get those messages across to people—it is the sort of information that people only really look for when the problem has arisen, when of course it is too late.

Ms Tietjen: For confused passengers there is the whole business of dynamic packaging. Most of us now do some pieces of our bookings on the internet, go back and do something else subsequently and we do not necessarily know whether we are or we are not covered, so there is a confused customer. Probably a lot of people think that they have some form of insurance when they do not.

Mr Cooper: In simple numerical terms if you look back 10 to 15 years something like 95% of customers who travelled were protected under the ATOL scheme and there were around 30 million leisure customers in the late 1990s going on holiday who were protected under the ATOL scheme. There are now around 55 to 60 million leisure customers if you include both people travelling on holiday and people visiting friends and relatives, and of those less than 25 million are protected, so under half of the customers who are travelling for leisure purposes have any form of financial protection, but if you asked most people the question they would say “I assume I am covered”. If you then ask them to say how they have assumed they are covered, most of them would not actually know the answer. There is just an assumption of protection which now does not exist, which is why we have been saying for a number of years the only solution is to extend the scope of the protection, and we believe firmly that the CAA proposal was the correct one, to have a simple form of levy that applied to all air travellers.

Q226 Ms Smith: You mentioned the assumption on the part of quite a number of air passengers that they are protected, but also I detected a sense of complacency perhaps on the grounds that it does not happen very often and the chances of it happening on my flight are very small because I only fly once a year. Is that also a key factor?

Mr Evans: It probably is and not just in aviation but in a lot of areas where people have to make decisions they weigh up a number of factors and they will choose to take a risk.

Q227 Ms Smith: Do you think that is a factor underlying the Government’s attitude towards this, that it does not happen very often and for those passengers they think it is a very small risk to take?

Mr Evans: Yes. There is a very interesting report on the European Commission website of some consultants—it was only published a few months ago. It is 145 pages but it very comprehensively runs through all these arguments and one of the things that it has is a table that shows that between 2000 and 2008 79 airlines went bust in Europe. The report goes on to give details of the passengers involved, so it is a bigger issue than just the UK but another part of the discussion—which is not original—is that in this liberalised environment where airlines, provided they have got a licence, can operate services where they get slots for example—

Q228 Chairman: How many airlines are in danger of collapsing in the UK market in the next year?

Mr Evans: At the moment I do not know and I would not like to say because you do not like self-fulfilling prophecies, but this report that I have just alluded to did also say that since 2005 there have been more failures in the UK than in any other European country—it was only six but it was more than any other European country.
Q229 Chairman: Surely as a consumer organisation you must be concerned about what might be about to happen, so have you made no assessment of the likely collapse of airlines in the next year?
Mr Evans: We have not internally, no. We are aware of other people expressing concerns.
Ms Tietjen: It would be fair to say that the CAA keeps a very close watch on the economic viability of certain carriers.

Q230 Chairman: What are they saying to you?
Ms Tietjen: There are chats within the industry about airlines likely perhaps to fall over.
Mr Cooper: One of the problems with that argument is that there are a lot of airlines operating in the UK which are not regulated by the CAA. The only airlines regulated by the CAA are those that have UK air operators licences and the facts are that there are numerous carriers operating in and out of the UK that are regulated by other countries and the level of control is different to the UK. I would not necessarily say it is less but it is different, and there is not necessarily the financial monitoring that the CAA intend to enforce. But even then the CAA do not have power to take away an airline’s licence and if they did then you would be in exactly the same situation as if the airline actually went bust because there is no form of protection in existence. There is no easy solution to this other than, we would argue, some form of financial protection applying to all air travellers.

Q231 Ms Smith: The proposal from the CAA was for a £1 levy for each flight from each passenger; do you believe that the majority of air passengers would find that an acceptable cost in return for the kind of protection you are talking about?
Mr Cooper: I believe so. If they knew the risk they were taking and if you said to them that risk could be mitigated and removed by the simple imposition of a £1 levy—I would be staggered if anyone objected to it. People are paying at the moment £10 to £15 to use a credit card to travel on many of the low cost carriers; why would they object to paying £1 for financial protection?

Q232 Ms Smith: The proportionate aspects of the Government’s rejection of all this may have pertained more to the fact that they do not believe that many airlines are going to go rather than, as I see it, being proportionate in relation to the perspective of the air passenger. £1 is not a lot of money to be protected and it sounds as though the Government’s idea of proportionate is the measurement of how often it may happen.
Mr Cooper: I repeat Mr Evans’ line about the perspective of the airlines. It appears to be that the strong subsidise the weak in some way; in reality where you are at the moment if you look at the existing CAA financial protection regime for ATOL holders, 40% of the income is derived from the customers of two companies because TUI and Thomas Cook collectively carry something like nine million customers and pay 40% of the total levy going into the pot, so if that is not the strong subsidising the weak I am not quite sure what is.

Q233 Sammy Wilson: Whilst I understand the arguments that some airlines may feel that the strong are subsidising the weak et cetera, would one other way to approach this not be to have a requirement for those bookings which are not covered by insurance to carry a clear warning. I must say that in some of the cases that have been brought to me, at first sight it would appear that there was cover offered or promised on the booking, but when you read the small print of course with all the qualifications in effect there was no cover. If there is resistance from the Government in imposing this £1 limit, which I must say I fail to see the sense of, could we not approach it from another side so that at least we give people strong warnings that there is no cover here and they then make a decision to proceed on that basis?
Mr Cooper: We would support the concept of strong warnings as at least being a starting point; I do not think it could be an end point though. It is all very well saying you should warn, but if you look at most bookings being made on the internet there are 101 things and you can click through the booking conditions, you can ignore the things on there, so how visible do you make the warning and does the customer really believe it? The most recent survey undertaken to look at the perception of customers as to whether they were protected or not showed you still have over 70% of customers who believe they are protected, irrespective of whether they are or not. There are voluntary schemes in place now and the DfT have agreed with the airlines that they will voluntarily put information on their websites and elsewhere, and the Directgov website has now got a specific explanation on this. I still do not think that most customers think about it as a problem and I do not believe that customers are consciously taking a risk, they are unconsciously assuming that they are protected and even with the best warning system in the world it would take years before customers really understood whether or not they were protected. I do not think that a voluntary means of saying you are not protected would necessarily do the job.
Ms Smith: There is an interesting issue about consumer information here. Luckily not many rail franchises do fail and hopefully there will not be too many more in the future, but some of the internet retailers in the rail sector offer insurance, which is actually pretty unnecessary by and large, and we have argued very strongly that that should always be on the basis that you opt into the insurance if you want it and there is a £1 charge that attaches to it. That does focus people’s attention quite dramatically even if it is only £1.

Q234 Mr Martlew: I have to say that I was probably the one member of the Select Committee who supported the Government. Mr Cooper, you
mentioned somebody paying maybe £16 with their credit card but does that not give them insurance cover?

**Mr Cooper:** Only if the total cost they have paid is more than £100 and there are various other conditions. The restriction about it having to be made in the UK has now lapsed.

**Q235 Mr Martlew:** But in the main people who do pay with a credit card and they pay over £100 are covered, are they not?

**Mr Cooper:** It covers the cost of the refund of what they have paid for their journey. If I am stuck in Latvia, having to get back to the UK and there is no alternative flight so I have to pay four times as much to get back, I am not going to have four times as much back.

**Q236 Mr Martlew:** If I was going to Latvia I would take out holiday insurance as well but is there not a danger that a lot of the people you are talking about, take out holiday insurance as well but is there not a Q239 Mr Martlew:

**Mr Cooper:** That is in essence doing that. Let me give you what is hopefully a relatively simple example; I will not take one of the big two I will take the example of the Monarch-Cosmos Group. Monarch Airlines is the major charter airline in the UK which also sells scheduled flights. Cosmos as a group sell package holidays as Cosmos and they also sell package holidays as Monarch Holidays; those holidays are all protected. They sell seat-only arrangements with Monarch Airlines which are not protected, they sell flight-only arrangements through a subsidiary called Avro which are protected, they sell accommodation-only arrangements through a company called

**Mr Cooper:** Yes, absolutely.

**Q240 Mr Martlew:** But again you come back to the situation where the strong are protecting the weak.

**Mr Cooper:** No, they are not; the customers who have chosen to travel on this particular occasion with Virgin Airlines have paid £1 but if they decide to travel next week with Sky Europe or with Ryanair

**Q241 Mr Martlew:** I am very impressed with the way you dealt with that but I do not think it actually deals with the situation at all. Can we come to the situation about the two big travel companies? My understanding is that the money in the pot would not cover a major problem at the moment—we got this from the CAA—and if we increase the pot is it not likely that these two companies will move away from that and take out their own insurance?

**Mr Cooper:** At the moment that is not an option that is available to them per se in the sense that if you sell a flight and you are not the airline operating that flight you have to hold an ATOL to do so: you cannot simply walk away from it. What the big two operators could potentially do for some of their seats—because a certain proportion of what they sell are seat-only arrangements—is say “If I am selling to Mr Martlew a flight on a Thomson Fly aircraft” at the monument that is sold to you by Thomson Holidays. Thomson Holidays as an ATOL holder have to charge you the levy to pay on to the CAA. If they chose to sell that flight to you as Thomson Fly and sold it directly then they could potentially avoid paying the levy in that instance. That would take a certain proportion of seats out of protection but it would not take all of them out of protection.

**Q242 Mr Martlew:** You are saying they cannot actually opt out.

**Mr Cooper:** They cannot opt out, no, because the ATOL scheme is a compulsory scheme. What they could do is rearrange their business model to reduce the number of customers who are protected. Where they are at the moment philosophically is saying we would prefer all of our customers to be protected so that is what we are doing; there comes a point where economically it becomes challenging if you are paying a lot more than your competitors to behave in a certain way, and then at that point they may well review their position, but where they are at the moment is that they want their customers to be protected.

**Q243 Chairman:** Mr Cooper, in ABTA’s written evidence it refers to operators considering unbundling their products. What is the significance of that?

**Mr Cooper:** That is in essence doing that. Let me give you what is hopefully a relatively simple example: I will take one of the big two I will take the example of the Monarch-Cosmos Group. Monarch Airlines is the major charter airline in the UK which also sells scheduled flights. Cosmos as a group sell package holidays as Cosmos and they also sell package holidays as Monarch Holidays; those holidays are all protected. They sell seat-only arrangements with Monarch Airlines which are not protected, they sell flight-only arrangements through a subsidiary called Avro which are protected, they sell accommodation-only arrangements through a company called
with is—you will know better than we do probably—three pieces of work around what should happen in the industry. Obviously this is the third one on economic regulation but we have had both Pilling and the CAA’s review. The AUC has been very active in saying that we would like to see the CAA take a more advanced view on the consumer, and that is what seems to be coming out of all of this. We are very happy about that because we in fact have been lobbying for that, but we feel that as that role for the CAA has yet to be teased out in terms of how it is to be developed in practice, we would suggest that it is therefore premature to decide what should happen to the consumer part of the operation, the consumer representation part before the role of the CAA is quite clear in this area.

Q248 Chairman: Mr Smith, you have responsibility for rail consumer issues and bus and coach; could you take on air as well?

Mr Smith: That is right, Chairman, we have responsibility as the independent passenger watchdog for rail in Great Britain and more recently for bus and coach in England, and Mr Stringer and some of his colleagues were very supportive of the extension of our remit to bus and coach, which is also a very liberalised industry. Passenger Focus would be extremely happy to start work on air passenger issues if the Government so wished. The principle of having independent regulation matched by independent consumer representation is extremely well-established by various governments in the energy, post, water and rail sectors and a merger of the skills, knowledge and experience of the Air Users’ Council and Passenger Focus’s research-based, independent, advocacy-driven approach on the ground would be very positive for passengers. The key logic of all this is integration; we all use buses, we all use rail and we all use air. The representation of passengers should be driven by the consumer and not by the structure of the industry with which they are confronted. As I have said in previous answers, this is about consumer choice and increasingly as governments start talking about the joined-up journey, how people get to the airport, how people get to the station, it just seems logical to join up passenger representation in the same way.

Q249 Chairman: Mr Cooper, do you have any views on this?

Mr Cooper: At the moment we are still in the position of trying to form our policy in this particular area but I would just highlight two points that we have concerns about. Firstly, aviation as an international industry obviously works in a slightly different way to the more domestic industries of rail, bus and coach. That is the first point and, secondly, as I understand the way Passenger Focus is funded for the other sectors it is primarily funded from DfT whereas the airlines themselves fund the AUC, so you clearly have a completely different issue of funding, and I am not sure how that is to be addressed. Those are concerns we would really like to see answered but we have no strong views one way or the other at this stage.
Ms Tietjen: I accept those points that have just been made. The other thing is that the AUC has built its advocacy role with airlines which has been quite instrumental in creating quite a lot of change in terms of airline behaviour and in influencing legislative content. It has built that out of its casework; we are not a surveying, testing type of organisation, culturally at the moment we approach casework; we are not a surveying, testing type of legislative content. It has built that out of its terms of airline behaviour and in influencing instrumental in creating quite a lot of change in made. The other thing is that the AUC has built its

Mr Smith: In terms of success if the merger was to take place I hope you would see in front of you a well-resourced, research-based organisation that was putting up a powerful voice for Britain’s air passengers and one which could demonstrate very clearly some of the wins it had had on behalf of air passengers. That would be very much my vision of success and one also which is able to look at the whole journey from the beginning where people start travelling, getting to the airport, getting to the

Q250 Chairman: Could you say a bit more about how you see the integration that you spoke about?

Mr Smith: Integration is relatively straightforward. As I say, we start from the point of view of doing a lot of research about what passengers want, what priorities they have got for improvement and about issues on the railways, on the buses and the coaches. The complaints data is very complementary to that and there is a risk in relying solely upon complaints data because it tends to give you a relatively skewed view. If we relied totally on complaints data on the railways we would spend a very long time dealing with long distance passenger issues and very little dealing with commuters, whereas actually the bulk of rail passengers are commuters. As I said in previous answers there is a remarkable similarity between the way that long distance rail passengers and air passengers seem to look at the world. Given that in the UK domestic market you have got about two long distance rail passengers for every domestic air passenger I do not think they are that far apart in terms of some of the comparisons that can be drawn between them, so in terms of integration we would propose adopting a very similar approach. Just echoing Mr Cooper’s answer the obvious place to start is to look at the airports and look at the passenger experience of getting there and their experience when they are there. What we try to do on the railways is to do research which is then published and is accurate and stands up to cross-examination and we compare operations against each other. We compare train companies and Network Rail against each other and that is a powerful approach which could bring change for air passengers as well, comparing airports, comparing terminals, comparing the passenger experience, which appears to be very different in different airports.

Q251 Chairman: Do any other members want to ask anything? Mr Evans.

Mr Evans: It is not that I am trying to ensure that we have the last word but the situation to which my chairman referred is that our complaints-advocacy work is a function of where we are today in air passenger representation, whereas maybe 10 or 15 years ago we were lobbying in the UK and in Europe because we wanted to change, we wanted legislation or we wanted airlines to change their behaviour. By hook or by crook most of those battles have either been fought and won or fought and lost so now we have a very mature market which is very competitive. It is largely a discretionary market and we have consumer protection legislation. We have aviation-specific consumer protection legislation, which is fairly unusual, and there is some coming along for rail and buses, but the principal area of consumer detriment is cancellations, delay and overbooking and there is a regulation that tackles that now. We have had other legislation in other areas such as assistance to disabled passengers and there has been a whole raft of generic consumer protection legislation, so where we see the need now for an organisation like us for air passengers is we have got the market, we have got the legislation but we need to find out where it is not working for passengers. Really the hardest evidence on why it is not working for passengers is in complaints work, which actually shows up the detriment. If somebody loses their bag they have their complaint with the airline, they know that this has cost them money, they are out of pocket as a result, and it is those sorts of areas where maybe there are just differences between the sectors where the needs of passengers are different. Our concern is to use all we can to work with the outcomes of these reviews to which we have alluded, which have not been finalised yet, to try to ensure that legislation is in force for passengers. One of our main concerns about merging the two together is where you see the different priorities of the different sectors; is there a danger that the air passenger’ voice over time might get crowded out by concerns about things like commuting which actually impacts on people’s daily lives as opposed to a discretionary activity where you want to help them, but if you have to prioritise you may choose to prioritise elsewhere.

Mr Smith: Very briefly, a lot of long distance rail travel is discretionary as well; I really do not see the difference.

Q252 Graham Stringer: If the merger goes ahead and we are sat here in two years time having this discussion with either yourselves or your successors, what would we look for in terms of success or failure in the merger if it goes ahead?

Ms Tietjen: That is a very good question. Mr Evans has said we look at detriment for the passenger. I may have a bad experience in an airport and we all discussed earlier on that that can be a mixed bag in terms of experience, but there is no detriment and so we are looking at quite different scenarios here and that will be hard to establish.

Mr Smith: In terms of success if the merger was to take place I hope you would see in front of you a well-resourced, research-based organisation that was putting up a powerful voice for Britain’s air passengers and one which could demonstrate very clearly some of the wins it had had on behalf of air passengers. That would be very much my vision of success and one also which is able to look at the whole journey from the beginning where people start travelling, getting to the airport, getting to the
station, getting away at the other end rather than just segmenting it into these rather artificial divisions.

**Q253 Mr Martlew:** Surely a lot of people actually travel by car to the airport so that would not cover you.

**Mr Smith:** Outside London a lot of people travel to rail stations by cars and there is a great issue about sufficient capacity.

**Q254 Mr Martlew:** The point you were making is that it is from the start of the journey to the end, and all I am saying is that a lot of people travel by car to the airport, so that is not the case for them, is it?

**Mr Smith:** We look at access to stations whether it is by bus or foot or by car and we would hope to do the same, obviously, for airports.

**Q255 Graham Stringer:** As you know we did a report recently on the passenger experience of aviation and we were quite critical of Heathrow. Are you saying really that you want to focus more on improving that passenger experience, which certainly needs improving, and that might be at the expense of the passenger travelling with Ryanair who is not told their rights when Ryanair’s flight does not take off? So I understand the issue before us, is that really the issue? By the look of you no.

**Ms Tietjen:** Certainly we are interested in the passengers’ rights with Ryanair and we certainly work hard to support the passenger flying with Ryanair, and we have to support many of them it would be fair to say.

**Q256 Chairman:** Mr Smith.

**Mr Smith:** Just briefly on this point about research and complaints, the advantage of doing research and having the research owned by the consumer organisation is that it gives you a very real handle on what the priorities for improvement are, which you can then use with the regulator and the government and others. For example, our research on the railways shows that the overwhelming reason for passengers being satisfied with the railways is that they are on time; the overwhelming reason for the fact that they are dissatisfied is the way that delays are dealt with. We have used that research to get the industry finally to start addressing this issue of how delays are dealt with. By and large people do not complain about that because they cannot be bothered or it is not of sufficient detriment to show up in the complaints. The use of research plus complaints is a powerful combination.

**Chairman:** Thank you very much for coming.
Wednesday 17 June 2009

Members present:

Mrs Louise Ellman, in the Chair
Mr David Clelland
Mr Philip Hollobone
Mr Eric Martlew
Ms Angela C Smith

Sir Peter Soulsby
Graham Stringer
Sammy Wilson

Witnesses: 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, gave evidence.

Chairman: Good afternoon and welcome to our Committee. Do members have any interests to declare?
Ms Smith: I am a member of GMB and Unison.
Graham Stringer: Member of Unite.
Mr Martlew: Member of Unite and GMB

Q257 Chairman: Louise Ellman, member of Unite. I wish to declare that I, with my husband, was a guest of National Express at the 2008 Sports Personality of the Year Award in my constituency. Could I ask our witnesses to identify yourselves please for our records?
Mr Lee: Certainly. I am Andrew Lee, Chief Executive of the Sustainable Development Commission.
Mr Lockley: I am Peter Lockley; I am Head of Transport Policy at WWF-UK.
Mr Gazzard: I am Jeff Gazzard; I am a Board Member of the Aviation Environment Federation.
Mr Ross: I am Brian Ross, I am an Economics Consultant on aviation, including to Stop Stansted Expansion.

Chairman: Thank you very much. Would you say that the 2003 aviation white paper is a robust document, or do you feel it should be revised in any way?
Mr Ross: Part of my evidence sets out to demonstrate that it is not a robust document at all, certainly in relation to its assessment of economic benefits. I think within my evidence I have demonstrated that the third runway at Heathrow, for example, where the claimed economic benefits are £5 billion over 60 years, the calculations certainly are not robust. Again within my evidence I demonstrated that very minor changes in the methodology or the assumptions change the £5 billion net direct benefit into a deficit.
Mr Lockley: I would support what Brian has said and also in terms of carbon emissions the government now has set a target that emissions from UK aviation should be no higher in 2050 than they are in 2005 and yet the forecasts that accompanied the white paper at the time and that have been updated regularly since suggest that in fact they will grow substantially over that period. It is unclear to us how the airport expansion programme set out in the white paper can be reconciled with the carbon targets that the government has set itself and which we support. Yes, we would call for a revision of the white paper.

Q259 Chairman: Do you feel that the predictions of aviation in the white paper are robust?
Mr Lockley: The projections of demand?

Q260 Chairman: Yes.
Mr Lockley: Not necessarily. I think they have unrealistic assumptions about oil prices. They have not investigated the possibility for model switch in travel substitution by video conferencing and there are a variety of factors which we would like to see investigated and more options brought in, more contingency tests.
Mr Lee: I think there are a number of reasons why even a revised air transport white paper is really unsound. The first is the huge progress that we have made in terms of the climate science, including the issues about carbon emissions but also just in terms of the scenarios that we are now looking at in terms of climate change. The second reason is about the economy and the fact that we need to be on a transition towards a sustainable economy. If anything has told us that the economic crisis that we are now in has done that so the assumptions there need now to be looked at very carefully. Thirdly, because it locks us into a model of hyper mobility in terms of society that more and more and more international travel is automatically and unequivocally a good thing which I think is wrong in terms of sustainable development principles. Fourthly, as we set out in our report last year, many of the bits of evidence on which we are currently basing aviation policy are hugely contested in British society. There is a very polarised debate between “fly and don’t fly” and we need a better agreement and more consensus in society about the role we want aviation to play in the future.

Chairman: How do you work with the Department for Transport on aviation policy?
Mr Lee: We work in a number of ways. Last year the SDC held an extensive dialogue with a lot of different organisations including DfT who actually helped to fund that work to look at all of these issues that I just mentioned. We are also currently looking at the direct travel footprint of government including DfT because one of the things we know is
that government needs to lead by example and at the moment its own operational targets do not include air travel by officials, for example, and nobody in government has taken responsibility for that. We are currently looking at working with the DfT, looking at its policy framework in terms of transport and sustainability, not just its operational impact. That is something new that we are hoping to be able to do with the department.

Q262 Chairman: Do you feel that the Department for Transport respond to your concerns?
Mr Lee: I have to say on aviation the answer would be no. Having said that, clearly one of the things we asked for last year when we did this work was a properly framed investigation into how aviation growth would be factored into a carbon budget for the UK. That work is being done; I know you have had evidence here from the Climate Change Committee. We know that there is going to be a very full investigation of that this year and that is good. However, the other part of the question that we raised about the public debate about this, there is no sign yet of that happening.

Q263 Chairman: We have received evidence previously in this inquiry showing the importance of aviation to the economy in terms of support for business and the number of jobs involved in aviation directly and indirectly. Do any of you have any views on the importance of aviation to the economy in that way?
Mr Ross: Just before I come to that, can I just comment briefly on your previous question which was: do we consider the Department for Transport forecasts in the white paper to be robust? The white paper forecast 500 million passengers by 2030. On 19 January the Department for Transport published revised forecasts through to 2030 and then subsequently an erratum to that revised forecast, the effect of which is to say their central case forecast is not 500 million any more but 435 million based on the pre-budget report GDP forecasts. The 435 million is where we start from just now as a central case in the Department for Transport forecast and that has not yet been adjusted to take account of the revised GDP projections published at the time of the chancellor’s budget. If it were to be adjusted it would come to almost exactly 400 million. The Department for Transport on its own forecasting model has trimmed 100 million from the air transport white paper forecast of 500 million. On the economic issue I think the question I would put (which I put in my evidence) is: why is it that Japan, which has twice the population of the United Kingdom and has the second highest GDP in the world, seems to do quite nicely with just about half the runway capacity that we have—about half the number of commercial runways that we have—and Japan is an island trading nation in the same way that Britain is an island trading nation.

Q264 Chairman: Can you focus your answer on the impact of aviation in the UK to business and jobs and the economy generally?
Mr Ross: I apologise; that is what I was trying to do. Of course we know what the numbers are—180 thousand people employed and so on—and I suppose I was focussing more on the suggestion by some UK business that it would be the end of the world as we know it if we did not build a third runway at Heathrow.

Q265 Graham Stringer: Can you give us the source of that quote?
Mr Ross: Which one?
Q266 Graham Stringer: The end of the world as we know it.
Mr Ross: I am paraphrasing the industry.
Q267 Graham Stringer: So nobody has actually used that phrase.
Mr Ross: I think I am paraphrasing fairly accurately.
Q268 Chairman: It is your interpretation of what people are saying rather than a quote.
Mr Gazzard: I think in terms of what people like the CBI have said about that we can find some quotes that mirror that sentiment almost exactly, if not word for word. I know that they have been very aggressive—and quite rightly from their perspective—in supporting the growth of Heathrow.
Q269 Graham Stringer: There was a specific quote given and I would be interested if that was an accurate reflection of anybody’s statement.
Mr Gazzard: I have just said that we can find and let the Committee have quotes of an almost identical nature that have been made fairly recently by the new director general of the CBI along those lines. I am not attempting to excuse it or to back what Brian says: I am simply saying that there have been, as it were, extravagant statements about, for instance, the CBI, the British Chamber of Commerce and airlines, particularly over the last few weeks following the business leader’s letter not in support of the third runway at Heathrow. We will find those quotes from the press releases.
Q270 Chairman: We may come back onto that, but can I take you back to how you see the impact.
Mr Gazzard: On the issue of jobs then of course the aviation industry creates jobs and we accept that they are probably between 0.8% and 1% of GDP. However, the degree to which the numbers outside of airports and airlines and the travel industry are expanded and guessed at is self-evident from the OEF’s report and the revised reports over the last five to eight years. If you accept that if we did not fly as much as the forecasts say we would probably be spending that disposable income in other areas of the economy. Indeed, the OEF’s report acknowledges that but do no analysis of where that shift might be. They also do not take into account the statement that all of us would make in our own way about subsidies to the industry (no fuel tax, no VAT on tickets, duty free sales and that kind of thing). Essentially what we feel is that if people did not fly so much and go abroad an essential part of
that income will be spent locally. When you can fly to Prague for less than the cost of a taxi to and from Manchester City Centre to a suburb you can see how that difference would apply.

Q271 Chairman: What about the predictions that have been made on the impact of aviation to the economy in general?

Mr Gazzard: It is quite easy to use multipliers to say that if we had 400 million passengers or 500 million passengers then jobs would grow, but I think that ignores the productivity at airports in general. If you look at the opening of T5 (I know the Committee has taken evidence on that in the past) that is designed to reduce jobs at a terminal. It has ticketing where people turn up and drop their own bags off; it has very sophisticated electronic systems which may or may not work for luggage handling. The actual productivity at T5 in terms of people employed per thousand passengers is less than the other terminals at Heathrow because that is a key measure of profitability and efficiency for the airport operator. If you look at the growth of internet sales—be it Ryanair or British Airways—that cuts out jobs in travel agents. You cannot have it both ways. You cannot have a continual growth in jobs at historical levels within an industry where operational technology, the way in which passengers buy tickets is altering to a web-base scenario; that must knock a lot of jobs off those indirect, induced and other figures that they use.

Q272 Chairman: Are there any other comments on the impact of aviation on jobs?

Mr Lee: I can relate to you what people told us when we did the work last year Breaking the Holding Pattern, the report the SDC produced. The areas were there was contention were economics of externalities (for instance, how noise and other factors are costed in); the regional impacts of aviation (in other words the net benefit or net cost, so for instance we heard from the chief officer of the North York Moors National Park telling us that from his point of view expansion of aviation was bad news in terms of the national park economy; that is one of the areas that people raised); and the overseas distributional effects came up a lot both from government departments and from other players (in other words, there is an assumption perhaps that increased access through aviation is always automatically a good thing for developing countries but not much evidence on what the distributional impacts of that are in terms of who benefits and who does not benefit, and whether there are negative impacts as well). Those are the sorts of areas people were telling us last year, that this is where the contest was in terms of there not being agreement about what the evidence was.

Q273 Ms Smith: I want to go back to the statement made by Mr Gazzard about being able to travel to Prague and back for the same price as a taxi fare. Is the real question though not much more complicated than that given that there are various costs to be considered by holidaymakers when they travel abroad as compared with taking a holiday in England? It is not just about the fare, is it?

Mr Gazzard: No, that is true and in fact one of the arguments that is put forward for cheap airfares is that everybody benefits, including people on lower incomes. However, as you have kind of alluded to, we still have the price of the weekend or the holiday and the accommodation and entertainment as well.

Q274 Ms Smith: I would say it was the other way round; I think the UK is sometimes much more expensive than, say, Prague.

Mr Gazzard: You may be right but equally in a recession, even the British Tourist Board this springtime has said that there are more people taking holidays at Butlins and Centreparks within the UK this year because they are finding some elements—particularly when the pound was high against the euro—more expensive to travel abroad.

Q275 Ms Smith: Is it not a bit unfair to compare Butlins with, say, Prague? Is there not an argument for saying that people on lower incomes may prefer Prague to Butlins?

Mr Gazzard: No, I did not say that; I did not say that at all. What I was simply saying is that if you fly abroad the travel element may be cheap but the accommodation and everything else may be just as expensive as holidaying in the UK.

Q276 Ms Smith: Is there not a real issue here about the aspirations of people on very ordinary or even very low incomes in terms of travel? They may want to broaden their minds, they may want to see the world and any policy which reduces people’s access to aviation is actually very, very unfair in social terms. Air travel will always be available to the very rich but we need to ensure that there are fair opportunities for the less well off members of our society to see the world.

Mr Gazzard: I agree, but if you look at people’s carbon footprints and how we all use energy we would not suggest that we had a postcode lottery and cheaper prices for people to fill up at petrol stations. We pay, whatever our cars are, the same price at the petrol station. Aviation fuel, for instance, is untaxed. The point is that people have to make difficult choices about where they spend their energy budget. Nobody is suggesting that people should not have holidays or that people do not deserve holidays. In fact, as you have just heard from Brian Ross, the Department for Transport’s latest forecast shows fewer people travelling in the future than was the case in the 2003 white paper. The difficulty is that there are hard choices to be made here.

Mr Lockley: It is not necessarily people on lower incomes who have benefited from the fall in airfares over the last decades. The socio-economic composition of people flying has not changed one little bit since the early 1990s and in fact the people who have tended to pick up the cheap flights who are people who are having four or five flights a year or
may have a home in the south of France. There is perfectly good evidence from the CAA to back that up. There is also some strong circumstantial evidence if you look where Ryanair spend their advertising budget, it is overwhelmingly in the Telegraph and Sunday Telegraph.

Q277 Ms Smith: You can produce as many statistics as you like but I am still pretty convinced that over a period of time aviation is becoming increasingly available to a broader section of society. Just going back to Heathrow, the point was made that you see the numbers using aviation falling but is the argument about Heathrow not the relief of congestion rather than necessarily dealing with an expansion in numbers?
Mr Gazzard: There was a parliamentary answer about exactly the cost of congestion and stacking at Heathrow and the analysis that we did on that (in fact Peter did it as well) shows that the CO₂ emissions under a runway would grow 128 times more than they are today, so you could do away with a bit of stacking but you would still have 128 times more CO₂ because of the increase in flights. What you give on one hand, you take on the other.

Q278 Mr Martlew: I am afraid, Mr Gazzard, when you started on about the cost of a taxi fare in Manchester and the flight to Prague you lost some of my support. I think Prague was a bad option because Prague used to be part of Eastern Europe where people were told where they could go and if they could go and how often they could go. That seems to be the line that you were taking for this.
Mr Gazzard: No, I do not think we have a kind of a green Stalinist view on this. Prague is one of the most popular destinations for what one might call completely discretionary leisure activities. I am not suggesting for one moment that the people of Prague and their service industries do not deserve to have tourism.

Q279 Mr Martlew: You are suggesting that my constituents should not go there, they should go to Morecambe perhaps. (It is very nice in Morecambe!)
Mr Gazzard: The debate is not about where you go or how often, it is a decision about whether you do it in the first place and that was the point we were trying to make.

Q280 Mr Martlew: I think Stalinist is fairly accurate, to be honest.
Mr Gazzard: He is dead and I am here today so I do not know if he can come to my support on that! I do not think that is true. I think there is an element of command and control in green politics and I think it would be foolish to deny that. However, the question that we started off with from the Chairman was where are we going with aviation growth and something has to give on this. If we are ten tons ahead in terms of our average CO₂ carbon footprints as UK citizens we have to reduce that to two tons by the middle years of this century. If an average flight to and from Prague is about 0.8 of a ton now you can see how difficult it is to fit in two or three flights a year within two tons. That is on a personal level.

Q281 Mr Martlew: That is on the assumption that the aviation industry will not come to the challenge—
Mr Gazzard: I have included in that 0.8 tons the average efficiency gain per year. The Committee on Climate Change have set out this conundrum that you have just raised very succinctly. Given the danger that unconstrained aviation emissions growth would make in terms of required reductions in other sectors, they would be impossibly large. Getting enough reductions across our economy from power stations, road transport and home heating to fund the growth in aviation is a very difficult task.
Mr Lee: I have a slightly different view of this. First of all, I would start off in terms of our global challenge. We need to reduce carbon emissions globally by more than 80% unless we are going to contend with highly dangerous levels of climate change which will have massive negative impacts on the poorest and most vulnerable people in the world. We need to start with that. Within that we would accept totally that aviation is an important part of future society; a sustainable society will have aviation, people will fly. There will be people in the world who need to fly more than they do now for very basic reasons like keeping their family intact or finding work in other countries. The issue to me to start with is not who is benefiting in the UK and whether lower income people are flying slightly more or better off people are flying slightly more. The issue is how are we going to manage this globally because ultimately we have to have a global trading scheme. The EU ETS is only a stepping stone and we know that will probably deliver very little in terms of real reductions in emissions. Who is going to be flying? That is then about responsible choices in a market place and it is about who has access to the amount of CO₂ that we can devote to flying in the world. That will certainly mean that in some countries—developing countries—more people are going to fly and I think there is a serious sustainability question for the UK as to how much of that global aviation carbon budget we can grab for ourselves. That is really quite a fundamental issue for the future. It is not about “fly and don’t fly”; it is about making responsible choices and it is ultimately about global impacts of aviation, both the impacts of aviation induced climate change on the poorest people but also the fact that in many parts of the world people are going to need to have a basic level of access to markets and other things. We have to start off with that frame; that is what we should be talking about.

Q282 Graham Stringer: I am sceptical about all economic models; I have never known one that has actually come to fruition. I have never met anybody in the green movement or politicians who can do first order differential equations let alone second order ones which a lot of these models depend on. Is the real issue not that the government has set down
levels for NOx, levels for carbon dioxide and should we not just let airports and airlines get on with the business and monitor what is going on because it is all private sector money?

Mr Gazzard: I think that is a good statement but we have in place a framework where the government has decided to set a cap and to ask the Committee of Climate Change to look at it. For instance, you referred to oxides of nitrogen; we have mandatory standards for those for public health protection reasons. If airports exceed them and affect their local population (the average large airport—Heathrow is a good example of this—exceed the NOx standards over a fairly significant area, including the airport itself) a third is from background sources, a third is from the industry in that local area and a third is from airport operations and transport related to and from the airport. Unless each of those sectors of NOx pays some role in significantly reducing them we are never going to meet at Heathrow in particular the mandatory levels. You cannot have a free for all in terms of a mandatory health protection standard; local authorities and the government have responsibilities to reduce that for the protection of public health.

Q283 Graham Stringer: I think you are rather missing my point. The NOx levels exist and, you are right, the majority of them are not directly from aviation; we have received evidence on that. However, if limits are exceeded—whether it is against the legally enforceable carbon dioxide target or whether it is against the legally enforceable NOx targets—then there are penalties. Is it not really that you do not think people should be flying and that you want to limit the number of people flying and you want them to pay more money? Is that not the real case that you are making?

Mr Gazzard: The case we are making is exactly that in the long term, but that is not reducing numbers below what they are at today’s level. Today’s air travel in the UK is about 220 million passengers.

Q284 Graham Stringer: That is a different point. I just want to be clear that this really is not really an argument about economic forecasting because economic forecasting is a pretty inaccurate science; this is an argument that you do not like aviation and you are targeting it, even though it is only contributing about 5% at the present time of pollution.

Mr Gazzard: Aviation globally has revised upwards and is about 5% of global CO2 in the last couple of months. The fact is we know that other sectors of the economy—be it power stations through renewables, road transport through better efficiency standards—can reduce their CO2. Aviation emissions will continue to grow and where those lines intersect is the reason why the government has asked the Committee on Climate Change to look at exactly that issue.

Q285 Graham Stringer: You are forecasting things but the point I am making is, whatever the huge contribution from domestic heat into CO2, the huge contribution to NOx from car and road transport, nobody knows what is going to happen in five or ten years but we do have limits to the pollution. You have honestly admitted that what you want to do is limit air travel and to put the price up, can you tell us how you want to do it?

Mr Gazzard: There is a mechanism in place to do that, including aviation, in the ETS for one. That will add a bit to ticket prices. There is a proposal now out of the latest round of UNFCCC negotiations for a tax to help fund mitigation in least developed nations. All of these impacts will have a degree of pushing technology through quicker so we get better airplanes quicker, but they will also have a demand management implication as well.

Q286 Graham Stringer: How do you decide whether my constituent or Louise’s or Angela’s constituent earning £15,000 a year and they can only afford to manage their one holiday a year to the Costa Brava get on a plane or not? You are reducing the numbers and you are putting the price up.

Mr Gazzard: We all have to made decisions about how we spend out disposable income. People at that level of income decide how they are going to work. They decide, like I do, that I am going to take a bus. They decide, like I do, that I am going to take a train. They do not drive like people who earn more money.

Q287 Chairman: The question is, are you trying to stop people at that sort of income level being able to fly easily?

Mr Gazzard: People who fly once a year to the Costa Brava do not have anything to fear from between £3 and £30 on the price of an air ticket.

Mr Ross: There has been a tendency to characterise this debate as a debate between tree huggers on the one hand and the Biggles brigade on the other hand. Frankly I do not think that that is helpful. I think it is important ultimately that the government must make a policy judgment in terms of what is the correct way forward. In making that policy judgment they want to be as well informed as possible on the economic analysis, on the environmental analysis and then take a judgment on the social costs and the social benefits. These social issues are actually the most difficult of all to quantify. These are purely the territory of politicians in terms of the affordability and so on. So far as the environmental and economic issues are concerned, I think there are some people here giving evidence to you today who do have considerable expertise on quantifying and trying to give hard numbers to the economic and environmental implications. I think that is where we are best able to help with. As you know, my particular area is on the economic side and there are so many myths on the economic side which are perpetrated by the Biggles brigade. One of the key questions I think that government ministers, for example, have failed to answer is: how does it help the British economy to subsidise an Irish airline that buys American airplanes to transport millions of British people to spend their money in France, Spain and so on? I am not making a political judgment or a social judgment on whether that is right or wrong. I am simply saying...
that in economic terms it creates jobs in other countries, it moves investment to other countries but it does not actually help the UK economy.

Q288 Chairman: I think the point that is being made and the question raised is: is the logic of what you are saying wanting to stop the people you are talking about being able to make that choice?  
Mr Ross: No, absolutely not. It is simply saying, let us be honest about the economics. Once you have been honest about the economics and about the environmental cost, then politicians make a judgment in terms of what is the correct balance taking account of the social factors? It is not trying to stop people doing anything; these are judgments for politicians.

Mr Lee: I would just respond to the Costa Brava question by saying that it is not flights that need to be rationed, it is carbon. Carbon will have to be rationed. It does not matter how unpleasant and difficult we find that concept, that is an absolute necessity and before too long we will all have to face up to it in business, government and across society. The question then is, in a carbon rationed world, how do you want to use your carbon budget, exactly as someone said earlier? The same person who wants to go on holiday—which we all do—also wants food which is produced with a greenhouse gas cost attached to it, also wants to enjoy a comfortable warm home which carries an energy cost. So we have to make some choices about how we are going to use our carbon.

The Committee suspended from 3.18pm to 3.29pm for a division in the House

Q289 Graham Stringer: Mr Lee, I think your answer about moving onto carbon footprinting is wholly consistent and it is a way of rationing access to all sorts of services. However, it does bring me back to my original point. If you are going to have parameters to measure the impact of aviation, if you are going to move to a carbon budget, why then is this debate focussed around a third runway at Heathrow which, if it goes ahead, will be captured by the carbon budget process of capture, the environmental impacts will be limited to the NOx and carbon dioxide levels. Why then are we focussed on this which will be paid for by the private sector?

Mr Lee: I will say less about Heathrow because I think other members of the panel are better informed on that. You mentioned price and regulation earlier in terms of breach of emission control limits, but you can breach a limit and pay a fine but the limit has still be breached. We know that the carbon price will have to go up an order of magnitude in the ETS to have real impact on demand. There is not a carbon rationing in practice in place. I want to go back to this sort of Stalinist point if I may because I think politically you either tell people how to live their lives and make their choices or you set a carbon ration by whatever combination of policy means and then you make people make informed choices about how they want to use it. I do not really think there is any other choice in the long term. I do not think regulation and price alone are going to do it at the moment; they are not going to have that effect of creating a carbon budget.

Q290 Graham Stringer: I think it then negates most of the debate around the third runway.

Mr Lockley: International aviation emissions are not caught within the carbon budget support that the Climate Change Committee has set so that is one way in which aviation is outside the system. What we have established is a carbon rationing mechanism through the European Emissions Trading Scheme but that is a political invention, it does not happen naturally and the boundaries of it are set through a political process which is heavily lobbied. One of our big concerns is that if we allow the building of large, long-lived, high carbon bits of infrastructure—the two I am thinking of are new coal fired power stations and runways—then there will be a huge case for using them and ten years down the line, when the carbon rationing starts to bite, there will be a powerful vested interest argument for loosening the caps. We have already seen this in the first round of the Emissions Trading Scheme; it is a political construct and it is subject to political lobbying.

Q291 Graham Stringer: So you are just trying to fix the politics in ten years’ time. I understand what you are trying to do and you are showing a certain level of distrust in the process. I think that is very honest and it brings me to my next point about the third runway and increasing capacity. The Committee has received evidence that if you restrain capacity at Heathrow—which is primarily what we are talking about—actually the amount of carbon dioxide produced goes up because you get feeder airlines from regional airports going to major European hubs which are effectively unrestrained by capacity. So to go on one journey from Europe to Japan or North American, instead of taking off once in a very big airplane you take off once in a medium sized airplane and once in a very big airplane so you produce more carbon dioxide. What is your response to that point that has been made to us? If you cannot fly out of Heathrow directly from England you go to a nearby English hub and you fly to Schiphol and then on to New York. There is quite a lot of evidence that that has already happened and therefore you create more carbon dioxide because of the restriction on capacity in this country.

Mr Lockley: That already happens due to airline hubbing practices, but bear in mind that the converse happens and because Heathrow is a competitive hub already you have people flying from the Netherlands and from France to hub out of Heathrow. There will be many cases not making the most carbon optimal journey because they are using Heathrow as a hub. It cuts both ways—

Q292 Graham Stringer: That is pretty irrelevant to the point. If you cannot get out of Heathrow because you cannot get on the airplane so you go to another hub in Europe you are basically taking off twice where you could have taken off once if there was increased capacity at Heathrow. I accept hubbing exists. What
the process of constraining Heathrow does is to increase the tendency to hub to the detriment of the British economy and to the detriment of the environment.

Mr Lockley: The number of destinations served by Heathrow has fallen over the past years whilst overall capacity has gone up.

Q293 Graham Stringer: That is because of bigger airplanes and it is pretty irrelevant to the argument I am making. The number of passengers has gone up because bigger airplanes take about the same slot as a smaller airplane.

Mr Gazzard: That is true.

Q294 Chairman: The issue is that if capacity is constrained at Heathrow, how will that help emissions if people go from other airports to continental hubs? How will that reduce emissions?

Mr Gazzard: It is also constrained at every continental airport.

Q295 Graham Stringer: No it is not.

Mr Gazzard: Well actually it is, simply because other continental airports appear to have more runways and appear to have more destinations, it does not mean that they have more passengers today or in the future.

Q296 Chairman: Are you saying, Mr Gazzard, that the other airports do not have any expansion plans?

Mr Gazzard: Everybody has expansion plans, including Heathrow. If it were capacity constrained without a third runway both BAA and the DfT have exactly Mr Stringer’s point in their plans. Why they got planning permission for the fifth terminal they had a capacity limit which still exists of 480,000 movements but the passenger forecasts under that regime were as high as 88 to 92 million doing exactly what you have just alluded to, the number of passengers per aircraft movement going out because airlines would be forced to use bigger planes. You may indeed have fewer destinations from Heathrow as a result—which is a point which I entirely agree with—but you could still have 60 million passengers today growing to 88 to 92 million passengers at Heathrow without a third runway which was BAA’s own forecast at the time of the fifth terminal. They are now forecasting a third runway and growth to 120 million passengers with the desire to operate that as a third airport. There is a table which we put in our evidence about exactly where the future growth of some of these other airports—Schiphol, Frankfurt and Paris—are. They all compete one with the other; they all have basically some historical links which guarantee certain types of traffic. Charles de Gaulle has extensive links to francophone Africa and the Far East; the UK has extensive transatlantic links; Germany has extensive links to Eastern Europe and Russia. London is the centre of the financial world because it is the centre of the financial world and not because it has Heathrow. Frankfurt would very much like to overtake that, but that is a product of the services and the rates and the size of its market, not just necessarily whether you can fly there or not.

Q297 Chairman: Mr Lockley, in your written evidence you say that firms are open to substituting air travel with other forms of communication like video conferencing. What hard evidence do you have on how much that could be done?

Mr Lockley: We conducted a survey of FTSE 350 top companies in the UK and 100 of them responded. Of those, 89% said that they planned to travel less over the next ten years. A similar number saw video conferencing as a way to achieve that and something like that number expected that they would improve their productivity by good use of video conferencing.

Q298 Chairman: What does that mean in terms of reductions in numbers of people flying? Have you got any hard evidence on that?

Mr Lockley: That research was undertaken just before the worst impacts of the credit crunch and at that time the firms on average suggested that they would be cutting their flights by 1% or 2% in the year coming. In the even the credit crunch came and business travel is down by 15% to 20% on this time last year. What that suggests to us is that in an economically constrained situation which we have now or in a carbon constrained situation which we will have in the future, video conferencing is an excellent way in which businesses can keep themselves connected to their customers.

Q299 Chairman: Do you have any hard evidence of how much video conferencing would substitute for air travel in the future, not now in the middle of a recession but in the future?

Mr Lockley: That is entirely dependent on the policies that are taken around that. If you just have a totally laissez-faire policy on aviation and on video conferencing the two will continue to grow in tandem. If you have an objective to limit the amount of air travel for whatever reason, then video conferencing will come in and take the place of those business flights.

Q300 Chairman: You also say that switching to rail on possible routes into Heathrow would free up 12% of its slots. How do you know that those slots would not then be used for other purposes?

Mr Lockley: They would but you would have immediate relief of the capacity constraint. That is one of the main reasons given by the airline industry and supporters of expansion.

Q301 Chairman: To what degree do you think the EU Emissions Trading Scheme would solve the problems of CO2 emissions from aviation? Mr Ross?

Mr Ross: There is some evidence on that which would help answer that question produced by the Commission which is the Impact Assessment it did when it tried to make some projections. In essence the projections showed that it would have a negligible impact. Peter might have the exact numbers, but roughly by 2020, with the emissions aviation scheme compared to without the scheme, the difference was between six and twelve months’ worth of growth. It was absolutely marginal in terms of reducing aviation emissions.
Mr Lee: That is a very good question and I think you have to tell people what that might look like. If a sustainable economy means more local enterprise, more local jobs, more mobility, stronger communities, better insulated homes, more walking and cycling, more preventative health measures rather than expensive treatments of sicknesses which we create through the unsustainable society we have now, then I think a lot of people might say that is a better society. That is exactly the sort of debate we are going to need to have around this. Aviation is just one part of it because we will still be doing some flying but maybe we will not be doing as much and maybe that will be a good thing.

Q305 Chairman: How much do you think technology and efficiency improvements could reduce emissions from aviation by 2050? How much faith should we put in that?

Mr Lockley: There are a range of projections for this and what seems to be reasonable is around 1% a year, that is the historic efficiency that the industry has gained. We have seen some very aggressive, optimistic, fantastical—use whatever word you will—projections from the aviation industry and we are very sceptical about those because they rely on a range of completely unproven and undeveloped technologies and they would require major restructuring both of airport infrastructure and of the way people are moved around. There are technological advances and those are welcome. We absolutely support the work and the research the industry is doing, but we have to be realistic in looking to the future about what that is going to achieve.

Mr Gazzard: Very, very simply, better technology comes from better aircraft engines and better airframes. That is probably about 0.8% to 1% better efficiency a year. That also gives you an element of bigger aircraft and more absolute efficiency in terms of the airlines’ measure, passenger per seat kilometre. You would probably get another 0.5% to 1% from better operations and better air traffic management. If both of those figures, adding up to about 1.5% to 2% gains a year, were really, really downhill with the wind behind you, expensive, law of diminishing returns over a 20 to 30 year period, if you look at the major aircraft that are going to hit the airways in our lifetime (a replacement for the 737 and the airbus A320, the kind of planes that Ryanair and Easyjet use) they are probably only going to be about 12% more efficient than the current generation. That is welcome, but if you have emissions growth post-recession coming back to last year’s levels, you still have emissions growth of 3% to 4% a year, outpacing the very best technology can deliver.

Q306 Chairman: How would you quantify the impact of technological advances and increased efficiency?

Mr Gazzard: Very, very simply, better technology growth in the west and its material energy intensity, the developing world has no chance of getting a fair share because we are sequestering all of those resources to ourselves.
Wednesday 1 July 2009

Members present:

Mr David Clelland
Mr Philip Hollobone
Mr John Leech
Mr Eric Martlew

Mark Pritchard
Ms Angela C Smith
Graham Stringer
Mr David Wilshire

Witnesses: Mr Steve Ridgway, Chief Executive, Virgin Atlantic Airways, CBE, 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, gave evidence.

Chairman: Welcome to our Committee. Do Members have any interests to declare?

Ms Smith: Member of GMB.
Graham Stringer: Member of Unite.
Mr Clelland: Member of Unite.
Mr Martlew: Member of Unite and GMB.
Chairman: Member of Unite.
Mr Leech: Since we are talking about airports or particularly aviation, I ought to declare my non-pecuniary beneficial ownership of a piece of land at Heathrow Airport.

Q307 Chairman: Thank you. Could I ask our witnesses to identify themselves, please, for our records.

Mr Harrison: I am Andy Harrison, the Chief Executive of easyJet.
Mr Ridgway: I am Steve Ridgway, Chief Executive of Virgin Atlantic.
Mr Carrivick: Good afternoon. Mike Carrivick, Chief Executive of the Board of Airline Representatives in the UK (BAR UK).
Mr Josephides: I am Noel Josephides, Director of the Association of Independent Tour Operators.

Q308 Chairman: Thank you very much. Is the 2003 air transport white paper still a robust document or does it require any significant revision? Who would like to offer a comment on that?

Mr Carrivick: I will start the ball rolling. Yes, first of all it was an ideal framework when it was published. I am not sure that the industry has ever had a framework of this nature before. Is it robust? Yes, I think so because it is there for a long term aiming point, talking about airport development and the associated infrastructure. Circumstances may have changed in the short term, but I think ultimately over the long term it is an ideal thing and it should be retained.

Q309 Chairman: Do you accept the DfT predictions on air travel? Do you think they are reasonable?

Mr Carrivick: I think it would be a very brave person who said they accepted the predictions. I think if you look at the long term—and I am talking about over the next 10 to 15 years—the curve of the growth that is anticipated will probably be very similar. Right now, it is very true to say that we have got quite a dip and it will be a larger dip then we have had in the past when we have had SARS, for example, but I think in general terms the line is right.

Mr Ridgway: If I can comment on that, clearly the most controversial part of the white paper was around the proposed expansion at Heathrow, but I think the circumstances have not changed in terms of the importance of a developed economy like the UK having a very strong and vibrant hub airport. We all know that Heathrow has been creaking under the strain for a long time and that it is full, and there is a lot of inefficiency associated with that. While it is always difficult developing infrastructure in the way that is proposed at Heathrow, I think the development of the short runway at Heathrow will have been one of the most challenged and scrutinised and have the strongest hurdles placed on it for the whole of the industry to step up to, and while we may be suffering the effects of the current downturn and the recession, I think if you look forward and look at the key importance in terms of UK competitiveness, especially with all the challenges the UK faces in re-inventing itself and emerging from the current malaise, that key hub airport with connectivity both regionally and particularly all around the world remains very key. We need a more efficient Heathrow, we need money to be spent on Heathrow and the whole process does need to continue, despite the fact that we are in a downturn right now.

Q310 Chairman: Is the recession going to have a long-term impact on passenger growth?

Mr Harrison: Firstly, I would just like to reinforce what Mr Ridgway has said. In terms or the white paper, our view is that over the time horizon that airports and runways are planned, which is over a 20 to 30 year time horizon, it seems pretty clear to us that the south-east of England is and will become very short, desperately short, of airport capacity. I do not think the recession will have any impact on the underlying growth of the economy over that timeframe. EasyJet is a truly European airline and it is worth just looking at what is going on in other European countries. I am off to Berlin tomorrow to talk about the opening of the new Berlin Airport. There is a second runway going in, an additional runway going to Frankfurt, an additional runway going into Munich, both in 2011, so I think it is very important that the UK really has sufficient capacity to compete on a European scale.
Q311 Chairman: We have been repeatedly told that low-cost airlines are very price sensitive and that there could be a great impact through Air Passenger Duty and the EU Emissions Trading Scheme. Do you agree with that?

Mr Harrison: I think there are two or three different things that I would try and understand. The first one is, we operate in the market for short-haul air travel and that has grown at round about 4 to 5% per annum over the last 25 years, and that is driven by the fact that business is becoming more international, consumers are becoming well-beaten travellers, it is a high priority for them, and the fact that the European labour market is becoming much more of an international market. So the overall market I think will continue to grow faster than GNP. In terms of market share, who people choose to fly with, that is certainly very price sensitive and low-cost airlines like easyJet have been successful on the back of being highly efficient, investing in new aircraft, having a very focused operation. The third aspect which I think you alluded to is the whole environmental debate, which maybe we can talk more about later, but certainly from our perspective the same things which drive low-cost for easyJet, which is new aeroplanes, low fuel consumption, low maintenance costs, actually mean that we are relatively good in terms of environmental performance.

Q312 Chairman: Does that mean that you do not see increases in Air Passenger Duty as creating insuperable problems for you?

Mr Harrison: Industry as a whole is under quite a lot of pressure. Loading taxation onto aviation is not a good thing to do at the moment. The Government will choose how it wants to raise revenue and raising revenue through APD is a relatively indirect way of doing it. It is not a very effective way of doing it if the objective is to drive improved environmental performance.

Mr Ridgway: If I could add to that? That is the key issue. The tax was doubled in 2008 and I think the then Secretary of State for Transport was able to clearly show that aviation was more than paying its way in terms of its environmental emissions and we now have, I think, considerable distortions in the plans for the tax this year which will see some quite disproportionate rises, certainly in long-haul travel where percentages just seem to be very difficult to understand, and there are some significant distortions around the bandings where we see considerable issues in the Caribbean, for example, which is very, very reliant on air travel. The Caribbean would not exist as an economy without which is very, very reliant on air travel. The Caribbean would not exist as an economy without the jet engine and yet you see the banding distortions there which I think are going to have a very significant effect, and I do not think the tax is leading to the right behaviour in an environmental sense.

Mr Ridgway: I think you would continue to see the trend that we have seen at Heathrow over the last 20 years, where there has been a diminution in the range of reach and locations which the airport is offering. We know that the airport already is at breaking point. You only need a very small disruption in operation, so there needs to be more resilience built in. I think overall it is just about the competitiveness of UK Limited and I think all major developed economies are going to be working extremely hard to re-build their economies over the next few years, and having an efficient and effective hub which makes it easy to do business in the UK certainly attracts companies to the UK, and I think many companies have said that key airports and hubs are very important in terms of location. It is going to be very important and right now we are falling behind, we are uncompetitive and it is not a UK issue on its own, it is a European if not a global issue about how we compete.

Mr Josephides: Speaking as a tour operator basically using charter-based aircraft, over the last five to six years we have made a conscious effort to move capacity out of Heathrow because people simply want to travel to their local airport and it is very much that which has driven a lot of the capacity out of Heathrow because we make more money by sending people from their local airport.

Mr Harrison: I think it is very important to distinguish between Heathrow, which is an international long-haul hubbing airport, which if it has competition it comes from Schiphol in Amsterdam and from Paris. That is a very different type of airport to Stansted and Gatwick, which are much more point to point airports, and Gatwick is full in the same way that Heathrow is full and I think the country decides not to invest in airport capacity on the short-haul side—and our business is very different from Mr Ridgway’s—we will just see that it will have a depressing impact on economic growth because international air travel is at the heart of international trade, which is one of the most powerful wealth creators known to man.

Q314 Mr Wilshire: So am I right in understanding that even if a decision was taken not to build a runway at Heathrow, there would still be a need for a runway somewhere else rather than a policy which says no runways anywhere in the South East?

Mr Harrison: What I was trying to say is that the requirement at Heathrow is really quite different from the requirement at Stansted or Gatwick because you have got airlines with very different business models serving different needs at Heathrow compared with the other airports in London.

Mr Carriwick: My airlines, all 93 of them, also, of course, have a great responsibility of bringing people into the UK, not just out of the UK on holiday, Heathrow—and I think Andy is quite right, there are two different philosophies at play here. Heathrow is critical to the UK. It is not just a London Airport, it is serving all of the southern UK and South Wales, so access to it is number one. Number two, limiting capacity is going to see a further and further decline in local connections. The reason for that is you need
Mr Ridgway: I think there are parts of Heathrow some form of expansion? problems just by making thing better without having better, not bigger. Is it possible to solve the existing both be aware that there is a school of thought which about Heathrow having problems. I am sure you will Both Mr Ridgway and Mr Carrivick made the point Gatwick up to Heathrow. So there are two examples. Heathrow is critical to the UK.

Q315 Mr Wilshire: Just one more, if I may, on this. Both Mr Ridgway and Mr Carrivick made the point about Heathrow having problems. I am sure you will both be aware that there is a school of thought which says the trick is to make somewhere like Heathrow better, not bigger. Is it possible to solve the existing problems just by making thing better without having some form of expansion?

Mr Ridgway: I think there are parts of Heathrow which could be made better as demonstrated by the development of Terminal 5 and, for example, the work that Virgin Atlantic has done in Terminal 3 to improve the facilities, but you are still coming up against that fundamental point that the airport is now full and you are starting to see changes in patterns and the availability of routes and markets, which is as important as a hub airport. I think the proposed third runway, the short runway, is probably the most sensible, the most pragmatic and, as I said earlier, the most tested way of giving Heathrow that important future, and a more efficient future, to serve the UK economy.

Mr Carrivick: I think the point has been made by Mr Ridgway. If you have the parliamentary analogy—and I say this with respect—your Chamber seats about 400 MPs. If you were in full attendance every day, you would have people going in and out all the time in the corridors outside. That is what Heathrow is doing every day. It is constant queuing, waiting, circulating, and that is why the extra capacity is required.

Q316 Graham Stringer: Mr Ridgway, you said that aviation paid its environment costs. Can you justify that?

Mr Ridgway: I think the estimates are that the environmental impact of aviation is about £1.5 billion a year and that APD alone has been raising £1.9 and that will go to about £2.5 billion this autumn with the increases. I believe that when Ruth Kelly made that statement she was not just talking about CO₂ emissions she was talking about NOₓ well in terms of it paying its way. Of course, we have to remember that all the time as the new technology comes in aircraft are getting cleaner and quieter, and that again is one of the factors at Heathrow, that Heathrow attracts the latest, the best and quietest aircraft, which is one of the reasons why the very significant hurdles which have been put up to a third runway can be met.

Q317 Graham Stringer: Why then has the aviation industry generally been keen to join the EU Emissions Trading Scheme?

Mr Ridgway: We believe that actually a cap-and-trade system is the best way to go. It needs to be ultimately on a global basis, so that it is ultimately elicits the right behaviour from the industry. The industry will be a net purchaser of emissions, of emission certificates, from the beginning anyway.

Q318 Graham Stringer: I do not like interrupting witnesses, but it is an extra cost to the business, is it not, the trading scheme?

Mr Ridgway: It will be an extra cost, but it is an opportunity for airlines and it incentivises airlines to make sure that they are employing and deploying the best and the newest technology. In that sense it will be targeted in a way that a straight taxation is put on.

Q319 Graham Stringer: But you have just told me, and I am familiar with the figures—there is some dispute at the edges about the figures—that you pay more than your environmental costs. Why then are you enthusiastic about joining the EU Emissions Trading Scheme, which will be an extra cost and has been criticised fundamentally by our own Environment Agency Committee to the House of Commons?

Mr Ridgway: I think that is another part of the fundamental debate which is going on, that if aviation is brought into a global emissions scheme then things like APD would no longer have a place because equally they are a tax and they are not targeted at the environment. So I think that is one of the big controversial issues for the industry. We make it very clear that you cannot bring in a global emissions system, which is the right way to go, and at the same time have ad hoc taxation like APD and that is an issue going forward.

Q320 Graham Stringer: Just before I bring Mr Harrison in, has the Government given you a commitment that they will withdraw APD if you are part of the EU or indeed a worldwide emissions scheme?

Mr Ridgway: No, they have not and it remains a very key issue going forward.

Mr Harrison: I would like to make three points. EasyJet has been strongly in favour of aviation joining the Emissions Trading Scheme, essentially because we recognise that global warming and climate change is a major issue and aviation, like every other industry, needs to be playing its part. Carbon emission from aviation should be priced and put on the same footing as carbon emissions from any other industry. So we think the Emissions Trading Scheme is the right way forward. It is also an international solution for aviation which is clearly an international industry. The second point I
would like to make is that APD is a very poor way of encouraging airlines to improve their emissions and we believe APD should be first of all reformed and made more of an emissions-based tax, and secondly once ETS is up and running it should be withdrawn. The third point I would like to make is that taxation alone is not going to deliver the solutions for sustainable aviation. The way forward is to use modern aircraft efficiently and encourage manufacturers to bring forward the production of the next generation of aircraft, and the best way of doing that, in my opinion, is to set minimum standards of efficiency for aircraft in the same way as we do for noise from aeroplanes, as we do with diesel engines, as is now under discussion for motor cars, and I think what we need to do within Europe is to set minimum standards. For example, a quarter of the 3,000 short-haul aircraft in Europe are over 15 years old and the way we will get an improvement in performance is to have those old, inefficient aeroplanes cease flying.

Q321 Graham Stringer: I do not want to caricature your answer, but it was a very political answer in a sense. You are saying, “Well, that scheme exists so we will join it because it gives us some cover in this debate,” but in actual fact what our Environmental Audit Committee said was that firstly the price of carbon has collapsed, indicating that there were too many credits given out, in which case it is not a very good scheme, and it is theoretically possible, and indeed may happen, that even in the second phase of the scheme not a single gram of CO2 in the UK will be safe. I am sure you are aware of those arguments. Given you are already covering your environmental costs, why are you joining this scheme?

Mr Harrison: Clearly when the ETS scheme was first developed there were issues with it and my understanding is that the next chapter of the ETS scheme will be much more efficient. My answer was really driven by what is a genuine desire from a personal as well as from a corporate perspective to see something done about global warming, but it needs to be done sensibly and efficiently. As I said, aviation is an international industry. Having a local distorting tax like APD is no solution at all to the issue. It really needs to be done on an international scale. As I have said, taxation alone is not going to be the answer. Often governments reach for that lever because it raises revenue. I think the way forward for aviation is to legislate for minimum standards of efficiency to ensure that airlines are using the very best technology efficiently.

Mr Ridgway: Could I add one point to that? It is also very important from an international point of view, because this is a global issue, not just a UK issue, that we do bring the whole of the industry into this through a well-thought through emissions trading scheme, a cap and trade scheme, through ICAO because otherwise you are going to distort the market and you will have negative effects either in Europe or in the UK within it, so it is very important that the playing field remains level and the whole industry steps up to its obligations and responsibilities going forward.

Q322 Mr Leech: I just want to ask Mr Harrison how many planes he thought would be taken out of circulation if strict environmental standards were put on aircraft?

Mr Harrison: First of all, my suggestion can only be done over a long period of time because of the time it takes to design and build aeroplanes, but my proposal is that standards should be met which need to be achieved in, let us say for the sake of argument, 15 years time. As I have already said, a quarter of the short-haul aeroplanes in Europe are of the older generation, which means that both in terms of noise as well as CO2 emissions they are substantially less efficient than the current generation. Of course, from a global perspective there is no point in simply reallocation old aeroplanes in Europe to some other part of the world. We need to have a system where actually old aeroplanes become obsolete and one of the challenges with an aircraft is that as long as it is well maintained it will fly safely for 25 or 30 years. That really is quite a challenge when it comes to dealing with sustainable aviation.

Q323 Mr Leech: At the moment is it not the case that most of the old aeroplanes just end up being used for air freight, so the worst polluting planes do not ever actually get taken out of circulation, do they?

Mr Harrison: That is not necessarily true, some do, but there are— I do not really like the expression “low-cost airlines” but there are some low-cost airlines in the UK who fly very old aeroplanes. That means they have less capital tied up in their business, hardly any capital all, which means they can fly those aeroplanes when they choose to. EasyJet is a business which has very heavily invested in new equipment and we need to actually use that very efficiently, so both models produce low fares but the easyJet way does it in a very efficient, both economically and in an environmentally efficient fashion.

Q324 Mark Pritchard: Mr Harrison, Stansted Express, is it going to grind to a halt? Does that concern you?

Mr Harrison: I am not aware that it is going to grind to a halt.

Q325 Mark Pritchard: The National Express announcement today, do you think that will have an impact on that business and your business?

Mr Harrison: I have not thought about it. From first principles I would assume that there will be a substantial demand for people to want to travel from Stansted to central London and if National Express has issues they will be resolved because the underlying demand and need is very strong.

Mr Carrivick: My understanding from the release I saw this morning was that the DfT in fact would continue to maintain all of those services affected by the National Express franchise. That is number one. I think it is essential. Number two, I think our rail connectivity to any airport is essential and we ourselves were extremely active in the retention of Gatwick Express, for example, when its demise was announced some years ago and we brought it back
to life. My understanding, to answer your first question, is that it will be service as normal but under DfT patronage.

Q326 Mark Pritchard: Thank you. Mr Ridgway, regional airports. Virgin do not like regional airports, do they?
Mr Ridgway: We are a long-haul carrier. We fly essentially wide-bodied aircraft to the world’s major centres and major business centres. We operate from Heathrow, Gatwick, Manchester and Glasgow, but our operations are limited because of being the car business model and where we actually operate. It is to the world’s major cities and it is part of that connectivity I was talking about out of Heathrow. But over the years we have grown our regional operations and we would hope to do that more, and part of that is driven around new technology, new aircraft. Virgin Atlantic is a launch customer for the new 787 and that aircraft will be very efficient, as well as being very environmentally friendly, and that will open up more possibilities over time.

Q327 Mark Pritchard: Do you see a business opportunity, and indeed a brand, an image opportunity given the criticism British Airways have drawn pretty much from every regional airport in the United Kingdom where there are a lot of travellers in the west of England, the Midlands. So if somebody wants to travel, let us say to Africa or to Latin America, they may choose not to drive all the way to Heathrow with all the hassle with Heathrow and they instead go to Birmingham, which is an excellent regional airport. They fly on, let us say, Air France to Paris and connect into, I do not know, Senegal or into Rio in Brazil. That still keeps transatlantic long-haul routes for a carrier like yourself but also providing some interim shuttle service for people who just want to make the one connection down into London?
Mr Ridgway: That will always develop and change. It is entirely down to market size and in many cases you will find that there are already existing carriers operating on those routes, not necessarily British Airways—you are right, it has withdrawn from some of those markets—but there will be overseas carriers that can drive traffic through the hub and serve those markets, as the American carriers have proven very clearly. That is much more difficult for us until you get to a certain size and we are very sensitive to that. We know the trigger points and that is why we have been able to grow as well as we have over the last 25 years and provide that competition in the UK, but it is very market size sensitive and our commercial teams are well aware of that. Equally, aircraft capability is an important part of that as well, but if there are market opportunities there that is why competitive markets are so compelling because airlines, carriers, businesses, just in the way easyJet has done, will respond to that.

Q328 Mark Pritchard: You mentioned age of aircraft. Clearly you are not responsible for which aircraft come into UK air space, nevertheless you are on the ground, you are meeting people, you know the other operators. Are you content with the current standard operating procedure of the concerns you might have about other airlines and operators, concerns about the state of their air frames? Are you content that that information was taken fully on board by the relevant authorities?
Mr Ridgway: I think the CAA is an extremely effective regulator on safety and it has prime responsibility to make sure that both the UK-based carriers and equally carriers flying in UK air space are fully compliant with those regulations.
Mr Carrivick: What I would add to that is that the CAA is obviously very strong and so is the EU. There is a black list of airlines that are not permitted into EU air space should that be the case—and this happened to quite a few airlines. There have also been in one or two cases specific aircraft that have been denied space, one particular airline, while others have come in. That soon then acts as a very good policing factor for any apparently missed, to be made good.

Q329 Mark Pritchard: But is it not the position at the moment that that so-called black list is not harmonised across Europe so in fact, let us say, an aircraft from a developing country might be able to access one of the 27 EU Member States, albeit not enter the United Kingdom as such?
Mr Carrivick: Well, I cannot answer for specifics and I have got an idea of what you are talking about, the most recent accident, but I think as far as the UK is concerned the CAA is the acting authority. We have no problems whatsoever, certainly not amongst my members.

Q330 Mark Pritchard: I will take the final two questions very briefly. I will come to the third runway lastly. Pensions. Here we are talking about the future of aviation, but if airlines are unable to keep their employees and pay them, enumerate them and keep the terms and conditions that perhaps their employees have been signed up to, that puts pressure on other parts of the business. Perhaps one for Virgin and easyJet: are you content that both your companies are able to honour the pension commitments that employees have been signed up to?
Mr Harrison: EasyJet is a relatively new company. It has been operating for 14 years. We do not have one of the defined benefit pension schemes, which are virtually dying out anyway for all new employees. EasyJet has to offer very attractive overall compensation packages because we are out in the market recruiting new pilots and new cabin crew literally every month. So our overall package has to be very competitive. In terms of the pension scheme, we offer a defined contribution pension scheme which works well for us.
Mr Ridgway: Answering on behalf of Virgin Atlantic, a little bit older than easyJet but still a relatively young company, we do not have a defined benefit pension scheme. We never have, so we do not face that same issue and it is a big hurdle for companies. I know it is a huge problem for British Airways, but we do not have that issue. Equally, we
have to be competitive in the marketplace exactly the same as everybody else and that is why we want to attract the best people and that is why we try to keep our brand vibrant and all the things that go with that.

Q331 Mark Pritchard: But I am trying to understand, outside the defined benefits, on the more generic principle, as more cost pressures are put upon you as businesses, either through legislation or from external and environmental sources, how do you reconcile those pressures with the pressures of the pensions commitment you have?

Mr Carrivick: I think all businesses, especially right now, are looking very, very hard at all costs and everything that we can do, but right now we think it is an important part of how we attract and retain the best people and we have not changed either the level of contributions the company makes into pensions and equally the flexibility our staff have to contribute or vary their contributions either.

Mr Harrison: I just want to say something about pensions. With the defined contribution pension scheme, which is how most companies, whether they are airlines or not, deliver pensions now. The Government has removed most of the tax benefits which drove the original defined benefit schemes, so from an employee’s perspective whether you are paid £100 in the form of a pension contribution to a defined contribution scheme or in salary actually does not make that much difference. So it really puts the onus now back on the employee to make sufficient provision for their retirement. That is just the way that it operates now, now that there are no tax advantages towards pension provision, and that applies to everyone.

Q332 Mark Pritchard: A final question. The third runway. If a third runway does not go ahead, will that be good or bad for UK Plc?

Mr Ridgway: I think it would be very bad. I think the UK is still the fifth largest trading nation in the world. We have huge advantages, particularly in terms of the English language. People like doing business with us and it is critical that we have a very vibrant hub there at Heathrow. I think if we do not do that, we have all seen what has been happening on the Continent and it is not just a UK centric issue, it is a global competitive issue and it is particularly an issue of UK plc and our other major foreign competitors.

Q333 Chairman: Do any of the panel have a different view on that question? If terminal three does not go ahead, would it be a good thing?

Mr Josephides: We do not have a view. When we did a poll of all our members only 39% were in favour of the third runway, but it was very marginal so we do not have a view.

Q334 Ms Smith: Last week we had a witness in from the West Midlands Regional Development Agency, who said that one of the major implications of a high speed rail network is the impact on short-haul regional air flights. That is probably where there is the most impact. People flying from Manchester to London are more likely to go by high speed rail than plane. That is what the research has shown. Does the panel agree?

Mr Harrison: As the largest short-haul airline in the UK, we fly 45 million people. We are probably well placed to answer. High speed rail is a good thing and it is definitely complementary to what we at easyJet do, and we fly from 40 of the 50 major airports in Europe. We have a policy that if it is less than four hours on the train we tend not to fly. We do not fly from London to Liverpool, London to Manchester, London to Leeds because it is too short and there are only 2% of our routes where you can get from A to B in less than four hours on the train. So I think 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. They are both necessary to an effective—

Q335 Ms Smith: Like Mr Stringer, I do not like interrupting witnesses, but I think the reference here was meant to be in relation to domestic short-haul flights.

Mr Harrison: As I say, all my comments apply exactly to domestic flights too, so if it is less than four hours on the train door to door easyJet will not fly.

Mr Carrivick: There is now an assumption that anyone travelling by air from London to Manchester, whether it is for domestic reasons or to connect with a flight is actually the same passenger who would travel then from the city centre of London to the city centre of Manchester and the two are quite separate targets. First of all—and I think it has been said to the Committee already at another hearing—75% of Manchester-London air travellers are making a connection, number one. Number two, I know the Manchester area reasonably well from an industry point of view and the catchment area of Manchester airport is very wide and it goes across the Pennines even, so where are those people going? If you are going from Stockport to Maidenhead for the day, which is why you would travel by air from Manchester to London, would you in fact go all the way into Manchester Piccadilly, go to Euston and then go out of town again? The same is true of Gatwick. We are great proponents of rail connectivity. It does not have to be high speed rail, by the way, but rail to the airports generally, and I think that is the thing. It is integrated and it cuts down on emissions, so I think that is the big picture we should be looking at rather than specific high speed rail connections.

Mr Ridgway: If I could add to that, I do not think you will see any dissention among the airlines about the benefits and the desirability of improving our rail network, high speed or otherwise. Heathrow, for example, going back to Heathrow again, would only benefit from that. It is not going to change the issue at Heathrow. I think the study shows that it would only free up resources potentially about 2 or 3% at Heathrow if you did do that, but nonetheless it should have happened a long time ago. You will not see resistance from the airlines to that for precisely the reasons Mr Harrison mentioned.
Q336 Ms Smith: I press the point again. The point is that a high speed rail link to Heathrow would provide an alternative means of providing exactly the connectivity that you have been talking about, connectivity in terms of people from Manchester, for instance, flying out from Heathrow on long-haul flights. Lord Adonis made it absolutely clear as well that he thinks the impact will be on aviation rather than on other forms of transport, short-haul aviation.

Mr Ridgway: Yes, and it would be very desirable, but it will not free up vast amounts of capacity at Heathrow. I think somewhere between 2 and 3%, which does not solve the growth issue going forward, but it would be highly beneficial.

Mr Harrison: Yes, I think the point is absolutely right but the risk is that it gets taken out of proportion and really detracts from the basic issue, that there is a shortage of capacity. EasyJet, we fly in France, Italy and in Spain. In France there is a great TGV network, so we set our air network to complement that. The amount of short-haul air travel between Manchester and London is really relatively small. We are the biggest airline in the UK when it comes to short-haul and we do not fly that route.

Q337 Ms Smith: I think there is a perception on the panel that I am against the third runway, and I am not!

Mr Carrivick: As and when high speed rail comes in—and I hope it is when—you have still got to look at the timeframe and decisions on implementation. There is a lot of planning involved—where is the land take involved, the construction of the railway—and that all eats into the immediate need to expand Heathrow right now.

Q338 Ms Smith: Could I just move on to a slightly different question, which relates to the statement made by easyJet that air terminals should potentially be opened up to competition. Could you perhaps say more about that, Mr Harrison, because I find that quite perplexing actually?

Mr Harrison: The main point we were making is that we absolutely need to own it, but where we would have certain facilities which are owned and operated by the airline according to the needs of its specific model. What happens at the moment is that the whole airport is run by a single operator and it just does not encourage efficiency, which is bad for service and is bad for value for money.

Q339 Ms Smith: Can I press you on which airports you are thinking of here, because I am thinking of Manchester where you have got three clearly defined terminals that works very well and, to be honest, if competition were to be introduced at Manchester between the terminals it may well get in the way of the really efficient operation of capacity at the airport.

Mr Harrison: It depends on how the competition works. For example—and this happens in other parts of the world, in the States—it would be quite possible at Stansted, or even at Manchester, for an airline to lease a terminal. We are not saying that we actually need to own it, but where we would have certain facilities which are owned and operated by the airline according to the needs of its specific model. What happens at the moment is that the whole airport is run by a single operator and it just does not encourage efficiency, which is bad for service and is bad for value for money.

Q340 Ms Smith: I think Manchester would argue differently, and I would argue as well, that perhaps the passengers generally would feel more comfortable with the idea that there is an airport operator who can actually to some extent organise, manage, regulate how the airlines are operating in terms of the interests of passengers.

Mr Ridgway: Can I add to that? I agree completely that the most important thing is to make sure we do have effective regulation of the airports, that the airports are allowed to grow and develop to the different businesses and the different business models they offer. I think the best example I can give you is that JFK, which many of you will know was a kind of basket-case airport 10 or 15 years ago, that has gone down the route of letting individual terminal owners and airlines in some cases develop those terminals. Virgin Atlantic is an important customer there. We have moved terminals three times in the last ten years, each time being woody by a terminal owner who has offered us both better facilities and lower cost and a better customer experience. So it absolutely does work and I think customers very clearly at JFK understand the difference between the terminals that Virgin is in. JetBlue’s new terminal, so I do not think they want that reassurance of one-size-fits-all. I think they are perfectly able to differentiate between the competition that exists between those terminal owners to attract their most attractive customers and it has been a fantastic experience for us at JFK compared with how it was in the first ten years of our existence. So I think it is phase 2, but it absolutely could work. There are significant constraints but it could be made to work.
Q341 Graham Stringer: Do you believe that in those airports where you can have competition between the terminals—and obviously there are quite a lot where you cannot—that would be sufficient to take the airport out of economic regulation if you had that competition?

Mr Harrison: Definitely not. The thing about airports is that every airport is different. There are different constraints, different physical infrastructure and whilst airlines compete on an international stage, an airport is a very local market and different airports have got different degrees of market power, so the position at Gatwick is different to Stansted, which is different to Edinburgh. What we need is a very good regulator with some clear guidelines that is capable of setting the right regulatory framework at each airports. In some of those airports it would be possible to increase competition, but from my perspective that is the secondary issue to a fundamental root and branch reform of UK airport regulation.

Mr Ridgway: I think the important thing there is that it is extremely difficult for the regulatory process while it remains very important to actually come up with a set of behaviours that emulate best market practice. So it will not take that away, but it will start to bring some market effects and market forces in around competition so that you do see better behaviour by that airport owner in providing that choice and that flexibility that both airline customers want and ultimately the passengers want. So it is a part of, but it is by no means a substitute.

Q342 Graham Stringer: Just on this point—and I will try and put the three questions I have got into one—does that mean, one, that you are against the RBI Nitex formula which took place on the capital investment and you would like a completely different basis for regulating airports. Two, the CAA have taken Manchester out of economic regulation. Was that the right decision and will the competition work? Thirdly, what always worries me is that while it remains very important to actually come up with a set of guidelines that is capable of setting the right regulatory framework at each airports. In some of those airports it would be possible to increase competition, but from my perspective that is the secondary issue to a fundamental root and branch reform of UK airport regulation.

Mr Harrison: Three different points. In terms of the pricing formula for an airport the critical thing, I think, with airports is investment usually comes in big lumps so that actually does not work particularly well for any sort of RPI-linked formula. The current system we have means that airlines pay in advance for investment that is taking place, for example at Gatwick. EasyJet has suffered a 25% increase in Gatwick charges this year alone and were facing a 50% increase over a five year period, and that is for an airport where there is no new terminal and no new runway. So really the point is how can the regulator encourage efficient capital expenditure, given that the capital comes in very large lumps? In terms of your question about Manchester, that is an airport which does have some competition from Liverpool and, as I have said, it is a different situation to Glasgow or Gatwick where there is no competition. So it comes back to the fact that there is no simple one-size-fits-all approach to airport regulation and, no, we do not know want just sheds. What we want are terminals that are designed for the needs of different businesses. The requirements of Virgin Atlantic and a long-haul airline are really quite different from easyJet, not just in terms of the environment at the terminal but in terms of the stacks. EasyJet aircraft sit on a stand for 30 minutes and they move on. They really need infrastructure that is capable of rapid passenger throughput and rapid turnaround of aircraft and that is really quite different to a long-haul network carrier. What has happened at the moment is that airports have been built as a very cost-ineffective average for all these different requirements.

Mr Ridgway: I think one of the best examples of that misallocation of resources, because we had one airport company building one style of asset, is Stansted where there are millions of pounds worth of jetways and averages that are not used because it does not suit the model of that airport and the airlines that are there. So I do not think you get the best outcome trying to predetermine what type of facilities or what standard of facilities are required because you will get exactly that difference between what an airline like British Airways and Virgin Atlantic would like versus an airline like easyJet.

Mr Carrivick: Obviously with the RPI formula there is a cap and BAA will always insist in pricing up to that cap no matter what the economic conditions which may be prevailing. We have had that this year at Heathrow and Gatwick and they all say, “Well, we have to serve our shareholders.” That gives very scant regard for its major airline customers, who, as Mr Ridgway has said, and Mr Harrison, are pre-paying for the development and at a place like Heathrow when most of our members are based—and Gatwick is a very good second—that is about £700 million a year at both those airports. I would also say that although we do not have any consensus on different terminals for each airport, as a membership association I do know that over and above the UK airlines who have expressed the same sentiments there are certainly four or five others that I can think of who would probably share them as well.

Q343 Ms Smith: Is there not a risk here, though, if we open up competition between terminals and pretty much allow it to apply to any airport, that we might encourage short-termism in terms of the planning of infrastructure for airports rather than the long-term view? I know that Manchester particularly does concentrate on the long-term investment it needs to deliver long-term results and that is the way it operates. Is that not a risk that that might be damaged if we open up terminals to competition?

Mr Harrison: I think it very much depends on how you do it, and there are many different ways of doing it. One can differentiate first of all between the company that actually owns the aeronautical infrastructure, then there is the question on the terminals as to who provided the finance, and then there is a question about who operates the terminal.
One proposal, which I think Virgin have just talked about, is that terminals can be allocated on a licence basis, which means the operator is actually very different from the person who owns it. So there is a number of different ways of doing it and, as I have said, every airport is different so the situation at Manchester will not be the same at other airports.

Mr Ridgway: I think the risk of that is very low because, again, you have the competitive instincts of the different carriers and the different businesses and how they want to put their offering to their customers, and I think you would get very rational behaviour in terms of how facilities were developed and you would not get necessarily short-term cheap solutions becoming the order of the day, in many cases quite the opposite, you would have very smart innovative applications and ultimately allocation of resources.

Mr Carrivick: Essentially, it is the same point I was going to make, depending on what type of airline you are serving. If it is a long-haul, it has got the needs of first-class and business-class passengers to cater for with the associated lounges. That is quite a different model for a low-cost carrier who is moving a lot of people through in a very, very quick space of time and I think the airport would take that on board, certainly an airport like Manchester, which features very highly with our members.

Q344 Ms Smith: You did say, though, that the experience at Stansted with the kind of low-cost, quick turnaround, in terms of passenger satisfaction it is much, much lower than perhaps it is at other airports, even for a flight of an equal distance perhaps?

Mr Harrison: I do not know what you base that on.

Q345 Ms Smith: Experience!

Mr Harrison: Stansted is operated by BAA and the Competition Commission is taking radical steps to change the ownership of Stansted and disrupting BAA, so whether you are right or wrong actually it is a product of a system that is going to change radically and I believe that what happened to Stansted, as has been referred to already, is that there are two major airlines at Stansted, easyJet and Ryanair, who represent 80% of the passenger throughput and neither airline has been consulted in terms of the facilities that are being built and where you have any business, whether it is an airport or not, which makes major investment without properly consulting their customers is a recipe for inefficiency.

Mr Ridgway: I would just urge you to go and try the new JetBlue terminal at JFK which, if you like, is a low-cost airline and yet the facilities are amazing and they are very, very appropriate for the business they are in.

Q346 Chairman: Are airlines able to afford the investment in low emission aircraft which the sustainable aviation CO2 road map implies? Is it going to happen?

Mr Ridgway: I think that is potentially an issue going forward. I think we are all extremely motivated to employ the latest technology. I think we certainly like flying the youngest aircraft that we can and I think we are in potentially a difficult place coming out of the recession and with the meltdown in the financial system and I think going forward the financing of aircraft is potentially going to be quite difficult. We announced an order for ten A330s last Monday on our 25th birthday, which was driven by the desire to employ and deploy the most efficient and cost-effective aircraft we could and we were very lucky that there was a leasing company that had a stream of finance available that was in place before the financial meltdown and we were able to lease those aircraft on attractive terms. We have another 25 aircraft to lease going forward, a new generation of Boeing 787s, and there are potentially some real issues about the availability of that finance. There is equally a debate going on about the fact that the home-based carriers in Europe—in France, Britain and Germany—do not have the same access to finance as others.

Mr Carrivick: Essentially, it is the same point I was going to make, depending on what type of airline you are serving. If it is a long-haul, it has got the needs of first-class and business-class passengers to cater for with the associated lounges. That is quite a different model for a low-cost carrier who is moving a lot of people through in a very, very quick space of time and I think the airport would take that on board, certainly an airport like Manchester, which features very highly with our members.

Q347 Chairman: So there are financial issues?

Mr Ridgway: There may well be. I think it is too early in our case to say, but I know it is something the industry is certainly very conscious of, both around availability of finance and the likely price of that finance going forward.

Mr Harrison: I do not want to comment on the specific target, but I do think that the general principle is correct. As I have already said, the key to sustainable aviation is the use of modern technology and the efficient use of modern technology.

Q348 Chairman: The sustainable aviation coalition suggests that the CO2 emissions of aviation can be reduced to 2,000 levels by 2050 through a combination of technology and biofuel. Is that attainable?

Mr Carrivick: There is a range of options which accumulate to achieve some of these targets. Some of them have been mentioned already. One is more efficient engine performance, which has been a study in progress right through the history of aviation. Secondly is the weight of aeroplanes themselves, which has been considerably saved through the use of carbon fibres as against metal. Third, our local air traffic procedures, continual descent approaches, and so forth, but there is a big one which is still under resolution and that is air traffic management within Europe generally, and that is really one for
governments rather than airlines, governments and national air service providers. The fourth one is the very encouraging developments which are taking place with biofuels. The timescale for that is probably realistically within the next 10 to 15 years. It is closer than it was perceived to be.

**Q350 Chairman:** Does all of this mean that the predictions can actually be achieved?

**Mr Ridgway:** I think many of them can and I think Virgin Atlantic has been at the forefront of really pushing and challenging this debate. It is not something that an airline the size of Virgin can do on its own, but nonetheless in terms of the development of biofuels, proving that aircraft can quite easily and safely fly with biofuels and making sure that development comes in a way which is sustainable. We have all had the problems of a couple of years ago around things like ethanol and displacing food crops and water and deforestation. I think the industry now is in a very responsible frame of mind about how it moves forward on the sustainable agenda, but it is not just about biofuels, it is about all the things we have talked about in terms of pushing and encouraging new technology around the way we fly aeroplanes, particularly fixing things like single skies in Europe. It has taken 48 years not to fix that and that is the biggest single thing that could happen right now to reduce aviation emissions across Europe.

**Q351 Mr Martlew:** Just on the biofuels, do you think it is not a bit of a red herring to the extent that we can only produce so much biofuels in the world and whether it is being used in a motor car or used in an aeroplane does not really matter? If you do not use it they will use it in motor vehicles.

**Mr Ridgway:** I think it is a question of what are the different sectors, if you like, the large consumers of current fossil fuels? What are their sustainable solutions going to be, whether in power generation, wind and solar, whether in the motorcar industry and it becomes hybrids and hydrogen, clearly aviation will need a fuel and that is why it is pushing so hard to look at things like second, third, fourth generation algae. At the moment we are at the very beginning of it, but I certainly do not bury my head in the sand. I do not believe a Luddite approach to getting people off aircraft is going to be the solution. I think we have to find the technological solutions and there have to be both sticks and carrots to make that happen, and we are going to need to find the funds to invest in biofuels and biofuel development and at the same time make sure we do not go off cutting down forests. So it is a very complex overarching debate, but I have no doubt that there are the brains and there will be the technologies there so we can get there. I do not think we can see that right now, but I think if we were sitting around this table in ten years’ time—

**Q352 Chairman:** Do you think that Government should do more, or is it something the industry can do on its own?

**Mr Ridgway:** I think the Government certainly has to provide a platform and a way which encourages and incentivises some of these investments to happen, and it is precisely around that. It is around and you can see it happening in the motor industry. It is around sticks and carrots, but it is not just about taxing people off planes.

**Mr Harrison:** One of the challenges about aviation technology is that it takes big leaps but only every 15 or 20 years and the product often looks the same to a consumer. Most people can see the difference between a Mini and a Range Rover in terms of its environmental performance. Very few people understand that a modern A320 is 40% more fuel efficient than the first Boeing 737s. We are working now with both Boeing and Airbus on the next generation of aircraft, which we believe will be 40% more efficient again. It will be probably 12 to 15 years before that aeroplane is flying, but it will use the latest materials and technology both in the aeroplane, as you have heard, with carbon composites, and in the engine technology, which is using again modern materials. So there are going to be further big leaps in aircraft technology which will lead to huge improvements in fuel efficiency and a reduction in emissions and I think the Government definitely has a role to play in encouraging, forcing that technology to be developed more quickly and to be used.

**Q353 Chairman:** Are passengers protected sufficiently against airline failures?

**Mr Josephides:** What worries us as tour operators especially is that the short-haul airlines are making less and less per seat, they are looking to ancillary revenues so they are behaving increasingly more as tour operators because there is not much to be made out of just filling an aircraft at a very, very low price. As they increasingly act as tour operators, especially those that are encouraging click-throughs from their airline sites through to sites which are not related to them, the public believe that they are booking a package and what has happened over the last few years is that the heavily regulated sector is at a distinct commercial disadvantage to the airline sector, which is now packaging without any of the restraints that we have as traditional tour operators. We supported a £1 levy on all outbound flights in order to raise a very large fund to cover the passenger. This was turned down by Government and we feel that it is still the best value for the consumer because you can achieve financial protection at a much lower price to the consumer than, for instance, paying by credit card because the actual credit card charges being made by airlines now are almost a profit centre in themselves.

**Q354 Chairman:** Do you agree with the Government’s plans to change passenger representations from the Air Transport Users Council to passenger services?

**Mr Josephides:** We do not. We believe that the remit of the Civil Aviation Authority is to look after the interests of the passenger. It is a very, very complex industry and we just do not see why there should be
this change. It seems to us that it is just change for change’s sake. The AUC does a very good job and we feel that they are the best qualified to carry on with it.

Q355 Chairman: Are there any other views on those two points?
Mr Harrison: Yes, I would like to see them protect passengers from weak airlines but the answer you have heard is an old solution to an old problem. EasyJet, as I said, flies 45 million people and 99% of those people do not buy a package, they buy a flight with an average price of £48. The way, I think, to protect passengers from weak airlines is—the means are already there. In order to start an airline the CAA requires you to have three months of operating cashflow in cash so that you can support the airline. EasyJet has a policy of carrying in cash £4 million for every aeroplane that we have, which means that as an airline we have to have £750 million of cash sitting in the bank that we can access at a day’s notice. I think what needs to happen is the CAA with Government should enforce the policy that you have to have three months in cash when you start an airline but there is no policy once you are up and running, you can run that down to no cash, and that clearly is not the sensible way forward. So I think what needs to happen is what we see in the banking industry, where there should be a minimum reserve requirement for an airline to ensure that it can continue to operate. Essentially, there would be a reserve requirement but it needs a start up, and actually good airlines ensure they have it on a permanent basis.

Mr Carrivick: I was not going to comment on the Consumer Protection, but I think I will just make one comment. Even putting the airline direct sales to one side for a moment, the ATOL protection scheme is a very complex scheme and it is difficult to understand because nobody is quite sure what it is protecting. The old package holiday, which I think Mr Harrison was responding to, is still existing but we now have dynamic packaging where you put together your own things and the hard truth is that when operators have failed who have done dynamic packaging, or the travel agent has failed, passengers have found they have not been protected by ATOL when they thought they were anyway, so I think that base needs to be cleaned up first. You can then look at scheduled airlines, but I would say that many in this country are buying with the credit card and they are protected under the Credit Card Act and it applies to purchases over £100. To move on to the other question, Chairman, the introduction of Passenger Focus was built in under the consultation for economic regulation of airports and, quite frankly, we were puzzled by that because we did not see what role the Passenger Focus would have under the economic regulations of airports. The economic regulation of airports already has service quality rebate schemes which are standard loans from the AUC and Passenger Focus. Passenger Focus and BAR UK have met. We had a very good meeting, but I could not see what they would bring to the party that AUC does not already bring, in fact I think the consultation itself asked the question, how can we use the skills of the AUC to complement Passenger Focus and I think that was asked because the issues that AUC are attacking involve a lot of consumer law. It has got nothing to do with the economic regulation of airports, it is to do with incidents with passengers where there are complaints, and so forth, it is dealing with head offices abroad of airlines, and so forth, which is totally different territory to the way that Passenger Focus operates on rail at the moment.

Mr Josephides: I would just say that protection under credit card business is not as straightforward as it looks and there are a great many loopholes in it. For instance, if you have two people using one card or one of those cards is associated, depending who books it, there might be no protection at all. I think we also have to be very careful when it comes to the amount of cash which an airline holds because, do not forget, in the old days you basically paid when your flight was ticketed a few weeks before. Now airlines take millions and millions of pounds in advance for a service to be provided for a long time in the future and a lot of the cash they are holding does not belong to them.

Chairman: Thank you very much, gentlemen, for coming and answering our questions.

Witnesses: 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, gave evidence.

Q356 Chairman: Good afternoon, gentlemen. Would you identify yourselves, please for our records?
Mr O’Reilly: I am Brandon O’Reilly, the Chief Executive of Farnborough Airport.
Mr Pakey: I am Neil Pakey, the Deputy Chief Executive Officer of Peel Airports.
Mr Anderson: Ed Anderson, Executive Chairman of the Airports Operators Association.
Mr Matthews: Colin Matthews, Chief Executive of BAA.

Q357 Chairman: Thank you. Mr Matthews, we have problems at Terminal 5 again

Mr Matthews: Indeed.

Q358 Chairman: Does that mean that these problems with its opening have not been resolved or is it just a one-off situation?
Mr Matthews: Terminal 5 is working very well today. We have fully resolved the problems which occurred on Sunday. The problem we had on Sunday had nothing whatsoever to do with the difficulties around the opening of Terminal 5 a little over a year ago, but they did cause disruption. We
really regret the disruption that happened to passengers on Sunday. I can give you a little more detail if you wish.

Q359 Chairman: What caused the problem?
Mr Matthews: A position sensor within the baggage system did not fail absolutely, it failed intermittently, and it took us about 90 minutes to completely replace and fix that. During that 90 minutes the processing capacity of the baggage system was reduced and that was on a day which had absolutely peak traffic, particularly transfer traffic, and that reduction in capacity led to disruption which lasted for several hours through the afternoon and we really regret that. We certainly learned from that experience how better to manage when we have less baggage capacity, so I am confident that if we had a similar situation in the future we would manage it with less disruption. Having said all that, looking to the future, Terminal 5 has been operating really well and based on independent customer use of Terminal 5 actually it is at the top end of the league amongst the world’s terminals, so passengers independently say they like it. I am delighted about that. I think that is good for passengers. I think it is good for the country too.

Q360 Chairman: So it is not going to happen again?
Mr Matthews: It is not going to happen again.

Q361 Chairman: Are you sure about that?
Mr Matthews: I am sure about that. I am sure we are not perfect. I am sure we are getting better at managing those occasions when we have disruption. Sometimes there is disruption at airports. Some of it comes from our own making, some of it comes from just straight congestion that arrives. We have got to get better at managing both those things.

Q362 Chairman: I am glad to hear that. So we will not have any more incidents of that nature. Does the 2003 air transport white paper need changing in any way?
Mr Anderson: If I can kick off on that, the AOA fundamentally supports the air transport white paper and I think it is important just to remember that it took at least five years in its preparation process before it came in there was effectively a policy vacuum and the beauty of the white paper is that it provides a policy framework within which airports can bring forward development proposals and it enables the sector to grow in a sustainable manner. So obviously some things have changed since the air transport white paper was drawn up, but we would be very concerned if there was any suggestion that it was going to be put away in a bin and fundamentally reviewed because of the policy vacuum that that would almost inevitably bring about.
Mr Pakey: To echo Mr Anderson’s comments, it was a long process in formulating it. I remember vividly some of the debates that took place in terms of should we have a policy which was about growth poles and growing the bigger airports or whether there should be a policy which was recognising that local people want to fly from their local airports. I think the whole framework has been a living document since because we, for example, have gone to two airports with full consultations on master plans which otherwise we may not have done, and that has been very recent and it has made us really think long and hard about the long-term future for the airports in terms of the master plan. So those have been very well-received exercises in terms of consultation with the local regions, so we certainly see it as a good thing for the regional airports.

Q363 Chairman: You would not want to see any changes?
Mr Pakey: Maybe down at the tactical levels. It does refer to the APD as being a blunt instrument, so it is things like that, but certainly in terms of a good framework plan and guidance I think it is commendable.
Mr O’Reilly: Yes, I would echo my two colleagues’ comments in that for a relatively small airport like ours with only just over 20,000 movements per year it provided us with a good opportunity to produce our master plan with regards to the balance of economic benefits and environmental impact.

Q364 Chairman: The Government’s National Policy Statement on Airports is due in 2011. What would you like to see in that?
Mr Matthews: I think Policy in general is relevant but very specifically now, because I think the difficult investment decisions focus around the need for new capacity and that is difficult and controversial. I think that the National Policy Statement can be a very effective framework under which people can consider planning proposals, projects which are put forward, so I do think it is important. I think it is an important part of future planning processes and I think it is important that it is based on a good understanding of how the industry works. One area where I think we could make that clearer in the coming years is to make a clear distinction between two very different marketplaces. One is between a marketplace whereby us, as airports, are serving airlines and there is a marketplace for network airlines, who are seeking to run a hub and spoke model and therefore the need for hub capacity, and a very different marketplace for the low cost operators such as easyJet and Ryanair who are looking for something quite different and operate a different model. Therefore, the question of new capacity is different for Heathrow and the hub. The need for capacity is different, the economic case is different compared with the need for point to point capacity at other airports. So however the National Policy Statement is developed, as policy develops I think it is important that it is based on a really clear understanding that those are two different marketplaces with different economics serving different customer needs.
Q365 Chairman: Mr Pakey, are you satisfied with the role given to regional airports? Would you like to see the National Airport Policy Statement say anything different?

Mr Pakey: I would be very concerned if it was overly prescriptive. If it meant that if a regional airport, for example ourselves with our customer easyJet—say we came up with a big initiative which had national significance, because we would not be at the threshold to be considered, what one would not want is a sort of hierarchical league table where therefore it is not considered to be of national importance, because clearly some of the small regions can still create things, do things which would be great for UK plc. So I guess I am just a little bit nervous that you create hierarchies and projects are categorised into national, regional and local importance.

Chairman: A vote had been called so I will suspend the Committee for ten minutes.

Committee suspended from 4.10 to 4.29 pm for a division in the House.

Q366 Graham Stringer: Mr Matthews, you listened to the evidence previously, I think?

Mr Matthews: I was in the room for the last part of it.

Q367 Graham Stringer: You heard easyJet say that when it came to designing the terminals at Stansted you did not consult with Ryanair?

Mr Matthews: I think I was just walking through the door as he was saying that.

Q368 Graham Stringer: You have heard it from me, that is what they said, that you did not consult them. Why did you not consult them? Is it true?

Mr Matthews: I believe we did consult with them. What I think we were not good at, a little more than a year ago now, was coming to a common view. We have now since then happily come to a common view, but I think we need to make a clear distinction and I think that goes both for us within BAA to be clear but also within the regulatory arrangements that they are two quite different types of airfields. In the case of a point to point airport or railway for that matter gets in economic difficulty, of course it is going to carry on operating. That is a legitimate view. In our opinion, have been very costly to implement for very limited low benefits to customers. In fact, if an airport or railway for that matter gets in economic difficulty, of course it is going to carry on operating because that how you generate cash. So whatever position an airport is in, you are always going to want to carry on operating and that is what the Government was determined to make, in the interests of passengers, if there is financial difficulty the airport continue to operate. That is a legitimate concern. We have to find a way for the regulatory environment to deliver that. The particular method which was proposed, in our submission, suggested created some particularly high costs which were not warranted, so it was no more complicated than that.

Q369 Graham Stringer: So are you saying that your policy has changed since the start of this design phase on the terminals at Stansted?

Mr Matthews: Since my arrival a little more than a year ago we have changed the whole structure of BAA in order to have a clear distinction between Heathrow as a hub—it happens to be the biggest but it is not just scale that makes it different—and an entirely different organisation and structure for managing the other airports, and the other airports are encouraged to be as flexible and as agile as they possibly can be to that different business requirement.

Q370 Graham Stringer: So you are talking to the airlines and you have reached an agreement or consensus on the design now?

Mr Matthews: Yes, we have, and in the case of Stansted that was for a much, much smaller capital spend in the short term. Of course, the issues have not gone away for the longer term. In due course, I think Stansted would need more capacity and therefore it is urgent that at the right time we are capable of agreeing not just on the very small investment plans for the immediate terms, months ahead, but for the bigger investment which will be required when Stansted is full. So I think that will be challenging. If you have got several users some of the aspects are completely common—the runways and the taxiways are common—and we will have to come to a common view on that. That is not an easy thing to do, but we need to achieve that, yes.

Q371 Graham Stringer: Can I just move on to ask why when I read in The Guardian on 9 June it said you were strongly opposing or urging the Government to revise its proposals that would give ministers over power over airports if you got into, say, financial difficulties, if you went into receivership. Have you reached a resolution on that issue?

Mr Matthews: The Department for Transport is conducting a review into economic regulation and they have made a number of proposals and we have responded to that consultation document. There are some particular aspects that would, in our opinion, have been very costly to implement for very limited low benefits to customers. In fact, if an airport or railway for that matter gets in economic difficulty, of course it is going to carry on operating because that how you generate cash. So whatever position an airport is in, you are always going to want to carry on operating and that is what the Government was determined to make, in the interests of passengers, if there is financial difficulty the airport continue to operate. That is a legitimate concern. We have to find a way for the regulatory environment to deliver that. The particular method which was proposed, in our submission, suggested created some particularly high costs which were not warranted, so it was no more complicated than that.

Q372 Graham Stringer: So you have put your submission in. The Government clearly cannot allow an airport to close?

Mr Matthews: No, of course not.
Q373 Graham Stringer: If it did in fact fail, it would be relying on the person who was doing the receiving to carry on. I can see there are incentives to do that, but it is not guaranteed, is it?

Mr Matthews: The Government and society needs to know that the airport is going to carry on operating and have satisfactory arrangements to provide that. I completely agree.

Q374 Graham Stringer: Can I ask Mr Anderson—I read your submission with interest, particularly about the aeronautical spectrum and the Government’s lack of response to your point because you say that it is environmentally bad, it is bad for safety, it has economic disbenefits and the consultation process is flawed. Do you think you could tell the Committee why you have come to those conclusions and what the effects of the introduction of this pricing spectrum will be?

Mr Anderson: Yes. This is a proposal by Ofcom which is to effectively charge a so-called market price for the use of essential radio frequencies for things like radars, VHF frequencies, et cetera, and the point we are making is that the vast majority of these are essential safety features of an airport, there is no choice about having them and if an airport is forced effectively to pay this sort of quasi market price, (a) it loads unnecessary, we argue, costs on for the airport and effectively, (b) it will be a tax on safety. So we have made these points very strongly. We believe that there is a lot of sympathy in some parts of Government and Ofcom are launching a further consultation now, so we are hopeful that we can persuade them not to go ahead with this.

Q375 Graham Stringer: What would be the costs for, say, John Lennon Airport or Heathrow?

Mr Anderson: We are talking about potentially several hundred thousand pounds for an airport for no benefit whatsoever.

Q376 Graham Stringer: So it is the same cost for Liverpool as it is for Heathrow?

Mr Anderson: It depends on the range of equipment that airports have. It is not pro rata particularly to passenger throughput or anything like that.

Q377 Chairman: Mr Pakey, do you want to comment on that?

Mr Pakey: Yes, just echoing his view. We have looked at this and are concerned about it, so we have made our representations through the AOA and hopefully they will encourage others to listen.

Q378 Graham Stringer: You also made a point that there is no market there, it is not a real market?

Mr Anderson: It is not a real market. It is a sort of, “Let’s pretend there’s a market and charge a price accordingly,” if I can put it rather simplistically.

Q379 Chairman: Will the recession have a lasting impact on passenger numbers?

Mr Anderson: I think we would say that the white paper forecast broadly will be about right. The white paper clearly looks to 2015 and then again to 2030, and whilst clearly not every number in the white paper will turn out to be exactly correct, in broad terms we think the demand for air transport is such that those white paper forecasts will prove to be still broadly realistic.

Q380 Chairman: The Government has actually revised the figures, not very much, slightly downwards to some 465 million passengers a year in 2030. The 2008 Pre-Budget Report says 435 million, so you are saying broadly the same thing?

Mr Anderson: I would say broadly, yes. You could not possibly have an argument about every detail of the numbers, but broadly we think they are correct, but of course the recession is having an impact on our industry and more so than in previous what we would call “blips” in the past arising out of 9/11 or SARS, the first Gulf War, et cetera. I think we are going to see more of a deeper downturn, and a longer one as well, but I do think taking the medium to long-term the growth trend will be back and, as I say, the white paper forecast will prove to be broadly in the right area.

Q381 Chairman: Would factors like Air Passenger Duty and the EU Emissions Trading Scheme have any impact on those numbers?

Mr Anderson: If I can just briefly start on that as well, the policy of the AOA is that the industry should meet its fair share of the external environmental costs, the costs that are generated, and we look to the Government’s own calculation of that which was referred to in the earlier session and I think the right number is 1.8 billion, the emissions cost assessment which the Department for Transport published in 2008. The yield for an Air Passenger Duty is in the order of 1.9 billion and so although the Government does not make that link between Air Passenger Duty and the environmental cost, we do make that link and we say we are paying our way and it is right that we should. What we are opposed to is—we have a number of points. One is that none of the Air Passenger Duty is hypothecated, it just goes into the general coffers, so it is not used in any way for environmental projects. We are very opposed to the increases in Air Passenger Duty which are coming in this November and next November and insofar as the EU Emissions Trading Scheme is concerned we support the entry of aviation into that, but as the revenues increase, particularly the auction revenues which give more revenues to Government, we feel that APD should be scaled back as the auction revenues increase.

Q382 Chairman: Would these methods have an impact on passenger numbers, on the number of people flying?

Mr Anderson: I think any tax on passenger numbers beyond what we currently have potentially will, and I think there is evidence that airlines are already citing the level of tax as reasons for moving flights away from airports.
Mr Pakey: I think the thing that has changed mostly in recent years is the international or regional competitiveness with the rest of Europe on this and that is because we have created a marketplace, along with the rest of Europe, that is one single market and we have got operators like easyJet who are European players now, not UK, so in the old days when they used to ride out a recession, or whatever, an airline would not budge. Those days have gone now and we are now giving our evidence, as Mr Anderson points out, that airlines are cancelling routes, not just at the smaller regional airports, some of the larger regional airports as well, whether it is US routes or domestic, and they have the ability for them then to up sticks and go somewhere else. So we have plenty of examples where we have either lost routes or lost the opportunity to succeed in bringing our routes in. Continental, for example, went to Pisa rather than Liverpool. A big, big reason is the taxation point and it is what we do next that is going to be really important if we make things worse in terms of our competitiveness, as opposed to making things better. We lost also British Midland Heathrow service recently to Durham and that was a substantial loss. If you look at the level of taxation the airline had on the route that is obviously one of the factors. You look at other examples across our European competitors. In France, where they operate obviously very commendable high-speed trains, so we are in favour of that, but they also operate air services alongside them. So alongside the TGV, of course, is the PSO infrastructure which helps secure a aviation hub for Paris where it can grow and flourish with very strong connectivity because, of course, all the inbound passengers often come through the hubs from the long-haul points. So it is what we do next that is the most important.

Q383 Chairman: Mr Matthews, did you want to comment?

Mr Matthews: Just to say I heard your previous witnesses suggesting that there needs to be the right carrots and sticks for good environmental performance and I think the rational carrot and stick is to put the right price on carbon. The Emissions Trading Scheme is far from perfect but it does seem to us that it is a step in the right direction and a better direction than APD, so we would support the inclusion of aviation in an effective Emissions Trading Scheme as the right way forward.

Q384 Mr Martlew: Just on the previous point, you said you lost a Continental flight to Italy?

Mr Pakey: Yes.

Q385 Mr Martlew: I cannot understand why people who might want to go to Liverpool would end up going to Italy. You have confused me!

Mr Pakey: Right. Okay, I will try and explain but basically it is no different for a region selling to get an airline investment to getting investments from other sectors and basically we work together with our regions to say to an airline, “Why should you fly into this region?” It is not because we have got a pretty airport or because we have got a statue of John Lennon, it is because there is a very strong Liverpool City region backed up by a very strong North West region and that has businesses and tourism potential, and all the rest of it. That airline then decides, “Where am I going to put my aircraft?” and he weighs up the case for Liverpool against weighing up the case for Pisa in this instance. I will have finished a meeting with an airline and the chap behind me will be from Pisa or Stockholm, or somewhere else, and they will be putting the case for that region, why am I going to get your airline to fly to me, and the airline only has maybe one asset that he has got something he can do with at that time, or maybe half a dozen and he has got a wider choice. We are competing against Pisa and against other European people and we have matured, and Manchester have matured alongside us. We are no longer at each other’s throats and we actually recognise that, goodness me, the competition is out there in Europe and we have common issues, so we are obviously very closely aligned with Manchester on some of these points about getting us a level playing field with Europe on that issue. Does that help?

Mr Martlew: It does, yes.

Q386 Graham Stringer: Staying on the environmental point, the previous witnesses and you have just said that aviation covers its environmental costs. Our submissions show, for want of a better word, the environmental lobby claim that the aviation industry does not and that it is heavily subsidised because it does not pay tax on its fuel. What is your response to that?

Mr Anderson: I do not think aviation is generally subsidised at all and if you look at the total tax take from aviation it is very, very considerable. So I would certainly argue that we do pay our way

Mr Pakey: Can I add to that also the fact that there is a lot of private sector investment in the airports’ infrastructure in this country. I do not see the railways having the same private sector contributions which the aviation sector is having. In terms of us looking for support from the regions when they are making these business cases out to airlines saying, “Okay, what can the region bring?” we do not get like the same levels of aid, if you like, or financial support that the rail infrastructure, for example, gets.

Q387 Chairman: The Oxford Economic Forecasting Report says that aviation brings the benefit of £11 billion a year to the UK and that has been challenged by people who talk about a “tourism deficit”, suggesting that the growth of aviation is stopping significant numbers of people staying in the UK for their holidays and spending their money here. Do you think that is a valid challenge?

Mr Anderson: As I understand it, there is a number of points which the people who criticise that study have about the methodology and, yes, I recognise the one you mentioned. I think they say it does not recognise the sort of exporting of spend through—
Q388 Chairman: Yes, that is right, it is talking about people having their holidays abroad rather than here.

Mr Anderson: I think the thing about the OEF study is that it is now three or three and a half a years old and the data in it clearly is a bit older than that and what we are doing as the AOA right this minute is commissioning effectively a new study looking at the economic impact of aviation. So we have just commissioned our study and we will be publicising the results when they are presented to us later this summer.

Mr Pakey: Just to add a little perhaps to that, it is interesting that Liverpool have just received our figures from the Civil Aviation Authority, which tell us that 25% of our market, our total passenger numbers, are now coming in inbound tourists, which is a fundamental shift change to the way it used to be, and it is growing. You have to bear in mind when people are making these comparisons that when you do decide not to go abroad—actually, most people stay at home and therefore they are not making the same spend as an international tourist coming in is making. So trying to make a like for like comparison, pretending that we are all going to spend a pound wherever we are—we do spend more money when we go on holiday, but most people at the moment in terms of UK holidays are staying at home and just doing a few day trips, combining it with doing some home decorating, or whatever. I think there is a trend and the UK being a more attractive inbound tourism destination is helping the regional airports a lot and we are now regarded by our city stakeholders as being very popular people—the hoteliers, for example, because we are the ones bringing in the churn of tourists.

Q389 Ms Smith: I think Mr Anderson mentioned the total tax take affecting aviation. Could you perhaps elaborate on that?

Mr Anderson: I was talking about all the taxes that companies operating in the aviation sector pay, corporation tax and all the other taxes. I have not got a number in front of me, but if you are looking at the total take then it is a very considerable sum.

Q390 Ms Smith: Are there any other early changes other than the increase in Air Passenger Duty proposed at the moment to taxation affecting operators that you know of?

Mr Matthews: Not that I am aware of.

Mr Pakey: Not taxes but challenges that we are worried about coming forward. You mentioned the Ofcom one. There is also the potential for an increased policing bill ahead of us that concerns us, how we are going to recover that cost from users and in the interests of transparency we are even thinking of having a machine there which says to people, “This £2 that you are going to spend now is for an increased policing presence.” That is a concern, the policing bill that is going through at the moment.

Mr Anderson: This arises from the Policing Bill that is going through Parliament at the moment where airports that do not currently pay for their police will in future—yes, I beg your pardon, when you asked me the question I was thinking about Government taxes, but in terms of costs to airports, yes, we are concerned about the impact of the policing costs that we will have, particularly on regional airports.

Q391 Graham Stringer: Is there a case for the opposite? Do you think that the aviation industry, parts of which are having a bad time at the moment or a very bad time, should get support from the Government? Do smaller airports get support for an RDA at the present time?

Mr Pakey: Personally, I think they should be because it is about a return on the investment for regions. So if a region has a budget and that budget is set aside for inward investment, what is going to give you the biggest return? It might be that you have got a smaller airport operator who is prepared to privately fund some development but that there is a gap and if the region looks at it strategically and thinks, “Actually, our rate of return for investing there is 50 times what it would be if we were to put that money somewhere else,” then surely it is all about UK competitiveness and when you compare it against what our competitors are doing, they are perhaps not as transparent as the UK, and I always encourage transparency, but they are finding ways of getting support. So I think we have to just look at it very strategically and what are the priorities for the regions, and for me airport investment and surface access as well are pretty key. Each of the airports in the North West have benefited from a modicum amount through what has been called ASDF from the North West Development Agency, so there has been a process. I think it is lapsing. You might know better than I, I think it is lapsing, but there has been a process for some small measure of support, certainly nothing compared with the amount that is going into, for example, surface access improvements to other airports.

Q392 Chairman: Should there be more Government support for the aviation industry?

Mr Anderson: No doubt Colin will want to come in on that, but in my view the main support the Government can give is to maintain a positive policy framework which enables the sector to grow and develop in a sustainable manner into the future and, without repeating everything I said about the white paper, that to me is the most supportive thing Government can do.

Mr Pakey: It is a question of how do we ensure UK competitiveness going forward and how do we ensure UK regional competitiveness going forward are hand in hand with the airports because airports always come out as being transformational or key to regional growth and the two questions are hand in hand really. It is all about UK competitiveness.

Q393 Chairman: If Heathrow is expanded, does that mean there will be an increased number of services between Heathrow and the UK regional airports? Would that follow or does it need something else to be done?

Mr Matthews: I believe it would. The reason the number of UK domestic destinations has declined by, I think, 50% over the last ten years is because of the
Q394 Chairman: How much can you increase passenger numbers at Heathrow without a third runway?
Mr Matthews: The runways are full so we cannot increase aircraft movements, but aircraft over a period of time, particularly following the process I have just described, which says if you constrain capacity airlines will tend to move towards long-haul flights, which tend to be bigger aircraft with more passengers, and therefore there has been and will be a gradual increase in the number of passengers. Actually, in the current recession passenger numbers in Heathrow are only down by between 3 and 4%, so it is a pretty gradual process. The airport is over-full but there will be a small amount of growth available from two runways just because of using larger aircraft or more longer destinations and inevitably reducing still further the connectiveness of UK domestic regional airports to Heathrow.

Mr O’Reilly: My only comment about runway three at Heathrow would be that if it does go ahead the impact that would have on Northolt Airport, which currently has about 7,000 business aviation movements a year and what would happen to those business aviation movements. Capacity clearly is available at Farnborough.

Q395 Chairman: How far can regional airports replace flights from London airports?
Mr Matthews: One of the things that is regularly stated in both environmental arguments and economic arguments is that transfer traffic is worthless. The trouble is that without transfer traffic you cannot justify. You cannot accumulate the volume or smooth the volume increasing days of the week in order to justify the vast majority of long-haul destinations. I think from London we will always serve—JFK will always serve Narita and Singapore but without transfer traffic you will not reach Seattle and you will not reach Bangalore or Chennai or the cities across China without transfer traffic, so that is an absolutely fundamental economic feature of a hub. It is very difficult for our airports. I think other people’s airports outside Heathrow to make the economic case for long-haul destinations other than one or two to the most popular destinations like New York.

Mr Anderson: I think the role of regional airports is to serve as much as possible of their local regional catchment areas and there is plenty of scope for regional airports to be able to do more of that, but at the end of the day increasing the throughput of regional airports is not an alternative at all to the expansion of Heathrow.

Mr Pakey: I have been asking the same questions of the likes of the petrochemical industries in the Tees Valley region and they are clearly concerned that there is no Heathrow link now. When you are out there as a region trying to get more businesses into the region, it is a handicap knowing that that link has gone.

Q396 Chairman: Mr O’Reilly, Farnborough is the only airport dedicated to business. Would you like to see business flights directed to Farnborough in any way? Would you like to see any changes in that direction?
Mr O’Reilly: Yes, it is a business aviation airport exclusively. All other airports that handle business aviation are hybrids, so they have commercial operations and Farnborough does not, and it has significant spare capacity, so relating to my last question, if Northolt were to close as a result of runway three—and I am not sure that is the case, but if it was then Farnborough has capacity and Farnborough also has the ability, as do other airports, to relieve capacity in the south-east of England where there are constraints today. For example, Heathrow has 2,000 business aviation movements a year which given its constraints and forecast reduction in business aviation capacity at other airports Farnborough could certainly handle.

Q397 Chairman: Do you think it is credible that we can have airport expansion in the way the Government envisages and still meet our climate change obligations?
Mr Anderson: I would refer to the Sustainable Aviation Coalition, which the Airport Operators Association is pleased to be a strong supporter of and the road map, which I know Members of your Committee are familiar with, which shows the emissions reaching back to 2000 levels by 2050 and the contributors to achieving that—there is a number and I know they were discussed in the earlier session so I will not go through it, but a large chunk of it arises out of technological changes which my understanding is the airlines are fully signed up to and the manufacturers. So far as airports are concerned, I think airports also can play a role in this, in trying to ensure that their own operations within their boundaries move towards carbon neutrality and focus on reducing their emissions. So I think there are many facets to this, but I believe the targets are achievable.

Q398 Chairman: Do you think that the predictions from the Sustainable Aviation Coalition can actually be achieved?
Mr Anderson: I do, yes.

Q399 Chairman: People often speak very generally and they say something can be achieved, there is improvement, but cannot quantify it.
Mr Anderson: I think they can be achieved and if you break that road map down into its constituent elements and then look at each one in turn, in the earlier session I did not hear the airlines dissenting from the bit which they will have to deliver, and certainly the slice that airports will have to deliver we fully support the achievability of that.
Q400 Chairman: Mr Matthews, is it feasible for Heathrow to remain within its local air quality limits and have you reached agreement with the Environment Agency on actually how you measure and where you measure those NOx levels?

Mr Matthews: I believe it is, although the air quality issue is more complicated than other topics because it is not only the aircraft, in fact it is not principally the aircraft that generates the air quality issues, it mostly comes from ground traffic, in particular diesel vehicles, and therefore it is not a Heathrow only solution, it is the total integration of road access, rail access and airport operations that are required to make it work. But there are two separate issues. One is addressing the targets—

Chairman: I am sorry to stop you in mid sentence. We will suspend the Committee because of the division.

Committee adjourned at 5.00 for a division in the House.
Wednesday 8 July 2009

Members present:

Mrs Louise Ellman, in the Chair

Mr David Clelland
Mr Philip Hollobone
Mr John Leech
Mr Eric Martlew
Ms Angela C Smith

Mr Richard Eccles
Mr Clelland: Member of the GMB and Unite Unions.
Mr Eccles: Head of Route Planning, Network Rail.
Mr Martlew: Member of Unite.

Witnesses: 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, gave evidence.

Chairman: Good afternoon, welcome to our meeting. Do Members have any interests to declare?
Mr Deighan: Good afternoon. I am Tony Deighan, I am Director of Strategic Projects for Eurostar.
Dr James: I am Alan James, I am Chief Executive of UK Ultraspeed.
Sir David Rowlands: I am Sir David Rowlands, Chairman of High Speed 2.
Mr Eccles: I am Richard Eccles, I am Head of Route Planning for Network Rail.

Q401 Chairman: Could I ask the witnesses to identify themselves, please, for our record?

Mr Deighan: Good afternoon, I am Tony Deighan, I am Director of Strategic Projects for Eurostar.
Dr James: I am Alan James, I am Chief Executive of UK Ultraspeed.
Sir David Rowlands: I am Sir David Rowlands, Chairman of High Speed 2.
Mr Eccles: I am Richard Eccles, I am Head of Route Planning for Network Rail.

Q402 Chairman: Thank you very much. Would high speed rail reduce the demand for short-haul flights or would it add to the numbers of people travelling?
Sir David Rowlands: There is clearly potential for a high speed railway network—and I think it would have to be a network from London up to Scotland—to take people off domestic flights down to Heathrow. The extent to which it transfers may depend on what the connection with Heathrow is, and there is clearly some potential to take passengers off short-haul flights into continental Europe. Again, I think that potential is related fairly directly to the distance you would travel on a high speed network down through London on to HS1 and into the continent. There will be some journeys which are clearly still easier to make by short-haul flight because of the time it would take by comparison with a longer journey, even by high speed rail. So I suspect that some flights, for example Newcastle across to the continent, would still have passengers who would choose to go that way rather than by high speed railway network.

Q403 Chairman: Do you think that high speed rail would be an alternative to connections for passengers going to hub airports?
Sir David Rowlands: It is certainly an alternative for domestic flights down to Heathrow as a hub airport and it offers some potential to displace Paris or Amsterdam as a hub airport for people travelling either from the southeast or the Midlands—less so as you get further north, I think.

Q404 Chairman: Do you have any idea by how much?
Sir David Rowlands: You are asking, in a sense, for an answer to the question we ourselves are still addressing because this will keep us occupied through to the end of the year when we give a report to Government. On the basis of earlier work done for the Strategic Rail Authority their modelling by their consultants, Atkins, suggested that passengers from Scottish airports down to Heathrow, for example, would be reduced by 25% and they did not include a Heathrow connection in their modelling, whereas we are looking at one. So there is clearly potential. If you look at the actual numbers last year, about 43% of people flying down from Edinburgh were interlining; the rest were just doing a point-to-point journey. About 49% of people flying down from Glasgow were interlining and the rest were point-to-point. You would expect certainly all the point-to-point traffic to transfer on to a high speed network, given that the journey time from Glasgow or Edinburgh down to London would only be about two and a half hours. You would expect some—probably not all—of the interlining traffic to shift as well, but that will depend partly on the pricing policy and partly the ease which is offered to people who are making that interlining connection. If you have to check in to a railway train in Glasgow or Edinburgh or Manchester and carry your own bags through to terminal wherever in Heathrow, that is not a particularly attractive option if you can just check them in at the domestic airport. So some of this is to do not simply with the building of a high speed railway network, it is to do with the pricing policy and with the service that is offered to people who might otherwise choose to fly.

Q405 Chairman: Will we see it strengthening Heathrow as an airport?
Sir David Rowlands: I see a high speed rail network as potentially complementary to Heathrow—I do not see it detracting from it overall—and it has the potential to improve Heathrow in terms of its accessibility to help ease the strain in terms of slot usage there. Although I think you need to be clear
that the numbers are still relatively modest, the number of people actually flying and, therefore, using slots for domestic services into Heathrow are relatively small. You are talking of a dozen flights a day in each direction or thereabouts for the Scottish airports and Manchester and rather less for places like Newcastle.

Q406 Chairman: Would any of our other witnesses like to comment on this? Dr James.

Dr James: We did some early numbers on this and the magic number is three hours—I think that is generally accepted—which is if you are on a high speed ground transport vehicle for three hours or less you are usually competitive with a point-to-point air journey. Our maglev plan has been built to largely replace domestic aviation. There are a couple of other points I would like to bring out but I am generally in agreement with what Sir David has said. If you have a 27 minute journey time from Heathrow to Birmingham International Airport there is a potential to use some of the capacity at Birmingham to do some of the job of Heathrow Runway 3. With maglev also—and this is a distinction between maglev and high speed rail— with an east-west link across the Pennines everywhere between London and Newcastle is within a 60-minute journey time of Manchester Airport. That makes Manchester a viable hub for a larger catchment than is currently in London and the southeast and enables that two-runway airport, which already exists, to take away some of the strain of London and the southeast. Just to put some numbers on the table, if two of us were to leave here today and progress by the fastest available transport to the north, if one of us takes the train and another were to take a maglev, using the Jubilee Line to access maglev at Stratford and using Heathrow Express to access a plane at Heathrow, by the time your plane with its 180-odd seats on board has taken off from Heathrow, maglev, which has anywhere between 500 and 1200 seats, has called at the M25, Birmingham Airport, Central Birmingham, Manchester Airport, Leeds and is just approaching Teesside. By the time you have flown to Manchester and then exited through the terminal the maglev has stopped at Tyneside, Newcastle Airport, Edinburgh Airport and Glasgow. So what maglev does is put on the ground a vehicle with at least twice the passenger capacity of the world’s largest aircraft, an Airbus A 380, and gets you to Edinburgh in two hours 40 minutes, stopping at all the major centres of population of the traditional west and east coast routes in less time than it would take you to do a single point-to-point journey.

Q407 Chairman: Dr James, we will come on later with some more detailed questions on that level but what I am seeking is assessments of the impact of high speed rail on the airport and on passengers travelling.

Dr James: It takes 80% of Manchester’s air traffic and roughly 66% of Newcastle’s.

Mr Deighan: If I may add the Eurostar dimension. I obviously cannot speak for air travel but I can say that if you have a two-hour journey time you roughly pick up 80% of the market share, and typically up to four hours you pick up about 50%. The emerging news from SNCF, from the President, Guillaume Pepy, is that passengers will actually stick a journey of about six hours and then you pick up half the alleged traffic that may be on offer. I hope that gives you some idea of our experience.

Sir David Rowlands: If I may, is it worth looking at some real numbers? Look at the impact of the West Coast Main Line upgrade, which is not a high speed railway in the sense that HS2 is looking at one. Last year the split between rail and aviation, 70% of people from Manchester went down to London by rail, 30% by air. Go back five years and it was a 50-50 split, so bringing the West Coast Main Line upgrade through to the speed it now is has taken the rail share from 50% to 70% of that air/rail market. I think that demonstrates the potential, but you do need to keep in mind the numbers who are actually flying and they are relatively small; the daily number in passengers from Manchester is about 1,200 passengers a day flying down from Manchester to Heathrow. These are still relatively small numbers of people, it is about one and a quarter train loads on a high speed railway train or about one maglev train in terms of numbers.

Q408 Chairman: Mr Eccles, do you want to add something?

Mr Eccles: Yes, please. We have just about completed a piece of work that we have called the New Lines Programme that we have been working on for about nine months. Effectively we have been developing a strategic business case for a high speed line that serves the markets that the present West Coast Main Line serves, and we have been looking at a new high speed line to see if it is the value for money way of creating the capacity of the system that we believe is going to be required into the future. We have looked at the business case as far as Edinburgh and Glasgow and we started off with the core route to Manchester and Birmingham. Whilst we are validating figures, at the moment the draft findings—I have them in my memory—say that in 2030 we will abstract 3.6 million passenger air journeys from Scotland a year. I would agree with Sir David’s figure that demonstrates what has happened on the west coast, and I would have said that 74% is now by rail but we are near enough. The interesting thing is why the other 26% do not transfer, and I guess the answer is that the benefit they get from air travel is not satisfied simply by journey time, or is not satisfied simply by the journey time on the core route and perhaps generalised journey time is still an issue. Will we ever abstract those people who fly from Scotland to Heathrow so that they can avail themselves of the massive opportunity at Heathrow to transfer to anywhere else in the world, or who simply are going for a meeting in Reading? There are those issues to consider as well. So that figure I quoted is less than 20% of what we forecast the total Anglo-Scottish domestic air market to be in 2030. We have tried to be conservative in our strategic business case so that we can demonstrate robustness; so that when there is challenge to the assumptions we
have made we can always demonstrate that we have erred on the side of caution, but at the moment it is a strategic business case. If that is helpful, that is where we are.

**Chairman:** It is.

**Q409 Mr Clelland:** I would like to pursue the maglev concept that Dr James was referring to earlier. I have been interested in this ever since I was in an engineering apprenticeship in the early 1960s and learned about the linear motor around which maglev technology is based. The Government argues that maglev is considerably more expensive than high speed rail and that the system is unproven. I do not know if Dr James would like to comment on that?

**Dr James:** Lest I forget, quite a number of things have been said about maglev in the last couple of years and there really is no alternative than to experience the thing for yourselves. I would very much like to invite the Committee to come and ride the test track in Germany, where we can levitate you at 250 miles per hour, and allay some of the myths. Going back to the question of costs, in the documentation supporting the 2007 Rail White Paper a number was quoted. It took one of our own numbers, which was an estimate of total capital cost, including land, (it then) quoted our own cost but misquoted it as excluding land, which led in the fullness of time to the doubling of our estimate which, because we are talking about a big project, is £31 billion. Adding £31 billion to the price tag of anything has a material effect on the inclination of any playing field. We have, of course, written to ministers to point this out.

**Q410 Mr Clelland:** So the actual cost is £15 billion?

**Dr James:** The DfT upped our number of around £30 billion to around £60 billion.

**Q411 Chairman:** Have the DfT accepted that it was an error or are you disputing their figures?

**Dr James:** That figure has not been withdrawn and we would seek the Committee’s assistance in getting to the bottom of that and getting that factual matter corrected. On that basis we have done plenty of very detailed work since, some of which with public sector partners, including between Liverpool, Manchester and Leeds, some of the most difficult bits of the system, including the trans-Pennine section. The average cost per kilometre for maglev comes out at £30 million per route kilometre. That compares to £56.42 million for Britain’s only high speed railway, which was the Channel Tunnel Rail Link (aka High Speed 1). Clearly High Speed 1 had some very difficult work to do getting into London, but therein lies the point. If you want to build a TGV line that goes fast into cities you have essentially to tunnel it, which is what High Speed 1 does. Maglev is fundamentally different; it is basically an elevated structure. We are 100% confident on the basis of independently validated work done to date that maglev can produce obviously faster journey times over any of the routes in question than high speed rail, but can produce those faster journey times with lower capital costs, lower whole life operational costs, less land take and per passenger kilometre lower carbon emissions. There is a lower noise issue as well.

**Q412 Chairman:** But maglev cannot travel on conventional lines, can it?

**Dr James:** No, absolutely not, it requires new infrastructure, and I would like to address that issue. A number of people have said that one of the advantages of conventional high speed rail, Shinkansen or TGV, if you like, is that you can build it incrementally and you can run off the new high speed line on to existing classic infrastructure. That is indeed the way that the TGV network has been built up in France. It just does not work in the UK; it is a complete red herring. Professor Rod Smith wrote a paper in 2006 for DfT in which he said that incremental build of high speed rail lines in the UK does not work.

**Chairman:** Dr James, I want to ask you about maglev as your particular area of expertise rather than going into some of the other areas because we have a lot of questions to ask you.

**Q413 Mr Clelland:** In that case can I ask Network Rail, have you produced any estimates of the costs involved in building a maglev network?

**Mr Eccles:** We have not looked at the costs of building a maglev network, no.

**Q414 Mr Clelland:** Why?

**Mr Eccles:** On the basis that we were looking at a strategic business case and we did an evaluation of various forms of high speed rail around the world and had the cooperation of the UIC and other places and looked at the Transport Study, we rather found ourselves at the position you expressed to begin with, that it looked to be very expensive and unproven.

**Q415 Mr Clelland:** It looks to be, but you have not actually done any work on it?

**Mr Eccles:** As I say, we were looking at what we thought was a value for money way of providing additional capacity on the existing network. So we did not just look at high speed rail, we also looked at the more traditional ways and clearly we had to take a judgment on what was likely to produce the best business case and then follow it up. So I would not contest the unit costs, we have not looked at them. We have looked in detail at what we believe would be the unit costs of building a conventional—if I can call it that—high speed railway in this country and they are not too different from the figures that have been quoted for maglev, and we include 66% optimism bias at this stage. As we have said, the High Speed 1 is two parts. It does look to be the most expensive high speed railway in the world and I fear that High Speed 2 might turn out, with 66% optimism bias, to be the second most expensive high speed railway in the world.
Q416 Mr Clelland: Is it the case that Network Rail is taking a rather blinkered view then, that really they are sticking to what they know, that hundreds of tons of metal thundering along on steel rails is really what you know and that is what you will stick to?  
Mr Eccles: I guess you could say that, but I would not express it in those terms! We were sticking to what would serve our purpose in looking at this whole issue and we are responsible for the operation, maintenance, renewal and enhancement of the existing rail network and need to make sure that we do that at the optimum whole life cost. So with the assets lasting—signalling systems 40 years, tunnels however long, 100, 150 years—we need to be looking to see what the future might hold so that we can make the most efficient decisions in the meantime. Looking at what we could see to be the deliverable, tested way of supplying additional capacity—not just capacity on the high speed line but what you do with the capacity that is liberated on the classic network by moving—as we were talking about the west coast—the Birmingham, Manchester, Scotland services on to the high speed line, that that answers the question that we want to ask.

Q417 Chairman: Mr Eccles, Network Rail has been criticised for its costs on the renewals, has it not?  
Mr Eccles: Indeed it has.

Q418 Chairman: It has been alleged that Network Rail’s costs are significantly higher than other European comparators. Are you getting those costs down?  
Mr Eccles: In the last Access Charges Review the Office of Rail Regulation did make that accusation and we contested it through evidence of our own. We did need to get our costs down. We have reduced costs of running the railway by £1 billion a year in the last five years but we need to do more of that and we acknowledge that; and the Access Charges Review and the settlement that we have for the next control period challenges us to do that.

Q419 Mr Clelland: Just to finish this off. The Chairman did refer to the inoperability of maglev with the traditional line and I wondered how Dr James would answer that. How is it going to integrate with traditional rail and other transport mediums and what about maglev in terms of its visual intrusion as it passes across the country?  
Dr James: Clearly we are a physically separate infrastructure to rails. We are not a railway, we do not have rails, maglev levitates a centimetre above its guideway and it is that lack of friction that enables us to do what a TGV cannot, which is go at 300 miles per hour. We cannot run off on to existing rail networks. That cannot be done by TGVs into many cities in the UK anyway due to the lack of capacity on the existing rail network. However, we have designed the network to integrate with the key points in the UK’s transport system, that is Heathrow, Birmingham, Manchester, Newcastle and the Scottish airports, as well as serving the cities. So we are performing a city-to-city function and a feeder distributor function that will abstract significantly from domestic aviation. Maglev’s key advantage is journey times, we simply go faster than traditional high speed trains. That enables us to offer a faster journey to the near continent for anybody living in Manchester or boarding a high speed system in Manchester than a simple extension of the existing high speed rail line to that part of the world. So people would get to Stratford quicker, then, even allowing for the time penalty of a change maglev and would get them to parts of the near continent quicker. To pick up then the visual intrusion point, two points need to be balanced here. Maglev is by preference an elevated system. You can build it in a tunnel if you wish, you can also build it at grade, but building it elevated has several advantages, namely you can keep it straight and level while the landscape does the wobbly stuff underneath. There is a precedent in the UK for elevated automated mass transit and that is the DLR; DLR does it with a couple of hundred people on at 30 miles per hour. We get into the heart of cities using elevated guideway with up to 1000 people on board at 125 miles per hour, making less noise than the urban background, so there is very much less intrusion there. There is also less intrusion in terms of land take. Typically, a linear metre of a TGV line will take somewhere around about eight or 12 square metres of land; we take two square metres of land where built elevated, and the land under the guideway remains useable for its original purpose.

Chairman: Can you give shorter answers, please, because we have many questions.

Q420 Mr Wilshire: I have three things, but let me take maglev as my first point. Let me say I accept its advantages. It is wonderful, it will do everything you say, but when will I be able to buy a ticket for it?  
Dr James: You can do so now.

Q421 Mr Wilshire: In China, because I have been on the one in China. I mean here; when will I be able to buy a ticket at Heathrow and go to Birmingham on it?  
Dr James: I think part of the challenge is to you as legislators. What I can tell you is that from signature of contract to VIP run in China, i.e. the pure engineering of building it, was 22 months.

Q422 Mr Wilshire: That is fine, but when are we going to sign the contracts in this country?  
Dr James: Clearly the Hybrid Bill or whatever new planning framework process needs to proceed would need to proceed in parallel with engineering studies. If you allowed, say, three years for parliamentary process—and we would be guided by yourselves on that obviously—from the point of Royal Assent and financial close, there is no technical or financial reason you could not have it running within 36 months, and that would be the London to Birmingham bit.
Q423 Mr Wilshire: You are really saying that within five years we could have this working, is that what you believe? Do you believe that will happen?
*Dr James:* I certainly believe that, yes.

Q424 Mr Wilshire: You believe it could be done. Do you believe it will happen like that?
*Dr James:* We believe we can deliver our side of it, which is the engineering.

Q425 Mr Wilshire: That was not actually what I asked, but never mind let us move on. Let me accept entirely that Heathrow is desperate for decent railways, it needs them urgently. What I have heard this afternoon is adding to my confusion. One minute I am hearing that there are not actually all that many people who will be displaced on to the railways when you come to think about it; the next minute I am hearing what a wonderful improvement it would make. Which is the correct way to look at that, that it does not make much difference because there are not many people or it will make a huge difference and, if so, how many people?
*Sir David Rowlands:* The numbers flying domestically from other UK airports into Heathrow are relatively small. Some of those flights will continue because there is water in the way from the two Belfast airports and from Jersey, and I think you heard from earlier witnesses, there are basically six mainland airports from which there are flights into Heathrow. So the number of airports is quite small and the numbers making those journeys are quite small. If you look at the total number of people flying between Edinburgh and Heathrow last year it was 1.3 million, it was 1.1 million from Glasgow down to Heathrow—that is in both directions—Manchester was 910,000, and the numbers are smaller still when you get to places like Newcastle. Those translate into, as I have said, about 12 or 13 services a day each-way between Heathrow and the Scottish airports and Manchester about five a day up to Newcastle, in each direction. A high speed railway or, indeed, a maglev, if that is what the government so decided to build, would have more than enough capacity to carry all of those passengers should they wish to travel by surface mode, but the numbers are relatively small in terms of the overall capacity you are putting in place, either with the new high speed network or, indeed, with a maglev alternative. Those numbers out of Edinburgh translate into less than two full trainloads a day; from Glasgow about one and a half full trainloads a day; about one and a quarter from Manchester; and less than a train a day from Newcastle. On a high speed railway, depending on design characteristics and so on, you can run somewhere between 15 and 18 an hour, every three or four minutes. There is no problem with capacity, the issues will be journey time, but either of these systems will vastly improve on the existing surface transport times and would match, I think, allowing for transfer times by air. The issue is how easy the transfer is. You will remember I said earlier on that there were issues around what do you do with your bags, for example, which are non-trivial issues for people who are interlining.

Q426 Mr Wilshire: If I understand that answer correctly, if you are going to make the journey by train you go, “Whoopie! What a great improvement,” but it is not many people and the actual impact from the number of passengers going through Heathrow is pretty minimal. It is highly desirable, therefore, but it does not actually help much of Heathrow’s problems, does it?
*Sir David Rowlands:* That is a fundamental characteristic of the numbers. I do not think you can change the numbers. In round figures there are 60-odd million flying into Heathrow every day and about five million—

Q427 Graham Stringer: Not every day!
*Sir David Rowlands:* Sorry, no!

Q428 Mr Wilshire: But you are encouraging me to believe are you not, then, that although this is highly desirable, with which I agree, and although it will help some people it will not do much to help most people at Heathrow.
*Sir David Rowlands:* Let me be very clear: I am not encouraging anybody to do anything; I have been asked to do a job of work by the Department for Transport and that is the job I am doing. I am not proselytising for high speed rail, though we are seeing what case there is for it.

Q429 Mr Wilshire: The World Wildlife Fund said to us that if you were to build these railways at Heathrow you would free up 12% of Heathrow’s slots. Do you agree with those figures?
*Sir David Rowlands:* I do not know because we have not done the modelling work to see what numbers we think would actually transfer off domestic flights on to the high speed railway offering or the numbers that might transfer on to high speed railways from further north for a through journey to Paris or Brussels, for example. So you have to forgive me, we still have a lot of work to do and I really do not want to give answers to questions I should not give.

Q430 Chairman: When do you expect to have answers to that question?
*Sir David Rowlands:* We expect to deliver to the Department for Transport a comprehensive report by the end of 2009. It will be for the Department to decide what it wishes to do with that report and when to publish it.

Q431 Mr Wilshire: When you actually come up with figures, whether you agree with 12% or not, will you also be coming up with a figure of what percentage of slots currently in use need to come out of use in order to improve the quality of the service at Heathrow?
*Sir David Rowlands:* No, because we are not asked to look at the quality of the service.
Q432 Mr Wilshire: The other thing that concerns me is your reference to Birmingham. At the moment Birmingham has no rail links to Heathrow and it has no flights to Heathrow. Have you any idea how many people are flying out of Birmingham to, let us say, Schipol, to transfer to intercontinental flights?

Sir David Rowlands: Yes.

Q433 Mr Wilshire: How many?

Sir David Rowlands: If you allow me to turn the page I will try to find the numbers for you.

Q434 Chairman: Do you want to let us have that figure?

Sir David Rowlands: I can let you have it. The numbers are measured in hundreds of thousands in terms of two ways, so you are looking at, from memory, the order of 300,000 or 400,000 in both directions from Birmingham to Paris and to Amsterdam.

Q435 Mr Wilshire: When you let us have those figures, could you let us have your estimate for how many of those people who are currently flying out of Schipol to Charles de Gaulle, to Frankfurt, will actually go by train to Heathrow to get a better quality of service from more routes?

Sir David Rowlands: I cannot give you that answer until the end of the year.

Q436 Mr Wilshire: But you will give us the answer?

Sir David Rowlands: Yes, and be very clear that all of this will be in the report that we give the Department at the end of the year.

Chairman: We would like any information that you can give us now.

Q437 Mr Wilshire: Would you therefore accept that by linking Birmingham to Heathrow by train, whatever sort it is, you will actually increase the number of passengers using Heathrow to fly somewhere?

Sir David Rowlands: If you link the two together with a viable high speed rail offer you have certainly the potential for some people to choose to go down to Heathrow to fly out rather than to go to Paris or to Schipol to interline. There is a point here that is not generally recognised. For connecting passengers flying out of Birmingham or Manchester, for example, into Paris or into Schipol, they are offered very attractive prices by the airline into which they are interlining and you do not get those prices at Heathrow. So it is not as simple as simply looking at numbers and speeds, it is about price, it is about service. This is quite a complicated problem.

Chairman: But price is in the equation as well.

Q438 Mr Wilshire: That will be a matter for the airlines to decide whether they believe in competition or whether they do not. The last thing I would ask you, if I may, is one of you said that if Birmingham were linked to London by this high speed rail we would have a new hub in Birmingham. What routes do you imagine it would have in Birmingham and what would be the attraction of creating another hub?

Dr James: I was more particularly interested in Manchester where there was greater capacity. Birmingham could be connected to Heathrow and our journey time is 27 minutes and yours (ie TGV) was 35 or thereabouts. It is Manchester that we are particularly interested in. If you take any point from the M25 to Tyneside it is roughly 45 minutes from those points by maglev to Manchester. That would enable Manchester to take much of the strain off Heathrow by creating a viable hub in the north and for the north. What that does is connect Manchester to a population that is larger than Heathrow’s catchment and thereby support more international services directly from the north. To come back to the slot—

Q439 Chairman: Could you just answer that question because we are coming to all these other matters.

Dr James: We would take the view that Manchester becomes a significantly more viable international hub with a high speed connection to roughly 60% of England’s population.

Mr Wilshire: I cannot remember which of the four of you it was, but when you see the record of the evidence you have given this afternoon—because I wrote down what was said—the rail link to Birmingham would enable people from Heathrow and London to make use of Birmingham’s capacity. That is what I heard said; I will apologise if the record does not show it.

Q440 Chairman: Is the answer yes or no?

Dr James: It was me who said that and you could use Birmingham as integrated with Heathrow’s operation. I apologise if there has been any misunderstanding.

Chairman: Thank you.

Q441 Graham Stringer: Public expenditure is going to go off a cliff edge some time in the next 18 months, I guess. I cannot believe that anybody does not accept that. If you have £30 billion to spend, which may or may not come about, what is the cost benefit analysis of putting that £30 billion into roads, maglev, high speed or, in the case of the north of England, dealing with the capacity problems generally known as the Manchester hub? Has that work been done by any of the groups, either parts of it by different groups or in totality?

Mr Eccles: For our part, one of the core outputs in the business case that we have done is the business benefit cost ratio, but all that will tell you is whether it clears a hurdle rate that funders might want to set. It really is not for Network Rail to decide what the priority is on funding schools, railways, whatever.

Q442 Graham Stringer: I am talking about those four areas of transport and the cost benefit analysis.

Mr Eccles: Again, as long we all use the same appraisal methodology, which certainly rail and road do now, it is for funders, government
principally, and they could then compare the BCRs, the merits, the benefits of the investment, but it does not mean to say that they have sufficient money—

Q443 Graham Stringer: I understand all that, I just want to know what the difference is between the different cost benefit analyses between those four areas. We were told last week, for instance—I think it was last week—by a professor of transport that the money would be much better being put into the road system in terms of the cost benefit analysis. Because life is going to be difficult financially and you are in a competitive situation with these different projects I would just like to know your figures on cost benefit analysis.

Mr Eccles: I have seen that quoted in the RAC report, but I guess, thankfully, decisions are not made that way. Individual projects are appraised and decisions are made on individual projects and there is an overview of government policy that will hopefully integrate that.

Q444 Chairman: But these may be the questions asked at a time of difficulty. Sir David, do you want to comment?

Sir David Rowlands: I will try not to play pass the parcel here, and you will have to forgive me but I cannot quote you BCR numbers for a high speed railway, whether it is the West Midlands or as a network because that is the work that we are doing and we will not know that until the end of the year. Does it help if I say that we have agreed with the Department for Transport that in the report we produce in looking in detail at London and the West Midlands and then at a corridor level beyond up to Scotland, for London and the West Midlands we will produce full costings for a high speed railway link between those two localities. We will also produce costings for a conventional rail solution on the same corridor so that there will be a new conventional rail rather than a high speed line, and that will need to capture both cost benefits and environmental impacts, so at least you will have the beginnings of a comparison for part of it. We have agreed—because it is necessary in the end for the strategic environmental appraisal—that the Department themselves will look both at the alternative of a further upgrade of the existing West Coast Main Line—and I am going to say nothing about whether that will be a sensible thing to do—and at the road alternative as well rather than doing any of those three railways things, and what you do if the road solution were adopted and what would that cost and its benefits. That is not the full answer to the question because it does not answer what about the entire network to Scotland, I think that is too difficult a problem to crack in any case, but it will address in your terms for at least London to the West Midlands and will allow that comparison to be made. It is a 2010 answer, I am afraid, rather than a 2009 answer.

Q445 Mr Martlew: Are you really saying that the possibility of actually going faster on the West Coast Mainline—

Sir David Rowlands: No, no, perhaps I have misled you. Because particularly for a strategic environmental appraisal you have to work through at a sensible level of detail all of the options, that is not just a high speed or a conventional new alignment to the West Midlands, but if you did not want either of those what could you do with the west coast, that would not be higher speed. Remember where all this started; it was a view taken by Government and Network Rail back last year and at the start of this year that the West Coast Main Line will be full to capacity again south of Rugby by 2010 or thereabouts. So looking again at the west coast and further up it is about capacity and not speed.

Q446 Mr Martlew: They are both the same thing. The Pendolino will do 140 miles an hour.

Sir David Rowlands: Not on the existing network.

Q447 Mr Martlew: If you had the proper signalling in place, if you have block signalling, it will do 140.

Sir David Rowlands: The division of labour is for the Department to look at the west coast. That may encompass higher speed but, again, they would have to put the costs in for that.

Q448 Mr Martlew: Which would give you extra capacity. Block signalling will give you extra capacity anyway.

Sir David Rowlands: Yes, I do not yet know of any railway system that is using block signalling successfully on such a complicated railway as the west coast railway.

Q449 Mr Martlew: It is a pity that Railtrack did not realise that.

Sir David Rowlands: Or London Transport on the Jubilee Line extension.

Q450 Graham Stringer: Just to turn to the cost side of the cost benefit, it has been acknowledged that High Speed 1 is the most expensive high speed rail system in the world. Why is that and is there anything in terms of building High Speed 2 or High Speed 2 Plus that can be done to lower the costs?

Sir David Rowlands: The answer, I think, is in several parts. Some of it is a consequence of the design solution that was adopted for High Speed 1. High Speed 1, as it was taken through to closing out the design, progressively introduced more and more tunnelling into London, so eventually you hit tunnel in Barking and kept going in tunnel. That is hugely expensive—urban tunnels cost a fortune. What it did give this country—whether it was value for money I will leave others to decide—is the only bit of high speed railway in Europe that comes into a city centre at high speed because everybody else goes on to conventional tracks and trundles, basically. So one of the consequences for cost was the decision to put so much into urban tunnel into London and that is very expensive. But it is not as simple as that. I think it is also the case, we have talked to SNCF and, indeed, to many others, and it is very clear that if you
talk to SNCF in France they knock high speed lines out like peas from a pod, it is standard, and the next one looks basically like the last one. They do not go into engineering fantasies where they say, “Let us start fiddling with the design concept”, they keep the cost down by replication. There was an issue with High Speed 1, which was the first time we have done it, so there were some costs there. I think some costs attached to High Speed 1 are not attracted to these quoted costs of some continental high speed lines. The land costs cannot be quoted. But, all that said, it still looks too expensive so there is a real issue for HS2, which is to try and get to a place that produces an answer that is cheaper in the end than High Speed 1 was.

Q451 Chairman: Mr Eccles.

Mr Eccles: May I add something? It is a little bit of a misrepresentation, and I referred to HS1 because, if you recall, HS1 was done in two parts. There was the part that came from the Channel and across the Medway, so some significant infrastructure. If you just take the cost of building, that by itself is way down the league of cost of world high speed railways. It was the second part that pushed the average cost up so high for many of the reasons to which Sir David has alluded. If it would help the Committee I could perhaps supply a note because I have the comparison costs per kilometre of high speed all over the world and I would happily send it in.¹

Chairman: That would be very helpful.

Q452 Graham Stringer: Can I just follow up Mr Wilshire’s question about the numbers likely to transfer from aeroplanes on to trains. If you follow the logic of your answer on that, would it not be more sensible to build High Speed 2 straight into the centre of London and would you not get more benefit in doing that than taking it to Heathrow? It has come at the end of the debate about whether there should be a third runway out to Heathrow, has it not, and so would it not make sense to just say that there is relatively limited benefit, as there is in the rest of the rail system going city centre to city centre?

Sir David Rowlands: Would it help if I tell the Committee the options we are looking at? I cannot go, as I think the Committee knows, into the detail of options because of potential blight issues for people who might live next to some of them. We will produce a report at the end of the year that sets out one, and probably more than one, option for a city centre solution for London. That railway will then—because this is what we are asked to do—as it goes towards the West Midlands, offer an interconnection with Heathrow, so it will leave the city centre solution in London going via Heathrow. There are basically three generic options for Heathrow, as we see it. There is the high speed railway that runs through Heathrow with a station in the airport; there is a rail line that runs past Heathrow with a spur coming off into the station in Heathrow; and the third would be an interchange facility where you got on to something else to go into Heathrow. The ones in the public domain at the moment—because they are not a secret—include things like Old Oak Common where you can get on to Crossrail or the Heathrow hub concept between West Drayton and Iver where you can use the Great Western or Crossrail. It then goes north up to the West Midlands. I am sure we will produce options that include a city centre solution for what would be Birmingham. We are looking quite hard at a parkway in the West Midlands and the reason for that is on the assumption that this is the first stage of a network that goes on further north, including to Manchester. We have been talking about aviation, but if you look at car traffic and modal shares between Birmingham and Manchester, though currently Birmingham is well served by rail from London and Manchester is well served, the rail connection as such between Manchester and Birmingham is not good and only has a 4% modal share and the dominant mode is motor car. We are looking at the potential for a parkway that would actually attract significant elements of that car traffic and get modal shift that way. I cannot tell you what the answer is but we are looking at that. Does that give you a feel for the options? It would be a mistake to think that we see Heathrow as some sort of terminator—not at all.

Q453 Sammy Wilson: Can I come back to the numbers of people you see travelling on high speed rail and the capacity, and I take it that how close you get to capacity will reflect the cost of journeys. The capacity of 18 trains per hour certainly is well above the kind of predictions that you are making, even if you captured all of the transport at present from the figures you have given. Given the huge difference between the number of people who potentially could travel on high speed rail and the capacity of the rail, how likely is it if cost is going to be a factor that high-speed rail could actually become competitive with air travel?

Sir David Rowlands: Can I start in a marginally different place? You are quite right, if government decides to build a high speed railway network from London to Scotland, taking in Manchester, Yorkshire and the North East then they will have put in place, once fully built, twice the existing capacity of the East and West Coast Main Line long-haul traffic. This is a huge capacity increase, which is why I said much earlier on that there is no issue about capacity for people switching out of aviation. That is a very small part of what would be the traffic on any high speed network. You would not justify building a high speed network because it transfers people from aviation on to railways. That may well be beneficial and would be part of the business case, but if you look at the work that was done for the Strategic Rail Authority—and we are doing our own work—the largest part of the traffic on a high speed network came from the existing long distance services, the Virgin services, and they come off—I think it is still called National Express Services—on the East Coast Mainline. The next largest category is actually generated traffic based on the work that

¹ Note by witness: See Network Rail, New Lines Programme: Strategic Business Case, August 2009, p 40, Fig 4.2.
was done for the SRA. The next largest traffic element is transfer out of motor cars and that grows with time because of congestion on the road network. The smallest contribution actually comes from aviation because that is where the smallest numbers are. You cannot dodge the arithmetic. The business case we will be looking at will model all of those different flows and build them up to see whether the demand is sufficient from all of those sources, given the costs to produce acceptable benefit cost ratios. I probably ought to say that this may well be a business case that is quite complicated and some parts of it will not be conventional. The original Jubilee Line extension was justified in part by so-called agglomeration benefits; what are the benefits if you draw the people together in what is now Canary Wharf. That was very ground breaking at the time although it is now rather conventional. We will need to look, with help from the regional players, at issues to do with inter-connectivity between both Scotland and English regions and London, and we contemplate a business case that will be a bit like a layer cake, if I can call it that: the bottom bit will look very like DfT conventional appraisal methodology; some of it will get a bit beyond it; and the stuff at the top of the cake, which is a cherry or the icing, may well be very unconventional and that we are still working through. What that means in BCR terms, I think, is some of that cake will have a number to it. The bits at the top, particularly things that may be to do with regional interconnectivity, which is relatively groundbreaking stuff, may be more qualitative than quantitative and it may be an area where politicians want to take judgments.

Q454 Sammy Wilson: That is the difficulty once you have to resort to that kind of subjective evaluation for any project.

Sir David Rowlands: It depends whether just doing the stuff at the bottom that has numbers attached to it gets you over the starting line in terms of an acceptable cost benefit ratio, what more do you get beyond that if you look at some more novel aspects. Mr Eccles: We will be publishing all our work on 12 August and so on that day, or before, I will supply the Committee with our business case, if that would be helpful. I cannot promise you the icing or the cherry. I am afraid we have just stuck to the substantive cake because we need to compete on the level playing field funding, so we have just stuck to the DfT criteria and no agglomeration benefit. You may find that helpful. We have BCRs that we believe in some cases do clear hurdle rates. Your first question about the capacity, the original question was will high speed rail abstract from domestic air travel? Yes, to a degree. Or will it add new journeys? Yes, most certainly. As Sir David has said, one of the big sources of demand in the demand forecasting models is from generated journeys. If you bring Edinburgh to the relative same distance from London that Manchester is now you will get more journeys from Edinburgh to London than you do now.

Q455 Sammy Wilson: There is a substantive gap to fill if you are working in the capacity of 18 journeys or 18 trains per hour and a fairly limited capacity as far as air travel is concerned. Indeed, the evidence that we were given by the British Chamber of Commerce was that even the removal of passengers from road to rail would be fairly limited—that was the information which they had given us based on their modelling. So even with the additional generated traffic there is a huge gap between what is envisaged at present and what the capacity of the line is.

Sir David Rowlands: Could I add a point just quickly? I think this is work still to be published by Network Rail and certainly work still to be done by High Speed 2. We should not forget that if you are creating a very substantial tranche of new capacity the consequence in part of that is to release a lot of capacity on the existing West Coast Main Line. You effectively release two tracks on the existing West Coast Main Line.

Q456 Chairman: How much of that could be used for freight?

Sir David Rowlands: That is a substantial increase in West Coast capacity. It has two potential uses: one is new commuter flows to fit in with housing development along the corridor, for example; and, two, it offers potentially a lot of extra slots for freight as well in which we are in discussion with the rail freight industry as we go through that.

Q457 Chairman: Mr Eccles, do you want to say more about that?

Mr Eccles: 71 million freight vehicle kilometres by 2030 taken off road by the capacity created by a high speed line in Scotland, created on the conventional level.

Q458 Ms Smith: I wanted to ask whether or not there had been any measurement of the wider economic impacts of high speed rail in France, for instance, and whether it would be possible to do that, to find out, just so that we can compare, for instance.

Sir David Rowlands: There has been work done. There is an academic at the University of Kent who specialises in looking at some of the land use and other impacts of the French TGV network. He is part of our technical panel and we would expect to be publishing that sort of analysis together with some further work that is being done at the moment at the end of the year. So the short answer to your question is yes, we are looking at it and we hope to address it.

Q459 Ms Smith: When I say “wider economic impacts” I mean things like agglomeration benefits and that layered cake you were talking about.

Sir David Rowlands: Yes, exactly.

Q460 Ms Smith: Absolutely, not just the DfT view of these things?

Sir David Rowlands: Not. I need to be careful; I used to work there, but not just the DfT.
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Q461 Ms Smith: Is HSR2 going to look at options which would leave Heathrow out altogether?  
Sir David Rowlands: No. I can only do what the Government has asked me to do and for HS2 I am specifically asked to produce a report at the end of the year that includes something which in the January document that DfT produced was called a Heathrow international or Heathrow interchange, so that we will include. What I hope we can do, and please do not read this as meaning we have a view either way on Heathrow, is produce something that is sufficiently comprehensive so that everybody will be able to see what we have done, what options we have put to one side and why we did it, and to display in detail how costs were built up. We do not intend to produce a single number for a railway from London to the West Midlands. You need to be able to see how it was all built up, how much tunnelling, how much plain line, how much cuttings, what they all cost, to allow a government in the end to do some mixing and matching between options. Do not read that as saying we are deliberately including or not including Heathrow. The only other thing I would add about Heathrow is that we have agreed with the Department for Transport with which they have agreed because we need to agree a lot of assumptions with them to drive the modelling.

Q462 Chairman: So all the options will be there and costed in accordance with the directions?  
Sir David Rowlands: We will take through to a final report very detailed work on quite a number of options. There are a lot more options we can think of that are rather more expensive than something else or just do not work but they too will be there in the final report so you can see what we have done. Lord Adonis and some of our people went to see the French recently. One of the lessons from the Dutch was that they missed an option and they spent two years revisiting it and lost two years, so we are trying very hard to have every option we can possibly think of.

Q463 Ms Smith: In other words, it will be possible for any reasonably intelligent analysis of your report to make judgments about whether or not one particular route or option is in many senses less affordable or less sensible in economic and cost terms?  
Sir David Rowlands: I hope you will be able to see both the costs and the benefits of particular alignments, particular options, and be able to see what high speed rail means with Heathrow, including with and without a third runway.

Q464 Mr Leech: First of all, as a follow-on from your last point, whose decision was it to do a model based on with a runway and without a runway?  
Sir David Rowlands: It was a proposal made by HS2 to the Department for Transport with which they have agreed because we need to agree a lot of assumptions with them to drive the modelling.

Q465 Mr Leech: You said pretty much at the beginning, and forgive me if I get the words wrong, that it would be “inevitable” that High Speed Two would eventually go to the north and to Scotland. You may not have used the word “inevitable” but that was the impression I got of your view. Does high speed rail to the West Midlands stack up without a guarantee that it is going to go further north and to Scotland?  
Sir David Rowlands: I will give you the po-faced answer and I will give a personal view as well. The po-faced answer is that we will produce a detailed analysis and proposition for the West Midlands and broad corridors with an outline business case for the stretches beyond that to Scotland, and we think it likely that some of the business case for the West Midlands may be dependent upon building further north. That is the po-faced answer. The personal answer, and this is me; this is not High Speed Two—

Q466 Chairman: So this is the one we should really listen to?  
Sir David Rowlands: It is quite simple. If all a government wanted to do was build a high speed railway to the West Midlands and never go any further I am not sure it is a very sensible thing to do. If your problem is capacity then it might be more sensible simply to build a conventional railway on a new alignment to the West Midlands, if that is all you are ever going to do.

Q467 Mr Leech: Is there a danger that because of lack of resources and a determination to show some enthusiasm for high speed rail that is what we might end up with?  
Sir David Rowlands: That is a political question.

Q468 Chairman: What are your personal views?  
Sir David Rowlands: I can give you the po-faced answer, I think. What we will set out is what I have described and that will include advice on funding, financing, delivery structures and also a timetable, and that is timetable to opening through to the West Midlands and then potentially a timetable for thereafter. No government can bind its successors and therefore I suppose there is always a danger that somebody might stop, but what I detect at the moment is cross-party consensus that a high speed railway is an attractive proposition, and certainly it is the case in other countries that although governments have changed they have continued to build their high speed networks. That is true of France and it is true of Germany, for example.

Q469 Mr Leech: Does Mr James want to add something?  
Dr James: Could I just answer on the point of connectivity in the north as well as to the north? If you are building a high speed system to and from London you are doing effectively what the French have done with the TGV, which is connect Paris to other cities. There is a risk of economic drain from those cities to the centre. If, however, you create a piece of infrastructure which, say, for the sake of argument, goes east/west, Liverpool/Manchester/
Leeds/Teesside/Tyneside, effectively creating the Northern Way, if you like, then you are doing something different. But you absolutely need to ensure that the technology and the business plan that you put in place enables you to use the same infrastructure, the same vehicles, to do two quite different jobs. One is to cruise at maximum speed where a lot of people want to go very fast, which is Birmingham to London or Birmingham to Manchester, but you also need to be able to accelerate extremely rapidly on the very dense sections, say, Manchester to Leeds, and then finally, in order to keep the costs down, you need to find a system that can get over the Pennines to give you that east/west connectivity without a massively expensive ‘base tunnel’. That is one of our core advantages in that we can follow the M62 corridor without digging a big hole to go straight from Leeds to Manchester.

Q470 Mr Leech: My final question is to do with economies of scale. How cost effective would it be to do a network all at one go rather than do it incrementally, going to the West Midlands, then to the north and then to Scotland?

Sir David Rowlands: I think the reality is that even if you decided to do it all in one go it is still a phased project. You would build in sections, though there is an issue, and certainly you hear it in Scotland, which is called if you are building a bridge you start building from both banks at once. There is an appetite in Scotland to start building from their end as well as starting from the London end. That, I think, is an issue for the two governments to decide between themselves and for the politicians to take a view on, but I do not think in reality there is a lot of difference between saying we would build this in phases and we would build it all in one go. It would have to be in phases.

Q471 Chairman: Mr Eccles, do you have a view on that?

Mr Eccles: I think the key issue is not to take the decisions incrementally. The key issue is to decide how far you are going, not to decide to go to Birmingham and then decide to go further, because you can see how difficult that becomes in terms of construction but with regard to rolling stock sourcing you really do not want to start off with a small order for rolling stock and pay the costs of that if at the end of the day you are going to end up with a fleet five times bigger. In terms of staging, there will be a sensible way of doing it to maximise benefit early and minimise cost early so that you get the best overall business case, but, crucially, you need to have a plan for the whole job, not increments of it.

Sir David Rowlands: There is one final point on this which I think is relevant. All of this has to be got through a planning process and that again will be for government to decide whether it is a hybrid bill solution or some version of the Planning Act 2008. Whichever planning process you go through you have to be able to tell people down to a metre where you are going to be because you have to be able to tell people, “It is your back garden that I want to take ten feet out of”. To try and do all of that engineering design in one go all the way from London to Edinburgh and Glasgow would take you about a decade to do the work. It is something else that drives you to do it in phases but I do take Mr Eccles’s point. There is a distinction between, “We will decide to go to the West Midlands. We have nothing further to say. We will come back to this in the fullness of time”, as distinct from, “In principle we have decided to do this whole thing”, whatever that might be, perhaps up to Scotland, “of which the first bit is—”

Q472 Chairman: It is the difference between decision and implementation.

Sir David Rowlands: Yes.

Q473 Ms Smith: I am slightly perturbed that the only northern city not mentioned so far is Sheffield, but I leave that to rest.

Sir David Rowlands: Avid readers of correspondence between me and Lord Adonis will notice that we were asked to look at strategic corridors beyond the West Midlands and I think the quote was, “taking in in principle Greater Manchester, South Yorkshire, the North East and Scotland”. We regard that as a minimum requirement. We are looking more widely and we are looking at approaches which may well include Sheffield. Please do not read that as Sheffield will be there but we are not excluding Sheffield.

Q474 Chairman: Could I ask you has Liverpool been mentioned in it?

Sir David Rowlands: You have just mentioned it.

Chairman: I hope you will note that, Ms Smith.

Q475 Ms Smith: Another point I wanted to make is exactly this. In terms of the integration of the national economy I think high speed rail has got a lot to offer. I also think that there are alternatives to the M62 corridor which would make use of the old Woodhead route to put a Trans-Pennine link in potentially. The question I wanted to ask though is this. Will there be any special planning by HS2 around the Northern Way concept of two high speed lines in the long term, not in any immediate phase, of course, with a Trans-Pennine link? The potential benefit of that to the UK economy is going to be something in the region of £10 billion.

Sir David Rowlands: Two points if I may. We have as a member of our strategic challenge group David Begg specifically there representing the Northern Way interests and we envisage producing a report at the end of the year that will basically set out all the legs of any version of a strategic network going north that you can think of, and that includes the reverse “S” that goes to Manchester, through the Pennines to Leeds and then up. It includes the so-called inverted “A” where you have two lines, one going up to Glasgow, one going up to Edinburgh and a piece through the Pennines, and also the route that goes straight up and dives off in one direction to Manchester and another to the North East. We intend to put all of that in there to allow a government to decide what it would like to do.
Q476 Chairman: Mr Deighan, what are the lessons of High Speed One for High Speed Two in terms of passenger growth and economic impact?
Mr Deighan: I think the biggest growth issue we can quote from the Eurostar case is that the London-Paris-Brussels market has doubled since we started operation in 1994. A lot of that has been generated traffic. There has also, obviously, been transfer from air. There has been relatively little from road because, obviously, there is not a viable road alternative. The other issue is that a fair amount of work has been done by SNCF looking at how the TGV Méditerranée performed against its original objectives and they broadly concluded that the transfer from road was about 26%, which was what they anticipated in the original business case and which I think is reinforced by a number of other numbers you hear in academia about high speed routes over similar distances, so I think there are a number of experiences from Eurostar and from our sister companies, as it were, that say that you can generate traffic, you can generally move people from other modes of transport to high speed rail.

Q477 Chairman: Thank you. Sir David, could you give us a date when you think High Speed Two could be operational?
Sir David Rowlands: That really is a question for government but I will try and answer it. The likeliest early days for the opening of what might be the first section to the West Midlands would in my view be in the latter part of the next decade. I am being slightly unspecific because I do not want to say 2016 or 2017 or 2018. It is that sort of order but it does depend on how quickly a government wants to get on with this. It will depend on affordability and it will depend on how easily a government can take a proposal through public consultation. We have not touched on the environmental impacts of a high speed railway line and they are not non-existent. It is highly likely that a high speed railway line that takes in Heathrow and then goes to the West Midlands will impact upon the Chilterns and it is an area of outstanding natural beauty. It will be a huge challenge for HS2 and I think that tells you that despite the support for a high speed railway solution it ain’t easy but that is what a likely timetable looks like. I am aware of one of the parties who have said they would open in 2015. That is a doable proposition if literally everything went your way and you never paused for breath at any point, but having done High Speed One on and off for about—I started in the early nineties and finished in 2007 and was involved in Crossrail, I am slightly seared by the notion that everything happens at the drop of a hat. It is a bit of a struggle, so the reality, I think, is the latter part of the next decade for a network, if it were to be built, through to Scotland, that I think is the work of a generation is the truth of it.

Q478 Chairman: So the latter part of the next decade?
Sir David Rowlands: I think the latter part. To get it started and opening in the early 2020s, which fits in with the lack of capacity by then on the West Coast Mainline.
Chairman: Thank you very much for coming and answering our questions.
Wednesday 15 July 2009

Members present:
Mrs Louise Ellman, in the Chair
Mr David Clelland
Mr Philip Hollobone
Mr John Leech
Mr Eric Martlew
Mark Pritchard
Sir Peter Soulsby
Graham Stringer
Mr David Wilshire

Witnesses: 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, gave evidence.

Chairman: Good afternoon and welcome to the Transport Select Committee. We are very pleased that you are able to be with us today to give evidence to us and we look forward to hearing what you have to say. Do Members have any interests to declare?

Mr Clelland: A member of Unite.
Mr Martlew: A member of Unite and GMB unions.
Graham Stringer: Member of Unite.
Chairman: Louise Ellman, member of Unite.
Mr Leech: Since we are talking about airports, I will declare a non-pecuniary beneficial interest in a piece of land around Heathrow Airport.

Q479 Chairman: Could I ask our witnesses to identify themselves, please? Perhaps you could give your name and the area you represent.

Mr Carter: My name is Harrison Carter and I represent Sheffield as a member of the Youth Parliament.

Q480 Chairman: Could you tell us something about your interest in aviation and why you wanted to give evidence to us? Is it a personal interest? Are you keen on flying? Are you perhaps interested in the aviation industry?

Mr Carter: My name is Usman Ali and I am the deputy member of the Youth Parliament for Calderdale.

Mr Ali: My name is Usman Ali and I am the deputy member of the Youth Parliament for Calderdale.

Mr Lindars-Hammond: My name is George Lindars-Hammond and I am the deputy member of the Youth Parliament for Bath and North East Somerset.

Mr Kempley: I am Justin Kempley and I am the member of the Youth Parliament for Epping Forest in Essex.

Q481 Chairman: Is aviation something that the Youth Parliament has discussed at any length and drawn up any policy statements on?

Mr Lindars-Hammond: Not at length, no.

Q482 Chairman: Have there been discussions on this topic in the Youth Parliament? 

Mr Ali: We have had a survey, which was sent out to all members of the Youth Parliament in the country, and I think that we have a mandate of about 100 people who have filled that in. So we have some statistics to share with you today.

Mr Carter: But, as of now, there is not a set point in our manifesto to do with aviation policy.

Q483 Mr Leech: Can I ask why not?

Mr Carter: We do not know why not.

Mr Kempley: I am sure that will be resolved this summer at our national sitting but, to date, I suppose that it is a growing organisation and we have been covering other issues first.

Q484 Chairman: Do you think that in, say, 20 years’ time people will be flying more frequently than they are now or less?

Mr Kempley: The chances are that they will. Whether or not that is a good thing depends on your opinion. We have a Government that has made a strong commitment to cutting down our emissions by 2050, I think it is by 80%. So you would say that logically there probably has to be some sort of a hold-back in terms of our aviation industry and its development. However, it is still an industry that is growing; it is still an industry where we are seeing airport expansion; and it is still an industry that is growing in terms of profits. It would therefore seem unlikely that it was going to hold, at this moment in time at least.

Mr Lindars-Hammond: I would just say that young people have the opportunities brought out to them. The European Union are a big pusher of expansions in opportunities for young people in terms of education and foreign travel. That is increasing as more opportunities are presented to young people and to young adults in the future. That can only increase aviation, unless travel methods are improved or changed.

Mr Carter: We know that aviation is pretty vital to our UK economy. What the former Prime Minister Tony Blair said when the A380 was built was that young people would be introduced to apprenticeship work, to protect our skills and technical expertise in the future. I think that there therefore needs to be an increase in plane manufacture, to nurture these
transitional skills in young people. We know that in terms of regional regeneration in our regions, I think it is 30% of European headquarter offices that are in the UK, not just in London. In order to nurture these transitional skills, we need these offices within the UK and within the regions; and therefore we need aviation business to increase and for popularity in demand to increase as well.

Q485 Mr Clelland: Do you think that increasing air travel by the general public is a good thing?

Mr Lindars-Hammond: It certainly enables people to take advantage more fully of opportunities, both economic and social; and certainly the desire to get to places by our somewhat aged train system or by road is very difficult. Within an hour you can get somewhere very exotic. It is a sort of opportunity dream for the British public, I think, and young people are particularly being drawn by these factors. It is probably a desire but not necessarily a deep-down need.

Q486 Mr Clelland: What about the advantages, or are there any advantages to the economy of increased aviation, increased flying?

Mr Lindars-Hammond: Certainly. It has already been highlighted that the jobs grow incredibly, and that is something that has affected my constituency—jobs from the airline industry. They grow as Britain grows as an air hub, and the argument is always that Heathrow needs to grow to keep our position in that way. The jobs and apprenticeship schemes do grow immensely, and so young people certainly do benefit greatly from airport expansion.

Q487 Mr Clelland: Do the advantages outweigh the disadvantages to the environment, for instance?

Mr Kempley: Personally I would say that, on the issue of climate change and the environmental impact of aviation, it is something that has to be considered far more seriously. Obviously it has to be part of the equation in terms of cuts to reduce our emissions in this country, and it does seem that there is a very real danger that it is something that will carry on growing, when we actually need to cut our emissions. That is something that will affect all forms of transport, not just aviation.

Q488 Mr Clelland: Do you think the only way to protect the environment and cut emissions is by cutting back the right of people to fly?

Mr Kempley: You would hope that the industry would become cleaner in terms of fuel and in terms of the technology we are using, and that is probably where we will progress. But at the moment that seems to be at a slower rate than is happening in terms of rail transport and even car transport; so on current evidence it seems questionable. At least, that is my own opinion.

Q489 Mr Clelland: Do you yourselves think about the effects on the environment when you fly? I take it that you have all flown at some stage.

Mr Carter: Absolutely, yes, we do. Coming back to the survey that we did for young people, with a mandate of about 100 people, it was interesting to understand that the young people who did fly actually thought that climate change was not at the top of the list of priorities. No, I have got that wrong. The people who did fly thought that climate change was a massive priority; the people who did not fly thought that it was not a massive priority. So there is a conflict of interest there, and it shows that there is a massive problem for climate change. But I think that where the problem stems from is education and awareness, and how aviation problems and benefits are not properly known to young people.

Mr Ali: Perhaps I may add to that. We asked in our survey, “What do you think is the biggest problem with the flying industry?” and 63.3% of people said “Causing climate change”. So I think that quite a lot of young people are aware that climate change is one of the biggest problems of flying. One thing that I am quite keen about is getting the high-speed train network set up. If you are flying, for example, from London Heathrow to Leeds Bradford, that causes so much air pollution; but you can get a train from London to Leeds, which takes about two hours. What we need to do is get more train networks set up across the country; and not just in the country but also across the EU.

Q490 Mr Clelland: Do young people believe, for instance, that aviation is a bigger polluter than motor vehicles?

Mr Kempley: We do not have any specific statistics on that but, anecdotally, speaking to my own constituents it seems that that is what people are most concerned about when it comes to forms of transport; because it is probably one of the most obvious forms of growth in transport at the moment.

Mr Carter: On that question, we do not know specifically but, on the survey, when people were asked to add any extra comments, the majority of the comments were that “Planes are not eco-friendly models”, “They are not environmentally friendly”. They were the majority of the comments. We do not know about motor vehicles specifically, but we do know that a major concern when we ask young people it is that they are not environmentally friendly.

Mr Ali: Going back to trains, when we asked young people “Would you consider taking the train rather than a flight for a short distance?” 87% of them said “Yes”. The reasons were “Because trains are considerably cheaper. There is no need to fly. It is better for the environment. It is much more relaxed and comfortable, and doesn’t make your ears pop”. We have four good reasons there. Also, with the security checks after 9/11 and, especially with internal flights, it is taking much longer to fly. Even though you might have a half-hour flight, by the time you have been through all the security checks it will take you two or three hours. You might as well get a train, going back to the London to Leeds example. I think that is something that we need to improve on and to carry on investing in.
Q491 Chairman: Do you think those things might deter people from flying—the time taken to go through checks, and so on?

Mr Ali: Yes, definitely. The main reason why people want to get a flight, especially an internal flight, is because of the time. It is 30 minutes from London to Leeds; if you are taking the train, it is two or three hours. I think that having more security checks is a significant deciding factor as to how long it is going to take.

Mr Lindars-Hammond: With the expansion of people going to university at our age, across the country, and with the simultaneous expansion of budget air travel, it is more and more the case that the cheapest way to get home in the holidays is to fly. Obviously young people fully know that it is more polluting to travel by air; however, the economic costs mean that they are more likely to travel by air, if it is a reasonable distance.

Mr Carter: On what Usman said a second ago about it being the quickest way to travel and also the security checks making people not want to go on airlines, for short-haul flights that is probably the case but, for long-haul flights, another deciding factor is that people want to experience culture. It is important to understand that as well. One of the points in the survey was that flying promotes international communities, which again is very important for foreign relations and promoting the credibility of the British people in other countries. In that respect, although people may be deterred from flying because of the security checks, some of them want to fly because of the culture they can experience of other countries. So for long-haul flights I think that it is a bit different. I do not think that the security checks are a problem for some people for long-haul flights.

Q492 Mr Leech: There is a general perception that public transport is expensive. Do young people perceive air travel to be expensive?

Mr Kempley: I think it depends on who you fly with. Obviously, with some airlines it is incredibly expensive to fly long-haul—hundreds and hundreds of pounds. Speaking from my own experience, however, I am planning to travel to Germany later this year and I can get a Ryanair flight, inclusive of costs and taxes, for about £30 each way, which seems extremely reasonable. I think that young people are becoming more aware of the cheap options, which has its own dangers in terms of expanding the industry; but I think that it probably depends on who you fly with in terms of what the perception of the cost is.

Q493 Mr Leech: Is there a perception that aviation pays its way, in terms of taxes?

Mr Kempley: I suppose it depends on how you fly. If you are going with a company where you will see those taxes added on at the end, I suppose you could think that it is all very well having a 99p flight somewhere, but you are going to get an extra £20 in taxes. You may think that is perhaps a fair contribution to the environmental impact. I suppose that it is a double-edged sword.

Q494 Mr Leech: Would you consider bus travel or rail travel to be expensive?

Mr Kempley: Relatively, yes, although I have never actually flown domestically; I have always chosen to go by public transport.

Q495 Mr Leech: Any particular reason for that?

Mr Kempley: On the basis that the cost is not that expensive when you compare it to domestic flights, and there is the climate change side of things that I am concerned about.

Q496 Mr Leech: In terms of those two decisions—partly it was financial, partly it was to do with your concerns over climate change—which is the more important of those two issues in your making the decision to go by other forms of public transport?

Mr Kempley: For me it is probably in equal measure. I think that it is up to young people to find the balance in their own mind as to which is more important to them.

Q497 Mr Leech: Does anyone else have a different view?

Mr Carter: For me personally, it would be the cost that would make me go on public transport on the ground—trains or buses—than go on a plane. I think that is because maybe as a young person I see things in the short term. I see that for me it will cost less. It is a long-term impact on the environment, so I would not really recognise that when I travel on a bus or a train.

Q498 Mr Leech: Do you think young people are forward-thinking about 50 years down the line, when they are old-age pensioners, and where will we be with climate change. Do you think that comes into people’s minds?

Mr Carter: I think that it comes into some people’s minds. It depends on the setting. For example, I do not think that we would be here now if we were not concerned about climate change. In this respect, it does come into our minds; although when I am getting on a bus I do not think it would, I am sorry to say.

Q499 Mr Leech: Do you think that young people have a different view to older generations?

Mr Carter: Absolutely, yes. I think that older generations perhaps concentrate more on industry and the economy and how it could affect that. I think that younger generations may concentrate more on the short-term things, like the costs for them personally. Older people think more generally on the issues.

Mr Lindars-Hammond: I think that a lot of young people—and this is probably one of the reasons why the UK Youth Parliament is not considering aviation—may spend several pounds every week on buses and trains, in their ordinary day-to-day lives. With flying, although there is a significant impact on young people’s lives from when they do fly, the financial costs are more grouped and less spread out. In terms of young people’s finances it is less of an impact. In terms of the finances, although it may
affect them in a similar way to other methods of transport, it is more an occasional rather than a regular cost, which does affect young people’s decisions around transport.

**Mr Kempley:** I just wanted to follow on from Harrison’s point and the fact that we do have a very different perspective. This is one of the interesting things about us being young people here. The impacts of climate change will be felt within our lifetime at some stage, and I think that does change our perspective. Whether or not we are very conscious of it when we are acting as consumers and deciding whether we are going to travel at all, whether we are going to go by bus, train, plane, whatever, that is a different matter; but I still think that it is a greater consciousness than people of older years.

Q500 Mr Leech: Do you all think that plans to try to reduce emissions from aviation are realistic?

**Mr Carter:** I am not sure on the plans and I am not too sure whether they are realistic or not, but I think that it is best if we do have targets. That is all I can say on that. It is best if you do have targets, because you are getting somewhere—but I am not sure whether they are realistic or not.

**Mr Kempley:** I think that the 80% by 2050 figure is a very high figure to attain. At the same time, it is obvious that we need some sort of targets and some sort of framework to progress towards a low-carbon economy. Otherwise, we will just carry on in the same direction we have been progressing for the past 150 years or so.

**Mr Lindars-Hammond:** I think it is probably safe to say that the Government’s target in aviation of its having to sustain its present emissions relies on new technology. New technology is something that excites young people, but I think that many would doubt whether the new technology will be achieved in time to sustain the current air growth.

Q501 Mr Hollobone: The most contentious issue regarding the UK aviation policy at the present time is airport expansion. We talk about aircraft in the air, but they have to take off somewhere and they have to land somewhere. Lots of people are opposed to airport expansion and, in particular, the third runway at Heathrow. How would you resolve the dilemma of increasing demand for air travel and growing public opposition to airport expansion?

**Mr Lindars-Hammond:** I think there is a view—and this is both a personal interest and more widely among young people—that although Heathrow generally takes international flights, the Government is perhaps ignoring the fact that there could be a huge reduction in flights domestically by the expansion of high-speed rail, which is well known to be a lower carbon method of travel. Yes, you can make the argument that you need to expand airports and expand growth, with Terminal 5 coming on line and the third runway at Heathrow, but if some of the internal flights could be moved to other airports, which would then have free space due to more high-speed rail, I think that is a more popular option with young people. I think that young people would much prefer to travel on trains if they are fast, and young people would take a lower carbon option if possible. I think that might be something that young people would be interested in.

Q502 Mr Hollobone: Does anybody else have a view on that?

**Mr Ali:** Yes, I completely agree with George. We know that Heathrow alone contributes nearly 1% of the UK’s GDP and it is not used just for passengers; it is used for cargo and for business, and it also contributes a lot to the UK’s business industry. I think that Heathrow Airport has quite a lot of economic benefits and importantly, even though we have the prediction of 80% by 2050, there is still a compelling economic actor in this. It is important that aviation’s contribution to the GDP is not decreased because of this target.

Q503 Mr Martlew: Gentlemen, obviously we have taken evidence from other people and the reality, from what I hear—and obviously it is to varying degrees—you are all worried about climate change but you are all going to fly. Is that a reasonable assessment of your views and those of the young people you represent?

**Mr Ali:** In some cases, yes. For example, two weeks ago I got back from America. How else could I go to America apart from flying? I am not going to take a ferry across.

Q504 Mr Martlew: You need not have gone to America, of course.

**Mr Ali:** I have a few weeks off school. I am on holiday. Quite a lot of young people want to go abroad just for a holiday, especially after 16. I know that quite a few of my friends have got involved with friends in the EU. There is no way of getting to different countries, especially if it is outside Europe, other than air travel. I do not think there is anything you can do about that. What we need to concentrate on are the short-haul flights in Europe itself, and perhaps have some high-speed rail networks across Europe.

**Mr Kempley:** I think that we are all partially guilty of not feeling a personal responsibility when we are actually looking at these problems. It is very easy to think, “Well, I’m just one individual. If I don’t go on this flight it is still going to fly”. It is a matter of trying to change that culture, and it is a very challenging thing to do—where you think, “My action probably won’t make a difference but if everyone does that and I am part of that, it will make a bigger difference”. It is a very difficult thing to get into that mindset, though. I agree with you.

Q505 Mr Martlew: Obviously you have different ways of getting elected. Do you think that if you stood on the platform of saying, “We are going to restrict severely people’s ability to fly”, you would get elected?

**Mr Carter:** First of all, it is pretty inconceivable to say, “We’re going to restrict people’s ability to fly”. Second, it comes back to what I said about awareness and education. Young people would not
Committee knows from my previous appearances, I setting out my views on transport policy. As the Chairman:

Q509 Chairman: We have been reading press reports that say you are considering resigning, because of possible threats to high-speed rail. Is that right?

Lord Adonis: No. As ever, that was journalists making stories out of nothing. I gave an interview to the Independent two weeks ago, which was simply setting out my views on transport policy. The Committee knows from my previous appearances, I am very keen to develop a credible plan for a high-speed rail line between the North and the South. As is my wont, I waxed eloquent about the potential benefits of such a line. That was all I said. If you actually look at the quotes, you will see that I said nothing more than that.

Q511 Chairman: So there is no change at all?

Lord Adonis: We set out the policy on 15 January in respect of Heathrow and that policy has not changed. In due course, following on from that...
policy statement, the Government will need to produce a national policy statement. We have committed to consulting on such a national policy statement, as required under the Planning Act, within two years, and we will do so.

Q512 Chairman: What impact do you think the current recession and the EU Emissions Trading Scheme is likely to have on passenger growth?

Lord Adonis: As you know, Chair, in 2007 there were 241 million passengers from UK airports. That figure fell only to 235 million last year. Based on the projections from the first six months of figures for 2009, we are looking at about 220 million. The impact of the recession has therefore been fairly small on numbers flying. The most recent estimate that my department has made on projections to 2030 suggests that we are still looking at 465 million air passengers by 2030. That of course does not lead to any change in the policy we announced and that takes account of the impact both of existing taxation but not of the Emissions Trading System.

Q513 Mark Pritchard: We are talking about aviation but perhaps I may cover some broader points. Secretary of State. You may like to take this opportunity to tell the Committee what disputes you currently have with the Treasury over transport strategy.

Lord Adonis: None.

Q514 Mark Pritchard: Really? High-speed rail?

Lord Adonis: No. As I made clear in my interview with the Independent, until the end of the year we do not have a high-speed rail plan. We have asked the new company, which we established on 15 January—the High Speed Two company—to produce by the end of the year a detailed route plan, with associated environmental and economic assessments, for a high-speed line from London to the West Midlands, and then corridor options for taking that line north from the West Midlands through to Scotland. As we made clear in that statement on 15 January, until we have the plan we are not in a position to make decisions on the funding of a high-speed line and how we take it forward. The Treasury, along with all other branches of Government, was absolutely content with the establishment of the High Speed Two company, with the brief that we gave it on 15 January. The next decisions that the Government will need to take will be when we receive the report from the High Speed Two company at the end of the year. At that point we will need to evaluate it, and that is the next decision point.

Q515 Mark Pritchard: Do you have any disagreements, major or minor, with Network Rail?

Lord Adonis: It depends what you mean by “disagreements”. As you will know from my previous appearances, I am very keen to see the efficiency of Network Rail improve; so is the Office of Rail Regulation, the regulator in respect of Network Rail, which has set very demanding targets on Network Rail for improvements over the next five years in respect of efficiency, and also in respect of the disruption caused to passengers. As you know, I have been very concerned about the very high levels of disruption which Network Rail causes to passengers as a result of its engineering and enhancement works. I have—how can I best put it?—an ongoing, challenging relationship with Network Rail to see that its efficiency and the way in which it conducts engineering work, minimising disruption, is carried through; but you would expect me, Chair, to have that relationship in my position.

Q516 Mark Pritchard: Why then did Network Rail bosses get rewarded for clearly something that is less than efficient, given that you currently have an ongoing discussion about increasing efficiency?

Lord Adonis: Are you talking about bonuses?

Q517 Mark Pritchard: Yes.

Lord Adonis: I do not determine bonuses.

Q518 Mark Pritchard: I know, but when we last had a discussion about this issue you put on record that you did not feel it would be appropriate for bonuses to be given to Network Rail bosses if they did not perform. Your earlier answer to me on this particular point would suggest that they have not performed, and yet they still had the bonuses.

Lord Adonis: No, I did not. I said that the matter of bonuses was a matter between Network Rail and its regulator, because of course the regulator sets the parameters in terms of performance within which Network Rail makes these decisions. There has been an ongoing dialogue between Network Rail and its regulator on that issue. So far as bonuses are concerned, I did express a view before the Committee, which is that no bonuses should be paid which do not reflect performance. I also expressed a view, when speaking in the House of Lords, that I expected Network Rail to take full account of the public mood on bonuses more broadly and, as you know, the Chief Executive of Network Rail did forego a substantial part of his bonus this year. However, it is not my responsibility to set bonus levels.

Q519 Mark Pritchard: I am going to ask a question on aviation, Chairman, but I do think that it is in the public interest and the Secretary of State rarely appears before us—

Lord Adonis: It is fairly frequent actually!

Mr Martlew: Chairman, I am very aware that we are likely to be voting at four o’clock, so we should all get a turn to talk to the Secretary of State.

Chairman: Mr Pritchard, perhaps I may remind you that Lord Adonis has agreed to come to this Committee at another time to speak on more general matters and I would like to deal with some of the aviation issues.

Mark Pritchard: I know that the questioning is inconvenient to the Secretary of State, but if I may—

Chairman: This is an aviation inquiry.
Q520 Mark Pritchard: I will move on to aviation after I have asked this final question on Network Rail. Are you, Secretary of State, comfortable with the fact that Network Rail bosses had those bonuses?

Lord Adonis: This is a matter for Network Rail, but I do welcome the fact, though, that the Chief Executive of Network Rail decided to forego the majority of his bonus this year.

Q521 Mark Pritchard: Regional airports—how do you see regional airports within the Government’s aviation strategy?

Lord Adonis: As we said in the 2003 White Paper, they have an important regional and national role to play, and we have been seeking to support them in that role.

Q522 Mark Pritchard: Do you think that some of the main British carriers perhaps should look towards using regional airports more for transatlantic routes? For example, if you are a constituent of mine in the West Midlands, Shropshire, and you want to fly to Latin America, you may well have to drive down to London to catch a plane. However, many people are now choosing to fly from Birmingham to Paris to connect, but they are using non-UK transatlantic carriers to do that.

Lord Adonis: There are two different issues there. The first is should I be in the business of directing airlines, which of course are private companies—at least, our airlines are private companies, and of course I have no power to direct other airlines—as to where they should fly from? No, I do not believe that is in the public interest. I certainly do not believe that we should renationalise British Airways or take steps that would mean that we would be planning the detail of flights. In so far as the issue of people choosing to change in Paris rather than Heathrow is concerned, as you will be aware, a substantial part of the reason for that is the shortage of capacity at Heathrow. With the constraint to capacity at Heathrow at the moment, it is true that a higher proportion of passengers for long-distance flights from regional flights are now, by force of circumstance, changing at European airports rather than at Heathrow. That was part of the argument that the Government made for allowing the BAA to bring forward an application for a third runway at Heathrow, which is running at nearly 99% of capacity at the moment. Services to regional airports have been one of the victims of Heathrow’s shortage of capacity.

Q523 Mr Hollobone: Can we concentrate for a moment on forecasts of passenger numbers and aviation growth? Would you accept that, if the latest government figures are used, the central forecast for unconstrained demand for UK air travel of 500 million passenger journeys per annum in your 2003 White Paper—that 500 million figure is now actually 400 million?

Lord Adonis: No, the figure that we have published as our latest evaluation as of this January gives a central forecast of 465 million for 2030.

Q524 Mr Hollobone: Can I challenge you on those figures? If you have a wet towel, now would be a good time to put it round your head, because I want to try and talk you through why that figure is not correct, Secretary of State. The figure that you quote, 465 million, was the figure that the Department published on 15 January 2009. Is that correct?

Lord Adonis: That is correct.

Q525 Mr Hollobone: In that document, Table 2.10 on page 44, the Department showed that if the November 2008 Pre-Budget Report growth projections were applied, demand would actually fall to 445 million from 465 million.

Lord Adonis: Perhaps Mr Moor could answer that.

Mr Moor: In the demand forecast we run a number of sensitivity analyses. At the time of doing the forecast it was correct to base it on the Pre-Budget Report 2008—I am sorry, the Budget Report. We ran a sensitivity analysis at the same time on the Pre-Budget Report 2008 growth forecast, which did estimate 435 million passengers. So, yes, it is true to say that on the Pre-Budget Report 2008 that figure has gone down. However, that is still very significantly above the position at the moment. As the Secretary of State has said, with Heathrow running at 99% of capacity at the moment, we believe that still requires two new runways in the South East.

Lord Adonis: I think it is important to stress that both of those projections—and as growth projections vary, of course the precise number will vary—whether 435 million or 465 million, compared to the last figures for 2008, which were 235 million, are still absolutely consistent with the policy that we have announced for permitting incremental expansion of runway capacity in the South East.

Q526 Mr Hollobone: But is it true that on 17 March the Department—I am not sure if you were in post then or not—

Lord Adonis: I was not in this post.

Q527 Mr Hollobone: —the Department announced an errata to the Department’s traffic forecasts of January 2009, adjusting for that PBR-based forecast and taking the 445 figure down to 435?

Lord Adonis: I think that Mr Moor has just answered that question. It was not an errata, it was a sensitivity analysis.1 However, I think the point is that, as rates of growth in Pre-Budget Reports and Budget Reports are altered—and of course there have been alterations, given the economic circumstances of the last year—the precise figure does vary. It will not doubt continue to vary. Given that the figures we are talking about are hugely more than current capacity and are absolutely in line with what we have seen in terms of recent experience, they do not in any way alter the Government’s view that we need to make proper provision for incremental increases in capacity, particularly in the South East.

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Q528 Mr Hollobone: The Department very helpfully, in its January 2009 publication, in Table 2.10, shows that a quarter point annual change in GDP results in ±35 million from the numbers that we have been talking about on 2030 demand. That is very helpful because a month later, on 22 April, the Treasury announced fresh GDP forecasts which were lower than the pre-Budget estimates. That would take another 35 million off that 435 million figure. That takes us to 400 million, which is very different to the 500 million in the Air Transport White Paper.

Lord Adonis: As I understand it, the range that was given in January was between 415 and 500 million; so it is still within the range. The point I am making is still fundamentally the same one, however: that, as GDP projections vary, the precise figure will vary. One would hope that as we come out the recession those projections will become a lot higher. On past experience, they are likely to be so. On any long-run projection we will still need incremental additional capacity in the South East—unless you are suggesting to me that you think it likely that we will have GDP growth in the future that will not lead to significant additional demand for aviation.

Q529 Mr Hollobone: What I am suggesting to you, with respect, Secretary of State, is that on the Government’s own figures from the Treasury and from your own Department, the central forecast for 2030 is not 500 million; it is 400 million. You started this session by saying that you would not change anything if you came to write the White Paper again.

Lord Adonis: No, I said that the last published figure was 465 million in January; that we have done sensitivity analysis as GDP projections changed that does change that, up and down, and at a point in the not-too-distant future it could be up. That does not alter the central case, which is sustaining the argument for additional capacity in the South East.

Q530 Mr Hollobone: What I would suggest to you as my final point, Secretary of State, is that the last published figure may be 465 but, actually, using all government figures together, the realistic estimate that the public want to know about is 400 million.

Lord Adonis: We do not accept that it is down to 400 million but, in any event, as the GDP at the moment—which has been subject to significant changes in the last year—does vary, there will of course be variations in the precise projections; but all of those projections are consistent with the policies we have laid out for an expansion of capacity in the South East of England.

Q531 Mr Martlew: Secretary of State, I am becoming increasingly concerned about a situation where we could have a major failure of an airline. Obviously BA does not seem to be doing too well at the moment. I am not suggesting that they are going to go bust. What is the Government doing to protect passengers, to get them back if we have a major airline that goes bankrupt?

Lord Adonis: Of course, we have the ATOL scheme and we have arrangement for bringing passengers back in the event of there being a major failure. With the failure of XL last year, of course, we did have to bring large numbers back. I am glad to say that that exercise was accomplished very largely successfully.

Q532 Mr Martlew: The Government has always refused, and up until probably the last three months I agreed with the Government, to put a levy on a ticket of perhaps £1 to pay for this. Are you not concerned that if something goes wrong the Government will end up with a big bill?

Lord Adonis: There are two different issues here. The ATOL scheme, which protects those who are on package holidays and therefore typically have much larger outlays in respect of their holidays—we do accept that there is a responsibility to protect them and we are looking, in the light of experience with XL last year, at how that scheme can be improved. So far as people with ticket-only are concerned, I do understand the arguments that have been made for a levy, but our view is that this would be a big additional cost to passengers. It raises issues in terms of European competition law, and we think it is reasonable to expect that people could make arrangements to get back themselves where they have a ticket-only purchase.

Q533 Mr Martlew: Basically, if, say, easyJet, Ryanair or BA suddenly become bankrupt, then the Government will not put any money into getting people back. You mentioned the other scheme but that is just for package holidays, which is a very small percentage of travel.

Lord Adonis: We are dealing with a hypothetical situation, which I very much hope will not occur and that we have no reason to expect will. Am I saying that, if there were to be such a hypothetical event, the Government would have no responsibility? Of course, you would expect the Government to be very concerned indeed that people got home. But to your particular point—do we think it is an appropriate act of public policy to place a levy on all tickets that will be required to extend the ATOL scheme to ticket-only purchases?—we think that would be disproportionate.

Chairman: We have received a significant amount of evidence both in this inquiry and previous inquiries indicating a major problem in that area, so there are very good reasons for Mr Martlew’s questions.

Q534 Mr Martlew: Can we draw the analogy with the banks? The Government is making the banks keep more money in the bank to pay for unforeseen issues. Is that not a way forward? We should perhaps ask the airlines to keep more money in reserve, so that if something does go wrong, that money can be used to get people back?

Lord Adonis: The circumstance which you are discussing is one where an airline had effectively gone bust; so one assumes that these resources would have been used by the time that happened in any event.
Q535 Mr Martlew: No, you would insist that they actually keep so much money in reserve. This was suggested by easyJet.

Lord Adonis: I think we would regard that as a disproportionate requirement, but any recommendations you choose to make on this area I am happy to look at. The issue where we are looking to move forward, though, is to consult on enhancing the protection available under the ATOL scheme to everything that is reasonably described as a package holiday, because of the experience we had with XL last year, where a proportion of those XL customers were not covered but a reasonable person would regard them as having been on a package holiday.

Q536 Mr Leech: Apologies, Secretary of State, but I would like to bring you back to the forecasts again for a moment. Assuming that you are right and the original forecasts are still in line—and that has certainly been the argument that airlines have also made to us and they consider the forecast to be still on track. If that is the case, were you assuming in the original forecast that there was going to be a big drop in air travel at some point in time between 2003 and 2030?

Lord Adonis: The 2009 forecasts were clearly based on an allowance for what is currently happening in respect of GDP. Earlier forecasts, of course, were not expecting a recession anything like as severe as the one we are currently going through.

Q537 Mr Leech: In that case, if the earlier forecasts were not expecting a recession, were those early forecasts actually underestimating what it was felt that the numbers were going to be by 2030?

Lord Adonis: No, because we have, as we have accepted, revised the forecast downwards. It is important to understand what has actually happened. At the moment—and we are going through this recession, more severe than any we have had in a generation—what we have seen between 2007 and 2008 is passenger numbers decline only from 241 million to 235 million. Projecting for the next six months on the basis of the first six months' figures we have for 2009, that figure goes down to only 220 million. What we are seeing in respect of aviation is a fall in response to the recession but not a dramatic fall by any means. The analysis that has been done based on the projected growth rates as we come out of recession is therefore consistent with the figures I gave earlier.

Q538 Mr Leech: If a decision was made at some point in the future not to go ahead with a third runway at Heathrow, what impact do you think that would have on passenger projections?

Lord Adonis: It would entirely depend on what happened in respect of other decisions, and there are so many policy options round this area at the moment. There is the policy that the Government has, which is to allow support additional runways at Heathrow and Stansted. Yesterday, the Mayor of London made clear his own preference, which is for an entirely new airport in the Thames estuary, which I read in the papers could be a four-runway airport which could in due course, he thinks, become a hub airport. Again, if you had such an airport, that would provide very significant additional capacity. I was in Kent recently where I met the leader of Kent County Council, who is very anxious that one of the Kent airports, Manston, should have additional capacity. He is very hostile to the idea of an estuary airport and thinks that is entirely wrongheaded, but that Manston should expand. The transport spokesperson of your party has indicated that there may well be a case for expanding runway capacity in the South East of England, but she does not want to indicate yet where that might be. There are a number of different policies on this at the moment, therefore, and it depends entirely which policy you take as to whether or not you will be able to meet additional demand. If you had no additional runway capacity at all in the South East of England over the next 20 years, then of course you would have difficulty meeting the passenger numbers that I mentioned earlier.

Q539 Mr Leech: I am fairly certain that the hon. Member for Lewes did not suggest—

Lord Adonis: I am very sorry, I meant the Conservative party. The hon. Member for Lewes, I know, is against all further runways.

Q540 Mr Leech: It has been suggested in some quarters that perhaps you are not quite as enthusiastic about a third runway at Heathrow as your predecessor. Is this the case or is it just wishful thinking?

Lord Adonis: I absolutely stand by the policy that the Government announced on 15 January. I am also—and these are not either/or—very keen to see a credible high-speed rail plan developed. I do believe that a credible high-speed rail policy would enable us to substitute some domestic and short-haul European aviation with high-speed rail, and I would welcome that. I think that is a much better option than aviation for developing more short-haul markets. However, given the projections of passenger demand for long-haul traffic, we would still need additional capacity either at Heathrow, as the Government has indicated, or, if not at Heathrow, somewhere else in the South East.

Q541 Chairman: You would also stand by the Oxford Economic Forecasting report?

Lord Adonis: Yes.

Q542 Mr Leech: One last question. You briefly mentioned the Mayor’s proposal for possibly a four-runway airport in the Thames estuary. Would you care to comment on your personal view of the practicality of a four-runway airport in the Thames estuary?

Lord Adonis: I think that it would be very difficult to implement such a plan. The planning issues would be very acute. It would require huge public investment in connecting such an airport, in terms of rail and road links, and so on; indeed in building it, because you would not have the income stream which you have from an established airport; and I
think that the planning time it would take—because all of us here are familiar with the long lead time that is required to get planning consents for airport developments—would be very long. I think that it would be very difficult indeed to see such a proposal coming to fruition within the next generation.

Mr Wilshire: Secretary of State, you have made my day! I am delighted to hear you tell me, because I did not know it, that my party spokesman is at last softening her blanket opposition to all runway increases in the South East. I have six questions, and let us see if I can get them in before the Chairman loses patience with me.

Chairman: That sounds a lot.

Q543 Mr Wilshire: I will be very quick. The first is this. All my research in my constituency tells me that the majority of my constituents support a third runway at Heathrow. Is the Government still determined to push ahead with providing one?

Lord Adonis: Let us be clear where we are now. The Government has said that it is prepared to see an application by the airport operator for a third runway come forward, subject to certain conditions which were laid down in the 15 January statement. On that basis, the ball is now in the court of the airport operator to bring an application forward. However, we have said that, on the basis of the policy statement on 15 January, we would be content for such an application to come forward.

Q544 Mr Wilshire: If the current economic situation makes funding that runway difficult, would the Government be investing any money in it?

Lord Adonis: No. We expect this to be funded privately.

Q545 Mr Wilshire: If the proposal for the Thames estuary airport is brought forward, would the Government be planning to put any money into that?

Lord Adonis: No, and without public funding I think it is inconceivable that such a proposal could be taken forward.

Mr Wilshire: We are doing very well, Chairman—four!

Chairman: Keep going.

Q546 Mr Wilshire: You will presumably have seen the new report on the economic benefits of hub airports that has just been published.

Lord Adonis: I have, yes.

Q547 Mr Wilshire: What do you think of it?

Lord Adonis: They are clearly very substantial. It is of huge benefit to Britain having Heathrow as a hub airport. Also, because I have been to visit a number of major European hub airports too—not least to understand the interaction between aviation and high-speed rail, which is an issue of very great interest to me—what is interesting is that all of those hub airports, most of which are developing high-speed rail as part of their future planning, are also building additional capacity. Frankfurt, which has a very successful high-speed rail station that has opened in the last ten years, is literally in the process of starting work on its fourth runway. Schiphol has five main runways and there are plans for developments there. Charles de Gaulle has four. Our major European competitors, when it comes to hub traffic, have much greater runway capacity than we have, and that of course is an issue as we plan for the future.

Q548 Mr Wilshire: Earlier, you commented in reply to a question about regional airports that there was a growing pattern of people from regional airports going to continental hubs to change flights to go somewhere else. If that were to continue and gather pace, would that do any harm to Heathrow? Would that do any harm to UK Plc?

Lord Adonis: So far as Heathrow is concerned, because there is such excess of demand over supply, it would not harm Heathrow as a commercial entity, because Heathrow is more than capable of absorbing traffic from other sources. Would it do harm to UK Plc? There clearly would be welfare benefits foregone. At the moment, Schiphol flies to 21 UK airports; Heathrow flies to only seven. The reason is because of a shortage of capacity. As night follows day, if we do not expand capacity while our European partners are expanding capacity, more of these short-haul flights connecting to long-haul will go to other European hub airports.

Q549 Mr Wilshire: The last one: are you aware of any financial issue of any sort, has anything been drawn to your attention, concerning Ferrovial and/or BAA’s financial arrangements in relation to the fact of either a voluntary sale of one of their airports or a forced sale of their airports?

Lord Adonis: All of the policy decisions in respect of the Competition Commission are public and I am not aware of anything that is not public, if that is what you mean. The Competition Commission has made decisions in respect of the divesting of certain airports by BAA and those are public positions; I am not aware of any additional information beyond that.

Mr Wilshire: There we are, Chairman, we made it quite painlessly.

Q550 Graham Stringer: Do I take it your comments about an estuarial airport with four runways that the Mayor fancies—you really think that is somewhere between unachievable and bonkers?

Lord Adonis: Yes.

Q551 Graham Stringer: Good. If I could move on then to your speech at the Transport Times conference on 24 June, you said that there are tough national targets to bring CO₂ emissions down below 2005 levels by 2050. How is that achievable if we are signed up to the climate action and renewable energy package, Phase III of the Emissions Trading Scheme?

Lord Adonis: The 2050 target as against the 2005 target we thought was achievable on the basis of improved aircraft technology, improved operations, alternative fuels and market-based measures, but we
have of course asked the Committee on Climate Change to give us advice on the achievability of the target. You had Lord Turner before you who said that he thought that the component parts we identified were correct, but of course he wished to go into this in some detail and offer us advice. He was proposing to give us advice by December; I have written to him asking whether he could produce that advice sooner so that we can then make a judgment on the basis of the Committee on Climate Change and any advice to us.

Q552 Graham Stringer: The real point I am making about Phase III of the ETS is that it takes the control and most of the levers of achieving that reduction in CO₂ out of the different nations’ hands and centralises it, does it not?

Lord Adonis: If you take the view that a good deal of carbon reduction is going to come from technology, operations and alternative fuels and a lot of it is going to come from technology, the operation of airports and air traffic control, then those are very much within the control of the industry and indeed within our control because of course air traffic control is substantially a matter for us. Of course in terms of the market-based elements, the pricing of carbon, that will be an issue over which we invest control.

Q553 Graham Stringer: It is not the pricing of carbon—so far the ETS scheme has got a very low price of carbon in it so it seems to be failing—it is the control of the different businesses, the control of the technologies that may well reduce carbon dioxide, will be handled centrally. I do think it is a pretty fundamental point that Phase III of the Scheme is very, very highly centralised and the Government has made these very worthy commitments, but I do not see, both in aviation and in other sectors of the economy, how the Government can remain committed to them when the control will be elsewhere.

Lord Adonis: I do not completely follow your point about the Government controlling technological developments.

Q554 Graham Stringer: The regulation that will be used to oversee the reduction in carbon dioxide.

Lord Adonis: But a good deal of the technological advance will not be a matter of regulation, it will be a matter of commercial companies responding to their own market because of course they are selling planes to airlines that want to see very substantial improvements in efficiency, and they have delivered those efficiencies. If you look at the current Boeing 747-400s they are 25% more fuel efficient per passenger than the original 747 and you can give similar accounts in respect of other modern planes—take the Airbus A380. There have been huge improvements in fuel efficiency, generation by generation in planes, and indeed in the way that air traffic control operates and so on. There is an issue to do with regulation, but technological and market incentives will go a long way to reducing aviation emissions over time.

Q555 Graham Stringer: Can I move on to the more or less completely different subject of the EU and United States Open Skies Agreement which was negotiated when Douglas Alexander was Secretary of State. This Committee was very concerned that that agreement was asymmetric, that it benefited the United States more than it benefited this country and would potentially damage regional aviation. Have you carried out any studies about the general impact on the UK economy and the regional economies since that Open Skies Agreement was brought into effect?

Lord Adonis: Our analysis—and Mr Moor may be able to say more about this in a moment—is that there have been significant benefits to British air passengers as a result of the first stage of the agreement by allowing more airlines to operate more competitively from Heathrow than was the case before. We now have six British and American airlines operating where we had only four before, which has reduced ticket prices and given greater flexibility, and also given greater flexibility in terms of operations to the United States by our airlines with, for example, British Airways being able to fly to the US from Paris and Amsterdam. Are we very anxious indeed to see stage two completed successfully in respect of the capacity of overseas companies to invest in US airlines and operate flights within the US? Yes we are, and we will be negotiating to seek to bring about those gains. In terms of the estimation of the gains from stage one, perhaps Mr Moor could say more about the analysis we have conducted.

Mr Moor: It is too early yet to analyse the impact since the deal was done, but the CAA before the deal was completed estimated that there would be benefits to UK citizens of up to £1 billion over the next 20 years as a result of cheaper ticket prices and more choice.

Q556 Graham Stringer: But there is less choice and likely to be less choice from Scottish and English regional airports, is there not? Have you monitored—because it was a question that this Committee asked—the impact on Scotland and the English regions?

Mr Moor: It is something we have not looked at at the moment, but my understanding is—

Q557 Graham Stringer: This Committee did ask for it to be looked at when the previous Secretary of State, Douglas Alexander, came along. BA, for instance, have withdrawn all their intercontinental services from regional airports; that is just one obvious impact but have you looked elsewhere?

Mr Moor: It comes back to the Secretary of State’s previous point about regional airports and services which are commercial services that airlines put on. We have seen as a result of this recession that it is becoming more and more difficult for airlines to put on regional services and therefore there is consolidation on Heathrow.
Q558 Graham Stringer: When you did not try and disaggregate the figures on economic impact at the start of it, it is a bit late to start disaggregating figures now. There is a recession going on and there is also an impact on the regional airports because of the open skies policy. If you are saying you have not done the work then I am surprised and disappointed, but if you have done the work I would be grateful to know what it was.

Mr Moor: What I am saying is that it is too early. It came in in April 2008 and it is too early to have done a full analysis of the impacts of stage one of the EU/US and we are now entering the stage two negotiations.

Q559 Graham Stringer: Have you done any analysis at all?

Mr Moor: The analysis which has been done to date has been looking at different airlines which are now flying different routes. As the Secretary of State mentioned, British Airways are taking advantage of this by putting on new routes which they could not have done in the past, and it is that analysis we will do later.

Lord Adonis: In respect of your point about regional airports, when we are in a position to make a credible analysis I do entirely take your point that that analysis should not look simply at Heathrow but should look at regional airports too and we will do that.

Graham Stringer: Thank you.

Q560 Mr Clelland: Secretary of State, do you accept that your Department misquoted the costs of constructing a maglev line in the recent White Paper?

Lord Adonis: Sorry, in which context?

Q561 Mr Clelland: According to UK Ultraspeed, who gave evidence to the Committee a week ago, your Department estimated the cost of constructing a maglev line at £60 billion when the actual cost is £30 billion?

Lord Adonis: I would need to look at that, but the estimates we made—and I assume they must be quoting from the consultants who did work before the 2007 Rail White Paper—and the figures that we published in a recent freedom of information request were the figures which had been given by the consultants. My understanding of this—and I am happy to look at this further—is that there is a dispute between the organisation you have mentioned and the consultants about what is the credible cost. It is not that we misquoted the figures, it is that there is a disagreement about the actual cost.

Q562 Mr Clelland: Will you look at that again and correct the figures if necessary?

Lord Adonis: I am happy to look at it but on the basis of the material I have seen so far there is nothing to be corrected; the figures that the consultants gave for their estimate of the cost of a maglev line were their estimates. The organisation you have mentioned have a lower estimate, these are just two different estimates—there is not one that is clearly right and one that is clearly wrong, they are just two different estimates which have been made.

Q563 Mr Clelland: But you will look at it again and let us have your opinion.

Lord Adonis: Yes.

Q564 Mr Clelland: Could I move on to National Express because time seems to be running out and it is quite important issue. Is it the case that you issued a warning to National Express on 16 June?

Lord Adonis: A warning?

Q565 Mr Clelland: Yes, about the franchise and the fragility of it.

Lord Adonis: We brought into operation certain clauses in the contract which we have with National Express and which we have with other rail operators too that give us enhanced oversight powers. We did do that; I would not describe that as a warning though.

Q566 Chairman: On 17 June you spoke to us about National Express but it appears you did not disclose the information to us.

Lord Adonis: I did make clear at the time, Chairman, that I could not give a running commentary on our relations with the company and that we had a whole set of relations with them which were clearly commercial and confidential, so I did not think it was appropriate to say precisely what relations we had and had not got. The specific issue which you were concerned about was whether or not we were informed that there had been a default or whether National Express had informed us that they were intending to default. When I appeared before the Committee there had not been a default and National Express had not told us that they intended to default.

Q567 Chairman: You are saying that you had this additional information but you simply did not disclose it on grounds of confidentiality.

Lord Adonis: I did not think it was appropriate to disclose it at the Committee; I do not think it is appropriate to give a running commentary on commercial relations between my Department and the train operating companies.

Q568 Chairman: It was a very significant matter, was it not? We had questioned you previously about the position of the franchises—National Express had been very much in the news and so it was a very relevant issue.

Lord Adonis: I was quite frank with the Committee, Chairman, I did say that I could not comment further on commercial issues between the Government and National Express but I was prepared to make clear that there had not been a default and nor had National Express told us that they intended to default.
Q569 Mr Clelland: What is the situation now with National Express, it does not seem particularly clear. Are they going to continue to run the franchise or not?

Lord Adonis: They are running the franchise at the moment and unless there is some significant or material change of circumstance they will run it until their subsidiary, National Express East Coast, comes close to running out of funds and at that point, as I made clear in my statement to Parliament on 1 July, the Government will then, through a public company that we are ourselves establishing, take charge of their services.

Q570 Mr Clelland: You are continuing to put in place arrangements to run the railway in the event it is necessary.

Lord Adonis: I have appointed a chief executive of the public company, East Coast Main Line, Elaine Holt, and she is establishing a team that will be able, seamlessly and without any disruption to services to passengers, to take over the East Coast services from a date that will be agreed between the Government and National Express East Coast.

Q571 Mr Clelland: Would you think it would be a reasonable idea for the Government to continue to run this service as a benchmark for other franchises?

Lord Adonis: We do not have legal powers to do so. The law is clear that services should be franchised.

Q572 Mr Clelland: We can change the law though, can we not, we are the Government?

Lord Adonis: I am obliged to observe the law as it currently stands so we have no legal powers to do so. I have said though that it is our intention, assuming that this autumn is when we take charge of the East Coast Main Line services, to maintain that public company, East Coast Main Line, Elaine Holt, and she is establishing a team that will be able, seamlessly and without any disruption to services to passengers, to take over the East Coast services from a date that will be agreed between the Government and National Express East Coast.

Q573 Mr Clelland: Are you clear yet as to what the situation is regarding the other two franchises held by National Express?

Lord Adonis: As I said on 1 July I am required to take full account of the circumstances of the case before making any decision in respect of cross-defaults and that evaluation is on-going.

Q574 Sir Peter Soulsby: On this issue, Chairman, in re-letting this franchise and in future franchises will you be making sure that companies like National Express cannot insulate themselves from the risk of the franchise by using these special purpose vehicles like National Express East Coast to prevent them actually having to dip into their own profits when times are difficult while being able to take the profits when times are good?

Lord Adonis: I do want to look further at this issue about the relationship between holding companies and special purpose vehicles and I want to look in some detail at our experience in respect of National Express and see whether a different relationship between special purpose vehicles and holding groups would be appropriate for future franchises.

Q575 Mr Martlew: Just on this one, Secretary of State, we have National Express who look like they have failed on the East Coast but they have two other franchises. The idea that you take them away from National Express and re-let them at a better deal than when you did the original franchise is difficult to understand, bearing in mind the circumstances of the recession is it not?

Lord Adonis: At the moment we have an existing contract with National Express for those franchises and unless I exercise powers to cross-default the issue does not arise.

Q576 Mr Martlew: Exactly, what is the likelihood of getting a better deal now we have a recession?

Lord Adonis: I cannot be sure of that because in fact the franchising market, as we saw with the South Central franchise which we let last month, for new franchises has been a positive one, so I cannot prejudge what deal we might get for new franchises, but as I say at the moment that issue does not arise.

Q577 Chairman: I would like now to go back to aviation. Could you tell us what is the primary purpose of air passenger duty?

Lord Adonis: The primary purpose is to recover the environmental impacts that aviation makes.

Q578 Chairman: Do you think that aviation does pay for its environmental impacts?

Lord Adonis: We think that with air passenger duty as it currently stands it broadly does so, but of course as the shadow price of carbon changes that judgment will change over time.

Q579 Mr Clelland: Does that mean that that levy is going to be ring-fenced to use for reducing carbon in that area?

Lord Adonis: All levies of this kind, of course, go into the general pot so far as the Treasury is concerned.

Q580 Mr Clelland: The objective of the levy is to deal with the impact of air travel on the environment but the actual levy is not going to be necessarily used for that purpose.

Lord Adonis: The Chairman said what is the primary purpose; I said the primary purpose was to meet the environmental impacts of aviation but it is also a contribution to the wider cost of public services and of course the Treasury would not accept a case for ring-fencing it given the wider role.
Q581 Chairman: Would you be concerned if air passenger duty was seen to threaten the viability of some regional airports?
Lord Adonis: We do not believe that it does so.

Q582 Chairman: Has a case ever been put to you that it does and how many representations have you made?
Lord Adonis: We think it is appropriate. I will be quite frank. Chairman, I do not think aviation has a credible future unless it is able to make a bigger contribution to meeting its environmental costs and we therefore stand by decisions we have taken in respect of air passenger duty.

Q583 Graham Stringer: Do I understand the primary purpose of air passenger duty as being to pay the environmental cost for aviation, because when Kenneth Clark introduced it, it was to get over the last recession, it was just a tax?
Lord Adonis: I do not have his explanation to hand but I believe when he introduced it his explanation of the purpose was in terms of the environmental benefits that it would bring about, if aviation met a larger share of the cost of the impacts that it creates on society.

Q584 Graham Stringer: I heard him say the opposite but we can check the record.
Lord Adonis: I am happy to produce the words at the time but it is certainly our view that it is important that the taxation ensures that the aviation industry does meet its environmental costs.

Q585 Graham Stringer: The latest increase will take it well past its environmental costs, will it not?
Lord Adonis: That is not our judgment, our judgment is that it about meets its environmental costs.

Q586 Chairman: The aviation industry is extremely worried about air passenger duty.
Lord Adonis: In my experience all industries are always worried about taxes on them, that is just a given I am afraid in any industry. All industries would dearly love taxation to be reduced on them and of course they quite appropriately make representations to ministers to have those taxes reduced.

Q587 Chairman: Do you see the Government having any role in relation to taxation in the current economic climate?
Lord Adonis: It is not the Government’s intention to reduce air passenger duty but future taxation policy of course is not for me, it is for the Chancellor.

Q588 Chairman: What would you be recommending the Chancellor does?
Lord Adonis: That is a matter for the Chancellor; I do not think I can comment on decisions he might take.

Q589 Chairman: You must be making some kind of recommendation.

Lord Adonis: I do believe it is right that aviation should meet its full responsibilities in terms of its environmental impacts.

Q590 Chairman: Why do you want to replace the Air Transport Users’ Council with Passenger Focus?
 Lord Adonis: We are keen to put passenger representation on a statutory basis. As you know, the Air Users’ Council has done a good job but it is not a statutory organisation. Passenger Focus, which I know well from my dealings with it over the last year in respect of rail, is a highly competent and professional body. It has a statutory footing and of course its remit is about to extend to buses. We think that having a single transport consumer organisation would benefit air passengers because they would have the benefit of an organisation which has a wider body of expertise and capacity than the Air Users’ Council currently has.

Q591 Chairman: Passenger Focus is a very effective organisation but are you not concerned that it might be spreading its remit too wide?
Lord Adonis: I have been very impressed with the work it has done on rail. When I appeared before you in my first appearance we discussed at some length pricing and a fares policy in respect of rail. The very significant change of policy that the Government made to move from a basket of fares to a cap on fares was made as a result of a recommendation to me by Passenger Focus.

Q592 Chairman: Was that doing your job in relation to rail; are you not concerned that if it gets involved in this now and possibly in aviation it might be spreading its remit too wide?
Lord Adonis: I do not think it is a dilution of focus for it to be responsible for the main public transport industries. There is a good deal of overlap in terms of the interests of passengers in all three sectors, rail, bus and air, and air passengers have a good deal to gain from having an organisation which is strong, statutory and has a very positive public profile.

Q593 Mr Wilshire: You said you did not think air passenger duty would have any harm and it seemed to cover the costs. Does that mean that you consider our continental competitors, who have either frozen their tax or reduced it or abolished it—do you think they are all wrong and we are right?
Lord Adonis: These are decisions that every government has to make for itself. I certainly would not dream of criticising fellow European governments, they have to take these decisions in respect of their own circumstances.

Q594 Mr Wilshire: But they have done what you consider to be wrong for this country?
Lord Adonis: They do not take decisions in respect of Britain, just as I do not take decisions on their behalf.

Q595 Mr Clelland: Is there not a big problem with this because at the moment air passengers can voluntarily pay a carbon offset when they travel.
They pay an additional fee and that money specifically goes to reducing carbon emissions. If we put on a new air passenger duty is that not going to encourage passengers not to pay their carbon offset, yet the air passenger duty is not going to go for the purposes of reducing carbon so we are actually going to lose the benefit for the environment.

**Lord Adonis:** The funding from air passenger duty like all sources of income to the Treasury goes on all of the purposes of government. One of the principal purposes of government, as we have seen today in Ed Miliband’s statement, is carbon reduction. In my Department we very recently announced a £250 million fund to incentivise motorists to buy ultra low carbon or electric vehicles.

Q596 **Mr Clelland:** But how is it going to help if passengers now say “I am not going to pay the voluntary levy because you have put this additional tax on us” ; how is it going to help the environment?

**Lord Adonis:** There are many different sources of funding for carbon reduction. The Government is responsible for the public funding and that public funding goes into a pot, one of the principal objectives of which is carbon reduction so it is perfectly sensible what we do now. The decisions that individuals make on their account thereafter are a matter for them.

Q597 **Chairman:** Thank you very much for coming. **Lord Adonis:** I would be happy to provide any more information that would be helpful for you.
Summary

This document addresses the specific questions raised regarding aviation expansion. It demonstrates the case for continued expansion is unfounded and is a folly in the light of the planetary emergencies facing us all.

The responses argue that aviation expansion:
- Can never be compatible with either the climate change bill or the scientific evidence on climate change.
- Is morally and financially unjustified given the set of crises facing us.
- Can only be curtailed by reducing capacity.

1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

1.1 This question presupposes value to the UK economy is something that can be quantified in terms of tax receipts and contribution to overall GDP. However, this is a narrow and imprecise definition and when used as the sole arbitrator then bad decisions will be made which will be expensive in the long term.

1.2 A more relevant approach would be to segment the economy into sustainable and unsustainable segments. The aviation industry has a large value to the unsustainable economy, and a negative value to the sustainable economy. The unsustainable sector of the economy is based entirely on cheap energy from easily available fossil fuels. It assumes that these fossil fuels are infinitely available or can easily be substituted with alternatives. These are both naive and false assumptions.

1.3 Firstly, fossil fuels by definition are not infinitely available. It is now widely accepted that peak oil will occur soon. The only debate now is of time. Some commentators have suggested that we have already passed peak oil and others are suggesting that it is soon to come in the near future. Inasmuch as the oil companies and International Energy Agency are now recognising peak oil, then it is totally foolhardy to pretend that it will not exist, which is the pretence that is needed to justify the aviation industry. The recent IEA report, Resources to Reserves, states “most countries outside of OPEC have passed their peaks in conventional oil production, or will do so shortly.”

1.4 Secondly, no viable energy alternative to fossil fuels has been discovered, despite all the best efforts. This lack of a viable alternative is particularly acute in the aviation industry. The only two possible alternatives are hydrogen and biofuels. Hydrogen fuel is not an option. Its energy density is too low to make it a practical aviation fuel, and it does not resolve the issue of the energy supply. Biofuel is not an option due to the enormous landmass that is needed and the energy intensive agriculture required. Irreparable damage is already being done by the biofuel industry to the planet’s eco-system and claims from biofuel supporters that it is carbon neutral are totally irrelevant when the reality is that we are essentially burning out planets lungs. In essence, the pursuit of biofuel is a scorched earth policy on a continental scale as the planet’s critical biodiversity is burnt and cleared in support of the wants of the planet’s elite minorities.

1.5 Thus investments in airports and the aviation industry, which represents the most carbon intensive form of travel, are the ultimate statements of economic and environmental folly.

1.6 It does not matter if public or private bodies make these investments. Either approach diverts scarce resources and manpower to projects that are non-viable in the long term.

1.7 Public and private financing are simply different financial engineering approaches and do not offer a solution to the underlying problem that we face; that growth in real wealth is restrained by increasing scarcity of natural resources, both at the source end (oil depletion), and the sink end (absorbptive capacity of the atmosphere for CO2).

1.8 As we approach these limits of growth then the “Marginal costs of growth will exceed marginal benefits, so that real physical growth makes us poorer, not richer.” This is the fundamental cause of the current credit crisis. As the limit of growth is reached, the fractional banking reserve system that underpins all economies by circulating loans and debt to enable printing of money will collapse. Loans that the banking...
system offers are serviced in an economy when limits have not yet been achieved and energy and raw materials are continuously supplied. However as soon as growth limits are reached, the ability to repay loans collapses and the fractional reserve systems goes into a dangerous reverse causing a drying up of liquidity. The associated economic transition to a new equilibrium state and paradigm will be non-linear and permanent. The first stages of this are now being played out. Once true accounting for CO2 emissions is introduced, the effect of this new limit on the economy will increase the severity of the transition, leading to further financial turmoil.

1.9 In these circumstances, no amount of demand stimulus will be effective. The fact is that demand for staples is increasing due to worldwide population growth and falling supply. Against this background, government support for new airports and increased aviation capacity falls into the category of false stimulus. It is delusionary to believe that it will provide a stable long-term economic growth platform. On the contrary, it will increase our dependence on resources that are becoming exhausted, just at the time when we need to be carefully using what resources we still have to enable as smooth a transition as possible to a sustainable economy.

1.10 Thus finally in conclusion, not only does airport expansion not contribute to the sustainable economy, it actually robs it of resource, leadership and public support, hence its negative contribution to the sustainable economy.

2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

2.1 The existing aviation infrastructure is unquestioningly adequate for the needs of UK business and individuals. However, it will not be adequate for the wants of UK businesses and individuals, no matter how much expansion is offered.

2.2 At present, leisure flights take up the biggest proportion of seats. Many of these flights are for frivolous activities such as weekend breaks, multiple trips to holiday homes, stag weekends and shopping trips. Given the serious problem that we face now that runaway climate change has started, these non-essential and discretionary trips should be dispensed with and passengers should be encouraged not to take these types of flights. The capacity released from this will allow the needs to be easily catered for.

2.3 Trying to ensure that the wants are satisfied ties us into economic dependence on unsustainable industries such as International Tourism. The current economic crisis is showing this to be the most fickle of all industries. Flyingmatters, which represents the interests of the aviation industry, recognises this fact on their web site, where they say, “International tourism is a price-sensitive industry and tourists have a choice—they can choose other, cheaper destinations.” Cheaper destinations during times of increasing economic hardship are essentially going to mean staying at home; that will be both UK and foreign tourists and the currently falling passenger numbers in UK airports are evidence of this future inevitability.

3. To what extent can rail provide an alternative to short-haul flights?

3.1 To put this question in context, it is assumed that rail in this case means high speed rail, as this is usually presented as being the alternative to short-haul flights.

3.2 Though rail will be able to provide some alternative to short haul flights, its success will be limited by a number of issues.

3.3 The existing rail network is virtually at full capacity, both in terms of train paths and seat capacity at peak time.

3.4 Most airports in this country are not connected to the Intercity network, with the exception of Birmingham International.

3.5 The aviation infrastructure has been focused in this country on a hub and spoke approach. The introduction of the A380 will serve to entrench this and increase demand for short haul connecting flights. Replacement of these short haul services on a like for like basis that would provide equivalent journey time solutions will require high speed rail connections directly from the hub airports (Heathrow, Manchester and Birmingham) to virtually the rest of the country and much of Northern Europe.

3.6 Construction of high-speed links on this scale would be prohibitively expensive in the current economic environment. As an order of magnitude, the upgrade of the West Coast Main Line cost approximately £8billion and the scope of work was to track upgrades and resignalling with existing technology. In addition, the rail network suffers from various bottlenecks and resolution of these is hugely expensive. Reading station is a typical bottleneck and current estimates for remodelling and capacity enhancement are in the order of £800 million.

Latest predictions are for the arctic ice to melt by 2011–2015. When this happens climate change will enter a new and much more serious phase.

6 http://www.flyingmatters.co.uk/templates/briefings_article.asp?PageID = 29
3.7 If new high-speed lines are introduced, the costs will be significantly higher than recent line upgrades. This will be in terms of financial and political costs as large-scale compulsory purchases will be necessary to build the required rail infrastructure near existing airports and to build the high speed connecting lines. The political costs would be accentuated in a fragile economy were people may be less inclined to move and be more alienated from authority. To ensure a financial payback, high utilisation of the service needs to be assured, which means that it must be encouraged to operate at or as near to full capacity as much as possible.

3.8 To operate a high-speed network at or near full capacity will require enormous amounts of energy. Trains of the French TGV class or Japanese bullet trains require in the order of 6 to 13 MW of power each. The exact power depends on the number of carriages per train. Based on the fact that there are 31 Pendolinos on the West Coast, then assuming that the network was increased to compete with short haul planes, then at least 50 trains would be expected to operate across the country at any one time. This equates to approximately 500 MW of capacity, which is equivalent to a medium sized coal fired power station or 600 2MW offshore wind turbines operating with a highly optimistic and continuous 40% capacity factor. As the service needs to operate at full capacity, then it vital that the power supply must be highly reliable as any failure will cause wide spread disruption and could have repercussions that would take days to resolve.

3.9 Given the current concerns for power outages across the UK grid due to lack of generating capacity, a new high-speed electrified railway is unlikely to be reliable. This situation is likely to become more severe as the power generating solutions take account of the requirement in the climate change bill for an 80% cut in greenhouse gases. If a reliable service cannot be guaranteed, then the economic viability of rail replacement collapses.

3.10 The alternative approach is to dispense with the idea of trains competing with planes, by banning short haul flights. The rail service will then avoid the costly and energy intensive competition inherent with providing a high-speed network. Instead it can provide the intercity connectivity that is needed for a large population with a slower speed network, but at the expense of journey time. This would also make the concept of hub and spoke operations more difficult, and thus stem the demand for fuel intensive hub-to-hub connections.

3.11 The energy required by a train is approximately proportional to the square of the speed; so halving the line speed means that only a quarter of the energy is needed. Therefore a lower speed network requires very much less energy leading to a more reliable network, especially in an energy constrained future. Also reliability would be further enhanced as track maintenance requirements are less onerous and the rail would need less routine replacement.

3.12 Furthermore, a slower speed rail network actually allows for more passengers to be carried. This is because the braking distance is proportional to the kinetic energy of the train, which in turn is proportional to the square of the speed. So, effectively doubling the line speed, quadruples the braking distance. It is the worst-case braking distance that determines the separation between trains, and hence line capacity.

3.13 Fundamentally, a low speed, high volume network allows travel options for all. By contrast, a high speed, low volume network caters to the elite minority but requires subsidy by all. However, a low speed line cannot compete on a like for like basis against short haul aviation.

4. What costs does aviation impose on society and the environment? What are the implications of climate change policy— in particular the Climate Change Act 2008— for the aviation industry and infrastructure?

4.1 Aviation has now been incorporated into the climate change bill and this commits the UK to a legally binding 80% cut in CO₂ emissions.

4.2 However, the evidence now facing us is that runaway climate change has now started and cuts of 80% will still be too small to make the difference that is needed.

4.3 There has been no public debate yet on how our society will achieve an 80% cut or how we will determine when the target has been reached. As such, we do not know how this cut will be made whilst balancing the current demands for economic growth.

4.4 Despite the need for cuts in CO₂ emissions and the international efforts such as the Kyoto agreement, CO₂ is continuing to rise and more seriously, the rate of increase is increasing. Therefore achieving the necessary cuts, at a time of increasing population growth at home and abroad is going to be a challenge unlike our civilisation has ever faced before.

4.5 Even in the hypothetical situation that the aviation industry was somehow immune from making CO₂ cuts and was magically able to carbon trade its way out of the problems, it is likely that it would face an enormous public backlash as they continue operating and profiteering when everyone else is forced to make drastic cuts in emissions.

4.6 This will lead to social unrest as the better off in society continue to buy the carbon entitlements that are on offer and the less well off are forced to suffer in hunger and cold as they are priced out of the carbon market.

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7 http://uk.geocities.eom/kevin.lister@btopenworld.com/biofuels/Tescobiofuelreportversion1.pdf page 7, figure 3.
4.7 The impact of the limits on the supply side (due to oil and gas shortages) has already has an enormous effect on the world’s economy. Introduction of another more onerous limit associated with carbon emissions will have a far bigger impact and lead to the bankruptcy of most carbon intensive business operations, such as aviation.

4.8 There is no way around this situation. The aviation industry are already trying various lies, such as carbon neutrality from biofuels, carbon trading, and claims that planes such as the A380 and Boeing 787 are environmentally friendly. These lies are contemptible. They fly in the face of all scientific and economic evidence. The power brokers pursuing them are taking the position that the rights of future generations are expendable and unimportant, and must be sacrificed for the better good of today’s businesses and consumers. This is analogous to the Nazi party position that Russians and Jews were expendable for the better good of the Germans.8

5. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

5.1 Clearly, increased taxation will help to stem demand and will be presented to the public as such. However, the government has shown in the past that it will not maintain high taxes as a tool to stem demand in the face protest.

5.2 This pattern has been seen in petrol taxes and aircraft passenger duty.

5.3 It is impossible to envisage a position where taxation provides the demand reduction necessary to comply with the 80% CO2 cut that the climate change bill demands.

5.4 It has so far always been the policy of the Department of Transport to cater for transport demand. In a letter9 I sent to the Ruth Kelly asking the question “Your statements so far on travel policies have all been concerned with providing enough supply to meet demand. Can you confirm what you are doing to reduce demand?” received the eventual reply10 “It is not Government policy to reduce demand.”

5.5 Political expediency will always intervene to ensure that taxes never rise to a point that will actually stem demand. Thus none is the answer to the question posed.

6. What is the impact on the aviation sector of changes in the security environment?

6.1 Al-qaeda type atrocities remain a current threat to the aviation industry and society in general. However, the terrible events such as 9/11 and the attempts since then to blow up planes in the mid Atlantic did not have a long term impact on passenger numbers and most regular users prefer to take the attitude that it will not happen to them and they will continue flying. Something far worse would be needed before people decide to give up flying en masse.

6.2 However, the recent invasion by Plane Stupid at Stanstead will become a more frequent experience for passengers. As the wider population realise that climate change is something that will affect them directly, and will not be confined to distant parts of the world, then the aviation industry must expect that support and sympathy for these types of events will increase. This will combine with more people being attracted to these events as they become more disillusioned with normal democratic means, especially if reviews like this end up supporting the aviation industry’s continued growth in the face of the overwhelming evidence against it.

January 2009

Memorandum from TAG Farnborough Airport (FOA 02)

TAG Farnborough Airport is pleased to submit its response to the House of Commons inquiry into the future of aviation. We have chosen to limit our contribution to the following parts of questions one and two:

8 The reference to the UN Human Development report has already been made. Also Primo Levi who survived Auschwitz, wrote in the Drowned and the Saved, shortly before his suicide, that “Power is like a drug: the need for either is unknown to anyone who has not tried them, but after the initiation, which can be fortuitous, the dependency and the need for ever larger doses is born; also born is the denial of reality and the return to childish dreams of omnipotence.” He went on to say, “There are those who faced by the crime of others or their own, turn their backs so as not to see it and not feel touched by it: deluding themselves that not seeing was a way of not knowing, and that not knowing relieved them of their share of complicity.” These powerful statements that uniquely capture the essence of the Nazi era, also capture the essence of those organisations that seek to ignore and dismiss climate change to preserve their ability to profiteer.


1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports?

2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

Summary

— TAG Farnborough Airport is owned and operated by TAG Aviation. It is the UK’s only airport dedicated to business aviation.

— Business aviation is increasingly important to UK companies and international companies based in, and trading with, the UK.

— TAG Farnborough Airport is the premier business aviation gateway for the UK and, as such, is of significant importance to the local, London and national economy.

— Regional airports like TAG Farnborough are significant because they alleviate pressures from other larger commercial airports in the South East, such as Gatwick and Heathrow.

— TAG Farnborough is of particular importance in that it is the only airport of its kind offering high levels of business aviation services in the South East, attracting individuals who require high quality business aviation facilities, together with easy access to London and the South East, and who are responsible for substantial inward investment as well as overseas trade.

— At present, there is a significant shortage of airport capacity in the South East, which is constraining growth of all aircraft movements.

— Even where there is some limited capacity, as this is exhausted, business aircraft will increasingly be displaced in favour of accommodating commercial aircraft, because they are more profitable to airport operators.

— TAG Farnborough Airport is at present artificially limited to 28,000 air traffic movements (ATM) under the terms of the Airport’s planning permission. Independent consultants have established that the airport’s infrastructure is significantly under utilised and that air traffic movements could be roughly doubled without any additional infrastructure required.

— TAG Farnborough is currently consulting on its Airport Master Plan. TAG intends to publish the final version of the Master Plan this year and thereafter to seek planning permission to operate the airport within approximately 50,000 annual business aviation air traffic movements.

— If the Airport is permitted to raise its annual number of ATM from the current 28,000 to approximately 50,000, this will accommodate 22,000 ATM of unmet demand for business aviation and help alleviate part of the shortfall in the South East.

1. Introduction

1.1 TAG Farnborough Airport is owned and operated by TAG Aviation. It is the UK’s only airport dedicated to business aviation.

1.2 TAG Aviation is a global company which includes TAG Farnborough Airport (UK), TAG Aviation Europe, TAG Aviation Asia and TAG Aviation Services (US).

1.3 Farnborough Airport was the UK’s first airfield, established in 1905. In 2008, the Airport celebrated its first 100 years of continuous operation.

1.4 The Airport’s aviation history predates even the UK’s first officially recorded powered flight conducted there in 1908 by Samuel Cody. The first flight in the UK of a jet-powered aircraft was made there, as was the World’s first flight of a commuter jet airliner.

1.5 Farnborough Airport was originally a Government airfield and declared surplus to requirements by the Ministry of Defence in April 1991. In December 1994, the Government decided that the airfield should be redeveloped as a Business Aviation centre.

1.6 The 1994 review of infrastructure assets by the MoD coincided with a broader review of the need and demand for business aviation facilities in the South East. The Business Aviation Working Group, comprising representatives of the Department of Transport, industry representatives, the CAA, NATS, Department of the Environment and the South East Regional Planning Standing Conference, was established in 1984 to evaluate the available capacity for business aviation in the South East. The Working Group concluded that Farnborough would be a suitable location for business aviation activity on the basis that: there was available capacity; the runway was long enough for trans-Atlantic flights; and the site was well located in relation to London and the South-East. Its conclusions were embodied in the 1985 White Paper on Airports Policy.

1.7 In 1998 TAG Aviation became the preferred operator of Farnborough Airport, following a competitive process. From that year, the MoD began to transfer control of Farnborough Aerodrome to TAG, with the understanding that the facility would be used solely for business aviation and the Farnborough International Air Show.
1.8 TAG Farnborough Airport Limited took full control of the Airport under a long lease in 2003, and acquired the freehold from the MoD at the end of 2007. Under the terms of a planning permission granted in 2000 by Rushmoor Borough Council (the local planning authority) the airport is permitted to operate 28,000 air traffic movements per annum.

1.9 Since then, TAG has invested over £100 million in the Airport and is committed to ensuring that the facilities available at the Airport are of the highest quality. TAG is firmly committed to the long-term future of the Airport as the UK’s only dedicated and exclusively business aviation airport. It is also committed to supporting the world renowned Farnborough International Airshow, which the Airport hosts on a biennial basis.

2. What is the value of aviation to the UK economy?

2.1 The 2006 Eddington Transport Study stressed that a healthy economy needs excellent transport systems and that investment is required to provide the global transport connections necessary for economic growth. The Government’s 2007 Budget Report identified globalisation and the integration of the world economy as key forces in Britain’s economic future. Many of Britain’s strongest industries are internationally mobile and rely on air transport and, specifically, on business aviation.

2.2 Business aviation is increasingly important to both UK companies and international companies based in and trading with the UK. It enables business executives to travel on schedules that they have set in order to optimise the use of their time and resources. Business aviation is used and preferred by companies over scheduled services, in particular where: time is important; complex itineraries over a short period of time are required; essential visits to and from provincial cities, which are not well served by commercial airlines; scheduled aircraft routes are inadequate; privacy is required; and additional security is necessary.

2.3 The route and timing of a business aviation flight is the decision of the user not the operator. This is in contrast to scheduled services. Users benefit from flexibility, choice and efficiency and this results in economic advantage. Business aviation is a distinct and important segment of the air transport market. It is a sector that has been growing strongly and the importance of which is recognised in the 2003 Future of Air Transport White Paper.

2.4 TAG Farnborough Airport is the main business aviation link for the UK and, as such, is of significant importance to the national economy. The airport is located to the South West of London and it is well served by major road and mainline rail connections providing efficient links to the centre of London, the City and the wider South East. As such, the airport is the ideal choice for business travellers who seek reliable and swift access to the capital and the South East.

2.5 TAG Farnborough Airport is specifically chosen by those seeking the highest quality of business aviation services and easy access to London and the South East. They include major businesses, high net worth individuals, professionals and management requiring links between London and the South East with the rest of Europe, Middle East, United States and the rest of the World. These businesses and individuals are responsible for substantial inward investment in the UK as well as overseas trade.

2.6 TAG Farnborough supports the Government’s policy of making the most efficient use of existing airport infrastructure. Demand at TAG Farnborough Airport is high and will shortly outstrip the current artificially limited capacity. We already have to manage demand for our facilities through pricing structures which excludes some users.

2.7 The theoretical operating capacity of the airport’s existing infrastructure, as calculated by NATS, is approximately 100,000 ATM. Whilst environmental and noise standards would currently preclude such a high volume of ATM, TAG Farnborough is committed to making better use of the infrastructure at the Airport.

2.8 In order to accommodate this demand, later this year TAG Farnborough intends to submit a planning application seeking permission to increasing operating limits at the Airport from the current 28,000 annual business aviation ATM to approximately 50,000. If the Airport is granted permission, this will accommodate 22,000 ATM of the unmet demand and help to alleviate part of the shortfall in the South East.

2.9 It is assessed that increasing the number of ATM from 28,000 to 50,000 by 2018 could lead to an increase in the number of direct, indirect and induced employees by approximately 35%. This would therefore increase employment in the area by some 1,500 jobs which (at an average 2008 value of £51,400 Gross Domestic Product impact) would increase GDP in the local area by a further £76.3 million.

3. What are the roles of the London and regional airports?

3.1 In the July 2004 Future of Transport White Paper, the Government recognised the important role that smaller airports play in providing capacity for business aviation. The White Paper considers that smaller airports’ ability to meet local demand, in particular for business aviation, helps to alleviate pressure on the larger airports. This is particularly important in the period before a new runway in the South East is built.
3.2 Regional airports like TAG Farnborough are essential as they alleviate pressure on other larger commercial airports in the southeast (i.e., in terms of environment, noise, and air traffic movements). TAG Farnborough is of particular importance in that it is the only airport of its kind offering these levels of business aviation services in the Southeast, attracting individuals who require high quality business aviation, together with easy access to London and the South East, and who are responsible for substantial inward investment as well as overseas trade.

3.3 Without continued access to high quality business aviation facilities in the South East, we strongly believe that the competitiveness of the London and the South East would be impaired. Customers who use TAG Farnborough Airport are unlikely to simply transfer to a commercial flight if capacity restrictions prevent them from using the airport.

3.4 TAG Farnborough is also a significant local employer. A survey in September 2008 by TAG’s consultants, RPS, established that some 1,084 people were working full-time at the Airport plus a further 64 part-time jobs, representing a full-time equivalent of 1,116 direct employees.

4. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

4.1 At present, there is a shortage of airport capacity in the South East, which is constraining growth of all aircraft movements.

4.2 It is clear that there is very little existing capacity at Heathrow, Gatwick, Stansted, Luton and London City to cater for any future increase in all aircraft movements. It is likely that even this limited capacity will primarily be used by commercial air transport. In addition, as the spare capacity is exhausted, business aircraft will in our view be displaced in favour of accommodating commercial aircraft, because they are more profitable to those airport operators.

4.3 TAG’s economic consultant, Mott MacDonald, has carried out an assessment of existing airport capacity in the South East (using CAA 2007 figures, being the most recently available and other published information). In order to fully investigate the capacity for ATM, it is necessary to analyse not only business aviation and air taxi, but all aircraft movements. The following 2007 capacity limits were identified:

- Heathrow 480,000 – Heathrow Interim Master Plan 2005.
- Stansted 241,000 – Stansted Airport Interim Master Plan 2006.
- Luton 150,000 – Mott MacDonald estimate 2008.
- Biggin Hill 125,000 – under the terms of a lease of the site granted by the local authority.
- Farnborough 28,000 – planning permission 2000.
- Northolt 7,000 – Ministry of Defence policy.

4.4 There is little extra guaranteed additional airport capacity available by 2019 compared to 2007. In late 2008, planning permissions were granted to increase the annual number of movements at London City and Stansted by 25,000 and 34,000 movements respectively. This additional capacity is forecast to be utilised primarily by commercial aircraft.

4.5 From a comparison of airport capacity available and projected demand at 2019, Mott MacDonald assesses that there will be unmet demand of some 416,000 commercial air traffic movements in the London area (based on a forecast of 2.5% growth annually), and a further unmet demand of 173,000 business and general aviation air traffic movements.

4.6 It is clear that some further development could be possible at smaller airports in the South East without insurmountable environmental constraints. Farnborough Airport is referred to by the 2003 Future of Air Transport White Paper as one of the airports within this category.

4.7 TAG Farnborough Airport is seeking to lift the artificial cap on ATM in order to increase the current cap on movements to 50,000 ATMs annually without adding any additional infrastructure to the airport.

4.8 TAG Farnborough has produced a Master Plan which provides an overview of the infrastructure, facilities and operation of the Airport, and sets out the potential opportunities for operational improvements and airport related development that could take place up to 2019 and, indicatively, 2030.

4.9 The key objectives of the Master Plan are to: provide a voluntary Master Plan in accordance with the Future of Air Transport White Paper (2003); identify physical changes and operational improvements required to make the best use of existing facilities to 2019, indicatively to 2030; identify how sustainability and climate change is addressed by the Airport’s operation; secure the future growth of the Airport while minimising the effect on the local community and environment; inform the Rushmoor Local Development Framework; and engage with local residents and other stakeholders.

4.10 In seeking to increase movements at the Airport we have given considerable importance to mitigating the environmental effects on our neighbours. TAG Farnborough already excludes Chapter I and II aircraft from using the Airport in order to reduce noise pollution and as part of the current masterplanning
exercise is considering excluding all aircraft below Chapter IV. We also operate a “quiet flying” programme and have made a series of improvements in air traffic management at the Airport to reduce the impact of aircraft noise by routing aircraft over less densely populated areas, where safe and practical to do so.

4.11 As a rule, aircraft used for business aviation are the most technologically advanced and increasingly use engines which are quieter, more efficient and less polluting than commercial aircraft. In addition to this, TAG Farnborough has introduced various measures at the Airport to reduce the amount of air pollution produced, for example through the provision of free ground source power. TAG Farnborough is also currently assessing the feasibility of becoming a carbon neutral airport.

5. CONCLUSION

5.1 Even allowing for the current global economic downturn, demand for aviation and specifically business aviation is predicted to increase considerably over the coming decade. On current estimates demand for business and general aviation ATM will outstrip airport capacity in the South East by at least 173,000 ATM annually by 2019.

5.2 As a small island trading nation, the UK is highly dependent on aviation to maintain its competitive economic advantage. Business aviation as a sector has grown at over three times the rate of commercial aviation in recent years and looks set to continue this trend. The benefits of business travel are substantial allowing the kind of speed and flexibility that is inconceivable in commercial travel.

5.3 Smaller regional airports such as TAG Farnborough have the infrastructure capacity to accommodate many more flights with little or no further investment. In doing so they would help relieve some, but by no means all, of the pressure on large commercial airports such as Heathrow, Gatwick and Stansted.

5.4 We fully acknowledge that growth cannot be unconstrained and that the environmental consequences of airport growth on neighbouring communities must be taken into consideration and balanced against the economic needs of the country.

5.5 We strongly support the Government’s current policy of requiring all airports to make the best use of existing infrastructure.

February 2009

Memorandum from the British Helicopter Association (FOA 03)

1. INTRODUCTION

1.1 This memorandum contains the written evidence from the British Helicopter Association in response to the Transport Committee’s inquiry into the future of aviation.

1.2 This response will focus solely on certain aspects of the future of aviation that are implied in questions 1, 2 and 3 in the Terms of Reference. They are:

1.2.1 A discussion of the need for additional helicopter access to London (QN 1).

1.2.2 The adequacy of the present aviation infrastructure for UK business (QN 2).

1.2.3 The impact of taxation on the aviation sector (QN 5).

1.3 The British Helicopter Association (BHA), (formerly the British Helicopter Advisory Board), was formed in 1969 to be the single authoritative voice for the whole helicopter industry. The BHA is a trade association and has some 250 members. These include oil companies, air ambulance and other emergency service operators, airport operators, manufacturers, the operators of large fleets of medium helicopters and private helicopter owners. We are a non-profit organisation that enjoys the support of almost 95% of the UK helicopter owners and operators. The majority of our members fall within the accepted definition of a small or medium size enterprise (SME) and as such should enjoy the protection of EU policy that seeks to simplify their business environment and encourage their continued prosperity.

2. THE NEED FOR ADDITIONAL HELICOPTER ACCESS TO LONDON

2.1 The London Heliport is the only CAA approved and licensed heliport in the Capital. Originally built to serve local business and commerce, The London Heliport has been in operation since 1959 and provides essential services to the business community and emergency services, such as the Air Ambulance and Police Air Support units. It is located on the south bank of the river Thames between Battersea and Wandsworth bridges and provides quick access to central London thus avoiding the congested road network in and around the Capital. The operator has taken a very responsible approach to environmental concerns by
instigating noise reduction procedures that must be complied with by all users. The noise concerns of local residents are addressed through the medium of the Wandsworth Council Consultative Committee where complaints are investigated and addressed by the operator.

2.2 The movements to and from the Heliport are limited to 12,000 per annum by planning consent. This cap represents 6,000 landings and 6,000 take-offs. The demand for these movement slots far exceeds the cap so the operator has instigated strict policies that regulate the demand throughout the year. Other unlicensed sites around London take up surplus demand but these do not necessarily meet the strict safety requirements of a licensed heliport. There has been a compelling need for an additional licensed heliport in East London for many years to serve the City and Canary Wharf financial districts as well as the emergency services, and this requirement will only become more acute during the preparations for the London Olympic Games in 2012.

2.3 To facilitate the development of an additional heliport, it will be necessary to first develop a clear planning policy that recognises the business aviation needs and integrates these with regional objectives. The policy should simplify and ease the planning application procedure and recognise that lengthy application processes and public inquiries will inhibit any private finance initiative leading to investment in a new heliport.

3. The Adequacy of the Present Aviation Structure for UK Business

3.1 London is well served by national and international airports yet, as a world financial and business centre, the final stage of a business journey to the Capital by surface transport is marred by congestion and uncertainty. Many choose to resolve this issue by chartering a helicopter from the international or regional airport to the City in order to assure their timely arrival and as a means to improve executive productivity. Equally, business helicopter travel is of fundamental importance to the regions since helicopters are able to operate from or near business premises direct to their destination, so avoiding the congestion and lost time commonly experienced on the roads and at regional airports. However, in UK there is much room for improvement and this can only be achieved by the implementation of an integrated transport plan. Such a plan will facilitate the location of regional heliports in close proximity to surface transport hubs in population centres across the country.

3.2 International business and corporate travel customers are attracted to the simplicity, privacy and security offered by small aircraft charter in preference to airline travel. These aircraft operate under the umbrella of Business Aviation; they are modern and safe, and therefore very efficient, and operate from small regional airfields and heliports that are inaccessible to airline traffic.

3.3 The European Parliament, in its Procedure File entitled “Agenda for a Sustainable Future in General and Business Aviation” stresses that helicopters can be an important short-haul connecting tool between airports and urges the Commission and Member States to include them in capacity enhancing strategies.

3.4 The Civil Aviation Authority (CAA) performs an important role in the UK’s aviation structure as the regulator. The CAA is wholly financed by applicable fees and charges on those that it regulates. This arrangement is unique in Europe and, if allowed to continue, will place an increasing cost burden upon the SMEs that cannot be passed on to the customer without affecting UK competitiveness in Europe. A simple yet radical alternative to industry funding has been dismissed in the past but must now be considered as a means of reducing industry costs; it has been calculated that a small passenger levy of some £0.50 per journey would in total cover the entire operating costs of the CAA’s Safety Regulation Group. Amongst the existing taxes and surcharges paid by the airline traveller, a regulatory levy would be almost unnoticeable to the ultimate beneficiary of safety regulation—the passenger.

4. The Impact of Taxation on the Aviation Sector

4.1 Almost all UK helicopter operators fall within the accepted definition of an SME. It is a central tenet of EU policy that the SME’s business environment should be made easier so reducing their administrative costs and facilitating their competitiveness. This policy of “think small first” is incompatible with the recent revenue-raising expeditions by HM Revenue and Customs, and Ofcom. In the first case, proposals to replace Air Passenger Duty with a new tax to be known as Aviation Duty were judged to be impractical when applied to non-airline operations for whom a fuel tax was proposed. In the second, Ofcom proposed to charge for the use of the aviation frequency spectrum and this plan too would have resulted in an indirect taxation whilst ignoring the relevant safety issues involved. Through the European Charter for Small Enterprises, Member States including the UK have committed to develop an SME friendly business environment and by specifically targeting new taxes at SMEs, these proposals went directly against such a UK commitment to the EU.

4.2 The non-airline part of the industry that is collectively known as General Aviation (GA) and which includes business, corporate, commercial, aerial work and private helicopter operations is in most cases finely balanced between profit and loss. Irrespective of the current financial situation, our members face an unprecedented escalation in the cost of their regulation by the Civil Aviation Authority and moves to introduce further taxation in any form during a period of recession can only lead to company failure. In almost all cases, these additional costs cannot be passed on to the user and we are now seeing the results of
these policies in the form of business closures. Whilst General Aviation is a closely regulated industry, it relies to some extent on the integrity of the aircraft operators who, given an excessive tax burden, might seek to operate without an Air Operators Certificate or on a foreign and therefore less costly register. However, operations on a foreign register are not subject to the close scrutiny of the Civil Aviation Authority and are in consequence open to abuse and are possibly less safe.

4.3 The perception that the aviation industry is cash rich is unfounded and the selection of General and Business Aviation operations as taxation targets risks the elimination of these sectors, to be replaced by European based concerns that are able to function profitably under less fiscally demanding regimes. The UK cannot afford to lose this vital contribution to business and the economy.

5. Summary

5.1 The Government should encourage and support any private finance initiative to develop an additional licensed heliport in East London to meet the post-recessionary business demand, to ensure safe, regulated operations and to support the London Olympic Games in 2012.

5.2 The Government should now formulate an integrated transport policy that recognises the important role of aviation in business both in the capital and the regions.

5.3 The Government should now conduct an immediate review of CAA funding policy to relieve the financial load on Business and General Aviation SMEs by transferring the cost of aviation regulation to the passenger.

5.4 The Government should preserve the UK’s enviable safety record in General and Business Aviation by ensuring that these SMEs are allowed to continue to operate in a controlled and profitable regime that is not subject to punitive taxation.

February 2009

Memorandum from Stop Bristol Airport Expansion (FOA 04)

SUMMARY

The economic benefits of aviation and its expansion are overstated, and it is an inefficient way to generate jobs.

Consequences of aviation actually damage the economy.

Expansion of aviation is in direct conflict with achieving cuts in greenhouse gas emissions.

SUBMISSION

1. SBAE was started in 2005 and is an alliance of local Friends of the Earth groups, CPRE and the Parish Councils’ Airport Association. It was founded to fight the expansion plans for Bristol International Airport. It represents the interests of several thousand supporters as well as those who are affected by traffic and noise near the airport.

What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

2. The International Passenger Survey (IPS) (reported in “Travel Trends”) conducted by the Office for National Statistics shows that the tourism deficit (the difference between UK tourists spending abroad and foreign visitors spending in the UK, excluding fares) was £19bn in 2007. Around 86% of this spend and deficit is due to air travel. As many of the carriers are also foreign based and the UK is no longer self-sufficient in oil, fares and use of aviation fuel would also add to the balance of payments deficit. Nationally the ratio of outbound to inbound spending is around 2.2:1

3. For regional airports the tourism deficit is even higher. In the case of Bristol, the CAA Passenger Survey for 2003 (the latest currently available) shows that 58.2% of passengers were UK citizens on outbound international leisure trips, and only 5.5% were foreign citizens on inbound international leisure trips, a ratio of more than 10:1. As the average spend per visit is roughly the same irrespective of direction this causes a massive tourism deficit.
4. In the 2007 IPS, the average inbound spend per leisure visit from EU countries was £359, the outbound spend to the same countries was £427 per visit. This means that in 2008 when 6.2 million passengers used the airport (assuming the passenger ratios and spends were the same, but for more passengers), the inbound leisure would have been £61m and the outbound spend £700m. Thus just this one regional airport caused a tourism deficit in 2008 of over £700m.

5. This is repeated at all regional airports with international flights.

6. Much of this outbound spending is a diversion of money that would otherwise have been spent locally. The growth in short City Breaks (encouraged by the presence of local airports with low fares) has meant that money that would otherwise have been spent on leisure near to home is being spent abroad. This means that although some jobs are visibly created in airlines and airport shops, many more are lost in a diffuse way throughout the regional leisure and retail sector. The tourism deficit due to Bristol alone is likely to have removed 14000 jobs from the UK economy (at £50000 per job), and possibly many more as those sectors most damaged are often lowly paid.

Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

7. There is more than enough infrastructure to support current and future passengers. All regional airports have runways capable of taking a much larger number of passengers. Heathrow complains of being full but in fact carries a large number of flights that could be replaced by high-speed rail either to the rest of the UK or to Europe, and a large amount of duplication is seen in the destinations served by the various London airports.

8. Investment should be in alternatives to flying, such as high speed rail and also video-conferencing/"telepresence" technologies. The costs to British business of flying are not just in airfares, but also in hotel and subsistence costs abroad and more importantly in wasted time travelling. If a network of state of the art telepresence centres were set up across the UK, then not only would this eliminate a large fraction of UK domestic business travel (by all modes) but also enable a significant reduction in the need for international business travel. This is particularly true for intra-company visits. This would also help to conquer peripherality issues in the South West far more effectively than an expansion of the region’s airports.

To what extent can rail provide an alternative to short-haul flights?

9. Most if not all domestic flights (with the exception of those to Northern Ireland) could be replaced by high-speed rail. A large fraction of trips to the near-continent could also be replaced if high-speed rail reached west of London. If the main GWR line was electrified, along with other lines to Birmingham and Manchester, then this would enable a far better use of the Eurostar lines and also eliminate much of the domestic flights. Improvements to the rail line in the South West peninsula would greatly benefit all concerned, reducing both air and road traffic and helping to feed more tourism revenue (both domestic and from overseas) to the area.

What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

10. Air travel predominantly serves the better-off, indeed the fraction of passengers on lower incomes has fallen during the decade of growth in the no-frills sector. Any incentives or tax breaks the sector enjoys are therefore regressive.

11. Surface access improvements, despite being the responsibility of the airport operator according to the Air Transport White Paper, are often pushed back onto the public sector. This bleeds money from budgets that would otherwise help to solve local transport issues that impact the efficiency of the operation of local towns and cities.

12. Congestion and traffic impact upon those near or on the route to the airport. In the case of Bristol, the airport is in a rural location only accessible along the A38. Many of the routes that feed into this are through narrow village streets, which leads to noise, damage and danger for those who live there.

13. Aircraft noise due to take-off, landing and overflight affect a large number of people. In the Summer months, when people tend to sleep with windows open, the number of flights in the hours of darkness is particularly troubling. This is also the time of year when charter flights most often land after 11pm or depart before 6am. Noise quotas are insufficient to control or even model this. Noise disturbed sleep has many health and economic impacts, from stress hormones leading to increased risk of heart attack, to tiredness leading to ineffective working and even traffic accidents. Noise during the day impacts the ability for children to learn due to disturbances to concentration and inability to hear the large amount of information passed to them verbally by the teacher.

14. Climate changing emissions due to airports are significant. According to the National Atmospheric Emissions Inventory, in 2006 aviation emitted 6.3% of the UK’s total carbon dioxide. Due to the other gases emitted by aviation and the altitude at which they occur, the impact is closer to 13% of the UK total.
15. Aviation is far worse per passenger mile than the use of trains, and is comparable to driving the same distance with only one person per car. When the high altitude effects are taken into account, flying is as damaging as driving the same distance alone in a large 4x4 car.

16. In the case of Bristol airport, the emissions in 2005 were 437000 tonnes of CO₂. For comparison all the road transport in the City of Bristol emitted 468000 tonnes (according to DEFRA). While the City and Government are committed to cutting all emissions by 80%, the airport is planning to increase emissions to 720000 tonnes by 2015, largely cancelling out any cuts made to local surface transport. When high altitude effects are taken into account, it is likely that the airport will cause more damage than the whole of the City by 2030.

17. We are committed to cutting total emissions to 80% below 1990 levels by 2050, including aviation emissions. We are also committed to ensuring aviation emissions are lower in 2050 than in 2005. The current rate of technical improvement for aircraft fuel efficiency is around 1% per year, so this might imply that by 2050 aircraft would be 34% more efficient than in 2009. However this masks the fact that this average improvement figure is derived from the introduction of commercial jet airliners to the present day, where most of the improvement was early on. In fact per passenger kilometre, modern jets are only just reaching the efficiencies of the last of the propeller airliners. Much of the progress in recent years has been with the introduction of the A380, and this is mostly because of its size as well as its new materials. It is not clear how such innovations can be repeated in the next few years. And the A380 is not suitable for use in many airports, including most of the regional ones.

18. Engine development has reached the point where only very slight improvements can be made without requiring radically new materials (to take higher combustion temperatures). It has been stated that future engines can be quieter or have lower emissions (of NOₓ and CO₂), but not both.

19. The only sensible path is to limit emissions at 2005 levels from now on, rather than to hope for some future miracle technology to radically reduce emissions after we have increased them by increasing flights.

20. If we do not do this, not only will we most likely impose the costs of climate change on millions of people, but our own commitments will force deeper emissions cuts on the rest of UK industry, and this itself will damage the economy.

What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

21. Aviation is under taxed. As it is largely serving a luxury function to the better-off, it should be taxed to reflect this. Instead it pays no duty or VAT on fuel, and no VAT is present on tickets. Furthermore it enjoys benefits through duty-free sales, and other tax breaks.

22. As the choice is made by UK citizens where to spend their leisure money, and this often comes to a choice between reaching a UK destination by car or a foreign one by plane, the taxation element of the cost should at least be balanced out. This implies increasing the cost of aviation fuel per passenger kilometre to similar levels experienced by car drivers. As the outbound tourism further damages the UK economy, it might also be wise to introduce some extra element of taxation to redress this. However the current taxation system entirely favours outbound tourism rather than domestic tourism.

23. To ensure against airline failures, airlines should join the same bond scheme as travel operators, and pass on the bond cost to their passengers.

What is the impact on the aviation sector of changes in the security environment?

24. No comment.

February 2009

Memorandum from The Royal Society for the Protection of Birds (FOA 05)

SUMMARY

1. This response is focused, according to our expertise, on the costs of aviation on the environment both directly and indirectly. Of particular significance is the climate change context within which the aviation industry operates, including the implications of the Climate Change Act.

2. The RSPB believes that climate change is the greatest threat we face and that wildlife is likely to be one of the earliest victims. Science suggests that one third of land based species could be committed to extinction by 2050 unless action is taken to tackle climate change.

3. The scientific consensus is that, to prevent the worst effects of climate change, we need to prevent global temperatures rising by more than 2 degrees centigrade. Global greenhouse gas emissions need to halve by 2050 with developed countries taking their fair share and reducing their emissions by 8095% in this period.
4. To meet these targets, research we have undertaken with others (The 80% Challenge by IPPR, WWF and RSPB) suggests that much more effort needs to be invested in reducing the amount of energy we use, in stabilising aviation emissions and decarbonising the electricity sector.

5. This is why we believe that the UK Government should have a moratorium on growth in airport capacity. The RSPB will oppose the expansion of air travel until Government can demonstrate how this can be achieved whilst still meeting UK targets for emissions reductions across the whole economy.

WHAT COSTS DOES AVIATION IMPOSE ON SOCIETY AND THE ENVIRONMENT

6. Aviation imposes significant costs on our society and the environment in which we live. These costs are imposed directly through noise, local air pollution and direct impacts on wildlife. However, the most significant impact arises from the greenhouse gas emissions from aviation and the contribution the industry makes to enhancing anthropogenic climate change.

DIRECT IMPACTS OF AIRPORTS ON BIRDS AND WIDER BIODIVERSITY

7. Airports can be located in very sensitive areas for biodiversity. Construction can cause the direct loss of sensitive wildlife areas as would have occurred, for example, had the Cliffe Marshes option for a fifth London airport been adopted. Airports can also have significant impacts on the habitats around them from pollutants such as nitrogen deposition causing the loss of sensitive low-nutrient demanding species such as lichens and bryophytes. An example of one such site at risk is Hatfield Forest Site of Special Scientific Interest (SSSI) located to the immediate south of Stansted Airport.

8. Siting airports in areas with high concentrations of birds poses significant risks. Birds can cause serious damage to aircraft if they collide and in some cases, human lives have been lost in crashes caused by bird strikes. As such, any suggestion to build an airport in the Thames Estuary, for instance, would be highly unwise as the Thames Estuary is a hub for hundreds of thousands of migrant birds.

9. The risk of bird strike can often be controlled, at least in part, through habitat management to make airports and their immediate environs less attractive to birds. However, this activity will result in even more damage to wildlife sites where an airport is located in a wildlife rich area. In the context of the Thames Estuary, this would cause immense damage to the area’s internationally important wildlife and the wider environment. This proposal, alongside one for an airport on Cliffe Marshes in north Kent, was exhaustively investigated in the Government’s Aviation White Paper and conclusively ruled out. In addition to the unprecedented environmental damage and the resulting legal implications, the investigation found that an estuary airport did not make sense economically, would not meet the requirements of the aviation industry and presented a significantly higher risk of bird strike than at any other major airport in the UK.

10. This issue is also highly relevant for smaller local or regional airports. A report commissioned by the RSPB found that if the small airport of Lydd in south-east Kent is significantly expanded, this could create a serious bird strike risk to passenger aircraft as the airport is located adjacent to the RSPB’s 1,000-acre Dungeness, one of the UK’s most important sites for wild birds and other wildlife. The assessment describes the site where airport operators want to extend the runway and rebuild the terminal as “extremely hazardous”. The reserve and surrounding area hosts up to 120,000 birds in winter and the site itself attracts more than 60 breeding species in summer. The report anticipates considerable disturbance to birds flying to and from feeding and roosting sites and harm to rare plants and insects from higher emissions of pollutants.

INDIRECT EFFECTS – CLIMATE CHANGE IMPACTS ON BIRDS AND BIODIVERSITY

11. Climate change is the greatest single threat to global biodiversity, and its impacts on wildlife in the UK and abroad are already being felt. During the course of this century, if greenhouse gas emissions continue at or above current levels, diverse and unique ecosystems including oceans, forests, montane regions and polar regions face irreversible change or collapse. Up to one third of land-based species could already be “committed to extinction” by 2050, without urgent action to cut emissions and research shows that approximately 10% of species assessed so far are at an increasingly high risk of extinction for every 1°C rise in global mean temperature.

12. Yet at the same time, greenhouse gas emissions from aviation are rising rapidly— doubling between 1990 and 2000. Indeed, in its Aviation White Paper, the Department for Transport predicted that by 2030 passenger numbers will treble compared with 2003 levels, while the Committee on Climate Change estimate that with unconstrained growth, aviation will account for over one third of emissions from the UK economy by 2050. These increases must be considered in a context in which emissions need to be reduced dramatically in order to minimize the risk of catastrophic climate change.

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13. If greenhouse gas emissions continue at or above current levels, the ability of many ecosystems to adapt naturally is likely to be severely affected. By projecting species distributions from a range of climate scenarios, it is possible to assess the risk of a species going extinct and thereby understand the implications of failing to cut emissions. One study assessed extinction risks for sample regions covering about 20% of the Earth’s terrestrial surface. It concluded that, on the basis of mid-range climate-warming scenarios for 2050, 153% of species in the regions and taxonomic groups for which data were available were “committed to extinction” unless immediate action was taken to tackle climate change.

14. A more recent paper has examined the extinction risk of land birds, based on an assessment of their elevational range, habitat loss scenarios and a projected 2.8°C surface warming. This analysis projected 400550 land bird extinctions and that approximately 2150 additional species would be at risk of extinction by 2100. Worldwide, every degree of warming projected an increase in extinctions of about 100–500 land bird species.

15. More generally, research shows that approximately 10% of species assessed so far are at an increasingly high risk of extinction for every 1°C rise in global mean temperature, within the range of future scenarios modeled in impacts assessments (typically < 5°C global temperature rise). Given the observed temperature rise, this already places approximately 68% of the species studied at an increasingly high risk of extinction. The additional temperature increases to which we are already committed (at least 0.5°C) also places an additional 57% of species at increasingly high risk of extinction (based on single species studies and not including losses of entire ecosystems).

16. Climate change has already begun to affect the natural world, influencing species distributions and abundances, for example, we are already seeing the significant effect climate change is having on the availability of food for a significant number of bird species, which is influencing their survival rates.

17. Changes in sea temperature are thought to be having dramatic impacts on populations of UK seabirds such as kittiwakes and arctic terns. Warm water plankton replacing cold water plankton in the North Sea provide less nutrition for fish, and the seabirds that feed on them. Sandeels (a critically important food source for seabirds) have begun to disappear from parts of the North Sea, apparently in response to warming waters. The results have been catastrophic: we have seen entire colonies of seabirds not returning to their breeding grounds and those that have struggling to reproduce. For example not a single chick was raised by the entire population of more than 1000 pairs of Arctic skuas in Shetland in 2004 and the situation is not improving.15

18. Other bird species are becoming out of synch with their prey. Some populations of the pied flycatcher are declining because birds are now breeding after the time of peak caterpillar abundance, which is now earlier so there is insufficient food available for them to feed their chicks. The growth and survival of golden plover chicks also depends on the abundance of cranefly prey. Firstly, there is an increasing mismatch between the hatching of plover chicks and the peak supply of craneflies. Secondly, ongoing research suggests a severe consequence of climate change may occur through summer warming. When August temperatures are high, cranefly larvae can desiccate as peatland dries out. In the next year, fewer craneflies emerge, resulting in low golden plover chick survival. Subsequently, declines in the population occur in the following year.16

19. These effects are already occurring but additionally significant changes are predicted in the distribution of all European breeding bird species by the end of the 21st century. The areas of Europe in which species are found will shift nearly 550 km northeast. For some species, the areas they will live in the future do not overlap with the current range at all. Projected changes for some species found only in Europe, or with only small populations elsewhere, suggest that climate change will significantly increase their risk of extinction.17

THE IMPLICATIONS OF CLIMATE CHANGE POLICY FOR THE AVIATION INDUSTRY AND INFRASTRUCTURE

20. The 80% emissions reduction target set out in the Climate Change Act reflects the urgency and scale of the task to reduce greenhouse gas emissions. The Climate Change Committee has issued advice to Government, stating that aviation emissions should be taken into account in the UK’s strategy for meeting its long-term climate change goal (an 80% reduction in emissions by 2050). However, it is clear from their and others’ analyses that it will be almost impossible to achieve this goal if aviation emissions are not constrained.

21. Particular issues arise from current Government plans to substantially increase airport capacity. These include not only national airports but also substantial increases in regional airport capacity, some of which are additional to those planned under the Aviation White Paper. The cumulative effects of these will be

significant. Of greatest significance, however, are the implications of the recent permission granted to build a third runway at Heathrow. Based on Government figures, this airport alone could account for 12.8% of the total UK budget in 2050 at best; 22.6% at worst. 

22. It is clear that a growing aviation sector will place an ever-increasing burden on other parts of the economy, as their share of the carbon budget shrinks to accommodate rising numbers of flights.

23. We recognise the Government’s pledge to restore emissions to 2005 levels by 2050, but sadly do not believe that they are in a position to deliver on this. The Climate Change Committee state quite clearly in their advice on this issue that demand management, rather than a reliance on future technological development, is the only credible means of ensuring that aviation emissions do not rise to unsustainable levels for the climate.18

24. For these reasons, RSPB advocates a moratorium on air travel expansion until it can be demonstrated that this can be rationally accommodated within the UK’s carbon budget. Without this, the scale of the cuts required in the rest of the UK economy to offset a continuing rise in aviation emissions would be potentially crippling.

25. The RSPB will continue to object to all major airport expansion plans until:
   — It can be demonstrated that aviation is compatible with the action needed to avoid dangerous climate change, and in particular with the targets and budgets set in the UK Climate Change Act.
   — The Government actively manages demand for flights by removing the subsidies that the industry currently enjoys, including tax-free fuel and VAT exemption.

February 2009

Memorandum from Eurostar (FOA 06)

Eurostar welcomes the opportunity to respond to the Transport Select Committee’s inquiry on the future of aviation.

In formulating our response, we have selected only those questions to which we are able to offer considered and evidence-based answers. We have therefore only responded to question 3.

INTRODUCTION


Eurostar also offers through fares to the Continent with First Great Western, National Express East Anglia, First Capital Connect, Virgin Trains, National Express East Coast, East Midlands Trains, London Midland, Chiltern Railways and Hull Trains.

EUROSTAR RESPONSE

To what extent can rail provide an alternative to short-haul flights?

1.1 The popularity of domestic rail services has increased significantly in recent years:
   — Passenger numbers have increased by 50% in the last ten years, with this trend set to continue
   — Rail possesses a 52% market share between London and the North East. It has a 40% share of the market between London and the North West.

1.2 Across both Europe and around the world, there is strong evidence indicating the ability of high-speed rail to promote modal shift:
   — Since 1994, Eurostar 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%. High-speed rail on these routes also offers a punctuality of more than 90%, compared with less than 70% for the airlines.
   — There are no flights at all now between Paris and Brussels, as a result of the half-hourly Thalys high speed service between these two capitals.
   — The rail market share between Madrid and Seville rose from 19% in 1991 to 53% after the introduction of high speed rail in 1997.

18 Committee on Climate Change (2008) Building a low-carbon economy – the UK’s contribution to tackling climate change page 318
— Between Paris and Marseille the rail market share rose from just 22% in 1999 before the introduction of the TGV to 65% in 2005.

— Research commissioned by Eurostar in 2006 that looked at high-speed rail services around the world indicated that an 80% share is typical for journeys of roundly two hours, and that high-speed rail attracts more than 50% market share for journeys of up to 3.5 hours.

1.3 Drawing on this evidence, Eurostar firmly believes that the introduction of a new high-speed line between North and South in the UK would increase the rail market share, providing far more attractive journey times and punctuality figures. It would also enable a greater use of high-speed rail between the regions north of London and continental Europe.

2.1 In addition to the convenience of rail, Eurostar believes the significant environmental benefits of high-speed rail travel will serve as an increasingly important incentive for passengers to switch their choice of transport:

— Independent research, commissioned by Eurostar and conducted by Paul Watkiss Associates and AEA Technology Environment in 2006, determined that a journey by Eurostar between London and Paris or Brussels generates just one-tenth of the CO2 of the same journey by air. This research is currently being updated, and we understand will present an even more compelling case for the environmental benefits of high-speed rail.

— Future generations of high-speed trains will also be significantly more efficient than the current fleet of Eurostar trains. As lower-carbon sources of energy come on stream in the UK, electrically powered trains are ‘future proofed’ to take advantage of these greener energy supplies. Moreover, new train designs are likely to be more environmentally sustainable: the Alstom AGV, for example, is at least seven times more energy efficient per traveller kilometre.

3.1 Eurostar welcomes the establishment of the National Networks Strategy Group and HS2, which have both been set up to consider the feasibility of an extended high speed rail network in the UK.

3.2 We hope that these two organisations will recommend the development of further high-speed rail travel in the UK. We believe that an extended, coherent network of high-speed rail lines will facilitate faster transport links and connectivity between UK cities, as well as reducing journey times between the regions of the UK and Continental Europe. Extending a high-speed line to Heathrow, as currently set out in the Government’s plans for the expansion of the airport, will facilitate inter-modal travel in the UK, and thereby encourage greater use of the rail network.

3.3 We believe that public use of high-speed rail will be further encouraged by the economic benefits it could bring to the UK:

— High-speed rail would boost regional business activity in the regions and spread the economic halo effect around the south-east to areas in the Midlands and the North. Evidence of this effect can clearly be seen in Lille, where the introduction of high-speed rail in the 1990s helped to transform the city into France’s third most powerful financial, commercial and industrial centre.

— A recent study by Steer Davies Gleave concluded that the wider economic benefits of a high-speed rail line from London to Birmingham could have a GDP impact of around £5.2 billion across a 60 year period. Time and cost savings could amount to as much as £4 billion.

February 2009

Memorandum from Department for Transport (FOA 07)

1. EXECUTIVE SUMMARY

— The big transport challenge is to support a healthy national economy—on which our jobs, quality of life and public services depend—and also tackle climate change—which is the biggest single threat our planet faces. The Government believes we can do both.

— The aviation industry contributes £11 billion each year to the economy and supports over half a million jobs. Aviation demand is primarily determined by GDP. We forecast that UK passenger numbers will increase from 241 million passengers per annum (mppa) in 2007 to 455mppa by 2030.19

— If capacity and infrastructure cannot satisfy demand, economic growth will be constrained and access to air services limited. UK airports face international competition with passengers finding increased opportunity to connect through non-UK hubs. Effective railways can provide an alternative to some domestic and Northern European destinations; they will not provide a realistic alternative for many flights.

— Aviation plays a crucial role in supporting the strength of our economy but it imposes environmental costs relating to climate change, noise and local air quality. The Government recently announced a new target to get carbon dioxide emissions from UK aviation in 2050 below 2005 levels. We expect the target to drive innovation and the uptake of new technology.

— Air Passenger Duty reforms are expected to provide annual carbon savings equal to 0.6 million tonnes in 2011–12.

— Department for Transport officials have been working with the CAA and the travel industry to help ensure that passengers know the options for protection against airline collapse.

— Security measures in the aviation sector have been strengthened in recent years, adapting to the evolving threat and capitalising on technological advancement.

2. INTRODUCTION

2.1 The Government welcomes the Committee’s inquiry into the future of aviation. The economic, environmental and infrastructure-related issues covered are central concerns for Government aviation policy, so this memorandum necessarily stems from existing work.

2.2 The demand for air travel has increased significantly over recent decades and this trend is expected to continue, with some global regions seeing greater demand growth than others. The worldwide expansion of aviation means more opportunities for trade. China alone will have built 97 new airports by 2020. International connections are vital to the strength and competitiveness of the UK economy.

2.3 The Department’s long-term strategy for aviation is laid out in the 2003 The Future of Air Transport White Paper, which sets out a strategic framework for the development of airport capacity over the next 30 years, against the background of wider developments. In 2006, the Government published a report which set out progress made in implementing the policies of the White Paper, taking account of relevant developments such as Eddington and Stern.

3. AVIATION AND THE ECONOMY

— What is the value of aviation to the UK economy?
— What are the roles of London and regional airports?
— What competition do they face from abroad?
— Are passengers adequately protected from the collapse of airlines?

3.1 In 2007, UK airports handled 241mppa and 2.3m tonnes of freight, representing a quarter of the value of all UK visible trade. Aviation plays a crucial role in the economy as nine out of ten overseas business travellers came to the UK by air in 2007. And overall, the aviation industry directly contributes £11bn each year to the economy and directly employs over 200,000 people.

3.2 Airports have different characteristics. International air travel on scheduled flights is overwhelmingly concentrated around London – and particularly Heathrow where 85% of all long-haul flights and 55% of all air freight arrive. Stansted, meanwhile, has a large proportion of passengers visiting friends and relatives, while East Midlands Airport deals mainly with freight. Many regional airports, such as Liverpool John Lennon, deal primarily with low-cost carriers but some, particularly those in Scotland and Northern Ireland, play a critical role linking local people with London and elsewhere. As the White Paper recognises, airports provide jobs for local people, and produce wider economic benefits for the whole community.

3.3 International competition mainly focuses on the provision of hub services to nearby smaller airports. By attracting large numbers of connecting flights, airports can support long-range routes to otherwise uneconomic locations. This in turn attracts more business, as passengers have more choice over flights. Successful, well-connected airports provide better links to foreign markets, and produce more opportunities for trade and investment.

3.4 Due to capacity constraints, airlines find it difficult to obtain slots to start new routes from Heathrow and are increasingly forced to focus on the highest value routes. Heathrow has lost 47 routes since 1990, and currently serves 180 destinations. By comparison Paris Charles de Gaulle serves 224 and Frankfurt 235. Schiphol now has direct connections to 22 UK airports, while Heathrow only has connections to nine. Due to the decreased cost of short-haul flights, long-haul passengers find it increasingly more convenient to connect through a non-UK hub airport.
3.5 The strength of the economy is the primary determinant of aviation demand. The fuel price increases which peaked in 2008 and subsequent economic downturn have therefore had considerable impact. About 30 airlines failed worldwide in 2008, representing 1% of global airline capacity.

3.6 As the Committee knows, in the UK the ATOL scheme run by the Civil Aviation Authority (CAA) implements the EU Package Travel Directive and UK Package Travel Regulations in respect of package holidays including a flight. These provisions require package tour operators to protect consumers’ money.

3.7 The scheme’s funding changed last year following consultation in 2007. In view of its previous interest in this subject, Ministers kept the Committee informed with progress by letters of 29 March and 21 August 2007.

3.8 In September 2008, around 85,000 passengers abroad required repatriation as a result of the failure of XL Leisure Group. Of these 75,000 had booked their flights within a package holiday so had financial protection under the ATOL scheme.

3.9 The remaining 10,000 did not have ATOL protection. Nonetheless, the CAA provided practical assistance to these passengers by offering flights to the UK at a reasonable cost. A number of airlines also provided special “repatriation” fares to affected passengers. The repatriation of XL customers was a major and difficult undertaking, but it took place smoothly due to the excellent work of the CAA and the travel industry.

3.10 Those people who had Scheduled Airline Failure Insurance (SAFI) in their travel insurance cover will have had some protection against loss of money; and those who purchased their flights by credit card or Visa debit card may have been eligible for a refund of their original return flight, or both flights if they had not yet travelled. Some other passengers will have claimed refunds from the Administrator. Since September 2008 SAFI has become much more widely available, either as a stand-alone product or as part of a broader travel insurance policy.

3.11 The Department for Transport, CAA and the travel industry have been working to improve information provision at the point of booking about the options for financial protection; to increase awareness amongst ATOL protected passengers of their rights; and to improve information flow to passengers abroad about special repatriation fares with other airlines in the event of a future failure.

4. AVIATION INFRASTRUCTURE

— Is the current aviation infrastructure adequate for the needs of UK business and individuals, and how should it be developed?
— What are the implications of future passenger trends and possible mergers in the airline industry?
— To what extent can rail provide an alternative to short-haul flights?

4.1 Our latest forecasts estimate that UK passenger numbers will increase from 241mppa in 2007 to between 410 and 480 mppa by 2030, depending on oil prices and economic conditions.27

4.2 The 2008 ONS omnibus survey found that two thirds of people want to fly more, with the main barrier being cost.28 Rising prosperity and increased efficiency in the air transport sector will give more people the opportunity to fly, and this trend is likely to continue despite any short term economic conditions.

4.3 The economic downturn is proving to be a testing time for many airlines, leading to some consolidation. However, mergers and acquisitions in the airline industry are not expected to reduce passenger demand significantly.

4.4 The 2003 Air Transport White Paper recognised that insufficient airport capacity could constrain economic growth, and limit access to air services. It also recognised that aviation has a considerable impact on the environment. The White Paper concluded that the best response to the expected growth in demand was to promote better use of existing airport capacity and, where this was not sufficient, to support the delivery of targeted additional capacity in a sustainable fashion. By encouraging use of less crowded airports, particularly those outside of the South East, existing airports can be used more efficiently.29

4.5 However, the White Paper concluded that extra capacity would be needed to reduce pressure on airports in the South East. It supported two new runways, at Stansted and Heathrow (the latter subject to strict local environmental limits). On 15 January the Secretary of State confirmed support for a third runway at Heathrow, having concluded that the limits could be met. The Government has stated its intention to produce a National Policy Statement for airports, based on the Air Transport White Paper, which satisfies the requirements set out in the Planning Act. We have yet to take a decision on the timetable for preparing an NPS on airports, but it is expected to be published in draft by 2011.

4.6 Effective railways and roads can help reduce the number of people travelling by air on domestic flights and to some destinations on the continent. Improved rail services mean that two-thirds of passengers from London to Manchester now travel by train, up from one third in 2004.

27 UK Air Passenger Demand and CO2 Forecasts, DT, January 2009.
29 For example, in 2007 Manchester airport dealt with 2.8m more passengers than in 2003, including 700,000 more international business travellers.
4.7 However, when the whole journey perspective is considered there are limits on the degree of substitution. Of the remaining travellers who still fly between London and Manchester, three-quarters are transferring to or from an international flight. It is very difficult to encourage these passengers to transfer from plane to train. Even a high speed rail service would not replace all domestic flights. Our forecasts estimate that domestic flights will increase by 2030, with or without high speed rail.

4.8 It is worth noting that passengers on domestic flights account for less than 10% of all Heathrow passengers.

5. **Aviation and the Environment**

   — *What costs does aviation impose on society and the environment?*
   
   — *What are the implications of climate change policy – in particular the Climate Change Act 2008 – for the aviation industry and infrastructure?*
   
   — *What is the impact of taxation on the aviation sector, nationally and regionally?*

5.1 Aviation is included in the EU’s 2020 target to reduce emissions by 20%30% compared to 1990. The EU Emissions Trading Scheme provides the legally-binding mechanism for aviation’s contribution to this target. The Committee on Climate Change’s budget proposals30 were based explicitly on the EU’s 2020 framework and therefore indirectly include international aviation emissions. Consequently international aviation emissions are already being addressed in a manner consistent with the Climate Change Act.

5.2 When aviation joins the EU ETS in 2012, its net carbon dioxide (CO2) emissions will be covered by a legally-binding cap of 97% of average 2004-06 levels, tightening to 95% of average 2004-06 levels from 2013. Since any emissions above these levels must be matched by equal reductions in other ETS sectors, any expansion of UK aviation would not increase net CO2 emissions. In this way, the ETS locks aviation in to the EU’s climate change strategy and also into the UK’s carbon budgets under the Climate Change Act. It is estimated that aviation’s inclusion in the ETS will reduce CO2 emissions by 194 million tonnes (MtCO2) across the EU in 2020.

5.3 In addition to this European framework, the Government recently announced a new target to bring UK aviation CO2 emissions below 2005 levels in 2050. The target is designed to drive emissions reductions within the aviation sector itself, to ensure that the industry plays its full role. The Committee on Climate Change (CCC) has been asked to advise on the target, considering the scope for emissions reductions, including those from technological improvements, and the best basis for measuring progress. We expect the target to drive innovation and the uptake of new technology within the UK fleet. This may necessitate new, or adapted, infrastructure to accommodate the requirements of any new technology designed to improve fuel efficiency.

5.4 Climate change is a global problem, which will require concerted global action if we are to avoid its most damaging impacts. Similarly, aviation is fundamentally an international industry, in which networks span national borders and operators compete globally, as well as nationally and regionally. Addressing aviation’s impacts on the global climate therefore requires international action, ideally at a global level. The UK is at the forefront of international efforts to include aviation in a global climate change deal. We will build on our new 2050 target in seeking to establish a high level of global ambition. One proposal under consideration would assign a target to the international aviation sector as a whole, not to individual countries, to avoid distorting competition. This approach would have similarities to the EU ETS where the responsibility for emissions is at aircraft operator – not state – level.

5.5 The importance of international action in this sector is reflected in the Climate Change Act. The Act currently includes domestic aviation but not international aviation, because of the absence of an internationally-agreed approach for allocating emissions to individual states and the difficulty of reconciling the UK framework with the operator-level EU ETS. However, the Act does require international aviation to be included by 31 December 2012 (the end of the first carbon budget period) or that the Government report to Parliament explaining why it has not been included. International shipping emissions are treated in the same way, for very similar reasons.

5.6 The Act also places a duty on the CCC, as part of its advice on each budget period, to advise the Government on the consequences of including international aviation in the targets and budgets. It also requires that both the CCC and the Government take projected emissions from international aviation into account when advising on or setting carbon budgets.

5.7 This approach is consistent with the CCC’s advice, which recommended that the scope of the Act should not be extended to include emissions from international aviation. However, like the CCC, the Government believes that the UK’s climate change strategy and the 2050, 80% target should, in principle, apply to the average of all sectors of the economy, including international aviation.

30 http://www.theccc.org.uk/reports/
5.8 UK Air Passenger Duty (APD) was reformed in the 2008 Pre Budget Report from two to four distance bands, to send a stronger environmental signal to passengers and industry, and to ensure that the sector contributes fairly to public services. Passengers flying farther, and therefore contributing more to aviation emissions, will pay more. The new banding system will come into effect from 1 November 2009, and will result in savings of 0.6MtCO2 in 2011–12.

5.9 Current climate change efforts have focused on CO2 but we aim to address aviation’s total climate change effects over time. This requires greater scientific understanding and quantification of aviation’s non-CO2 effects. In particular a suitable metric is required to allow direct comparison with established greenhouse gases such as CO2. The EU Commission is due to publish proposals to address emissions of oxides of nitrogen (NOx), one of the better-understood of aviation’s non-CO2 emissions.

5.10 In addition to climate change costs, aviation imposes external environmental costs in the form of noise and local air quality. The Government has a comprehensive and long-term approach to addressing these impacts, encompassing technology, air traffic management, operations, economic measures and local environmental controls. The Government’s environmental strategy has been set out in the 2003 Future of Air Transport White Paper, the 2006 Future of Air Transport Progress Report, the 2007 Towards a Sustainable Transport System and 2008 Delivering a Sustainable Transport System. Most recently, a range of environmental measures was announced alongside the Government’s statement on the Heathrow expansion.

6. AVIATION SECURITY AND SAFETY

— What is the impact on the aviation sector of changes in the security environment?

6.1 The UK aviation security regime aims to ensure proportionate, pragmatic and sustainable security whilst avoiding undue burdens on industry and disincentives to travel. A “layered approach” acknowledges that no single security measure is fool-proof or capable of mitigating all threats. The aim, therefore, is to reduce risks rather than seek to eliminate them entirely.

6.2 Government policy has aimed to make users of transport systems bear the cost of transport security, rather than the general taxpayer. The costs of aviation security measures therefore fall to transport operators – ultimately being passed through to passengers.

6.3 The protective security regime for UK aviation is informed by the threat and based on risk assessment. The Joint Terrorism Analysis Centre provides detailed analysis of the likelihood and nature of the threat to UK aviation. The Department for Transport’s Transport Security and Contingencies Directorate (TRANSEC) works with industry to assess the vulnerability of their operations to threats to determine the risks and potential consequences of an attack. Appropriate security measures are then designed to mitigate the risk. We seek to make the measures commensurate with the risk, effective, holistic, practicable and sustainable.

6.4 As the threat continues to evolve, so must countermeasures continue to adapt, capitalising on technological advances to become more effective and less intrusive wherever possible.

6.5 Existing security regimes have been strengthened since 9–11, the alleged August 2006 plot and the Glasgow Airport attack on 30 June 2007. In-flight security and ground-based measures have responded to changing terrorist techniques and developments in protective security. Inevitably any changes will impact on the aviation sector and its users.

6.6 The Government requires commitment from the aviation sector to maintain investment in protective security measures despite current economic challenges. This will require the relevant specialists to concentrate on designing out vulnerabilities in structures, processes and procedures.

6.7 Finally, although not addressed in the Committee’s questions, we wish to stress that safety of passengers and crew is central to our vision for the future of aviation. Over the past decade, the UK has achieved an excellent safety record. The Department continues to work closely with the CAA to ensure that these standards are maintained. The UK continues to support the development of the European Aviation Safety Agency as it takes on additional responsibilities and will work within the EU to ensure that it has sufficient resources to deliver a harmonised regulatory framework to support our industry.

February 2009

Further memorandum from Department for Transport (FOA 07A)

The figure of £10 billion of potential revenues arising from fuel duty and VAT on airline tickets is for illustrative purposes only and is not indicative of government policy. It was reached by using ONS data on household final consumption and DECC statistics on energy to which VAT rates and the current main fuel duty rate were then applied.
This is an initial first order estimate which does not take account of behavioural effects. The Government has not looked at these effects in detail; they are inherently uncertain and very complex to model. The rounded reference “of around £10 billion” takes this uncertainty into account.

Supplementary memorandum from the Department for Transport (FOA 07b)

I write regarding my recent appearance before the Committee for the inquiry into the Future of Aviation.

I would like to correct my reply to question 527 concerning an errata to the air passenger forecasts published before I became Secretary of State.

Mr Hollobone correctly identified that on 17 March 2009 the Department for Transport issued a short errata to UK Air Passenger Demand and CO2 Forecasts, which was originally published on 15 January 2009. The errata concerned the incorrect input of the 2009 UK GDP forecast for the “PBR Nov 2008 GDP Forecast” sensitivity test in the original document. The errata reported the corrected results of this sensitivity test, and can be found here:

http://www.dft.gov.uk/pgr/aviation/atf/co2forecasts09/errata.pdf

I regret this small error. However my view on future infrastructure requirements, as conveyed to the Committee, remains unchanged; demand for air travel will far outgrow current capacity over the next twenty years and we need to make proper provision for incremental increases in capacity, particularly in the South East.

July 2009

Supplementary memorandum from the Department for Transport (FOA 07c)

Thank you for your letter of 24 July requesting further information relevant to the Committee’s inquiry into the Future of Aviation. The Rt Hon Lord Adonis is very happy to assist the Committee further with their inquiry. The 15 points raised in your letter are addressed below.

Q1. Lord Adonis said that the environmental costs of aviation are broadly in line with the Air Passenger Duty (APD). Could you please provide the relevant figures?

It is important to emphasise that APD was not designed to be an exact match for environmental costs, but as a revenue-raising instrument. It is nevertheless right, where possible and appropriate, for the structure of revenue-raising taxes to reflect environmental benefits, as in the case of the reformed APD. APD revenue forecasts are outlined in each Budget. The Aviation Emissions Cost Assessment 2008 gives data and offers an analysis of the climate change costs of the aviation sector depending on a range of scenarios, but it is important to bear in mind the considerable uncertainties associated with this data.

As you will be aware, the responsibility for taxation ultimately sits with the Chancellor, and the Treasury keeps all taxes under review.

Q2. Please provide background information regarding the justification of Air Passenger Duty as promised.

APD was introduced in 1994 by the Government as a tax payable by passengers departing from UK airports, and is currently charged on the basis of two bands; one covering countries in Europe and the other elsewhere in the world. As highlighted above, APD was designed primarily as a revenue raising tool. APD plays a valuable role in ensuring air travel makes a fair contribution towards the Government’s spending priorities, including public transport and the environment; and the structure of aviation tax is also designed in order to send environmental signals to passengers and the industry alike.

Q3. Lord Adonis told the Committee that he had asked the Committee on Climate Change (CCC) if it could produce its report into aviation earlier than previously agreed date of December 2009. What is now the anticipated date for report and when is it likely to be made public?

We have requested the CCC expedite a specific element of their work; their advice on a global framework for aviation. We hope that the Committee will be in a position to agree to this request which would allow their advice to be considered at international fora later this year in the run up to the Copenhagen negotiations in December.

We understand that the other elements of their report are on course to be published in December. The CCC’s policy is to publish its work on the CCC website in parallel to sending it through to the commissioning Department unless there are particular sensitivities which may duly delay publication.

Q4. **Does the Department consider that the Oxford Economic Forecasting report (which estimates the contribution of aviation to UK GDP to be over £11 billion per year) might exaggerate the economic importance of aviation? In particular, do the figures take into account the so-called “tourism deficit”—the difference between what Britons spend abroad and what visitors spend in this country? If not, would it not give a more meaningful picture of the economic value if these financial outflows were included?**

The Oxford Economic Forecasting report has now become an extensively-quoted source of reference on the widely acknowledged economic benefits generated by the UK aviation industry. The Department for Transport welcomes the work as part of its broader aim to improve its understanding of the contribution of the aviation industry to the UK economy.

The £11 billion figure is an estimate of the contribution of the aviation industry to UK GDP in 2006. It is an estimate of the value of the output of the industry net of the value of goods and services used during the production process. The estimate does not include the indirect impact of the aviation industry on the contribution of other sectors of the economy, like tourism.

The “tourism deficit” 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. It would not be meaningful to compare estimates of the tourism deficit directly with the £11 billion value added figure.

In any case in considering the indirect impact of the aviation industry on the economy it would be incorrect to focus on one particular sector—tourism—whilst ignoring impacts on other sectors. The aviation industry supports many sectors of the UK economy, including key sectors such as financial services, in competing in increasingly globalised markets.

Q5. **Given the importance of aviation to the UK economy, does the Department see a role for public investment in airports or other parts of the aviation industry? Should more routes be supported through Public Service Obligations?**

The UK’s aviation sector is almost entirely privately owned and managed, and operates in a commercial environment. Investment in new airport infrastructure and facilities is essentially a commercial matter for airport operators, although the 2003 White Paper The Future of Air Transport sets out the circumstances in which limited public funding may be appropriate to support small local airports in public ownership or those situated in development areas.

Similarly, airlines decide what air services they operate, and from which airports, based on commercial market considerations. Under European law, Governments do not have power to tell airlines what routes to fly, and Governments’ powers of influence are limited where the airline or airport may face a financial loss as a consequence.

It is for stakeholders in the devolved areas of the UK or the English regions to bring forward applications to bring forward requests for the Secretary of State for Transport to impose a Public Service Obligation (PSO) on a particular air route. The criteria for PSOs are set out in European Regulations and Department for Transport guidance. The UK Government views the use of PSOs as primarily being designed to protect lifeline routes to peripheral or development regions, such as in the Highlands and Islands of Scotland, rather than commercially viable regional services into congested hubs.

Q6. **If Heathrow is expanded, does the Department expect the number of services between Heathrow and UK regional airports to increase significantly?**

Additional runway capacity at Heathrow will help alleviate the current pressure on air service slots at Heathrow, which is crowding out domestic air services from regional airports in favour of more international ones. With capacity restricted at Heathrow, the number of regional airports served by Heathrow has fallen from 18 to seven over recent years; this is compared to Schiphol, which serves 21 UK regional airports.

The Air Transport White Paper confirmed that without this additional capacity Heathrow’s route network would be expected to shrink over time—most likely to the advantage of other continental hub airports such as Paris Charles De Gaulle and Amsterdam Schiphol. The total number of destinations served by Heathrow has fallen from around 220 in the 1990s to around 180 today.

Ultimately it’s up to airlines to decide what air services they operate, and from which airports, based on commercial market considerations. The Government cannot stipulate that a certain proportion of air services using a third runway at Heathrow must be to regional airports, but additional runway capacity would clearly provide more opportunity to cater for demand for regional air services.
We have established High Speed Two (HS2) Ltd to help develop the case for high speed rail services between London and Scotland. Part of HS2’s work will be forecasting passenger demand for high speed rail services—including the likely number of passengers attracted from domestic air services. HS2 will report to the Government by the end of the year.

Q7. Is there any mechanism by which UK regional air services could be given priority access to Heathrow if expanded?

Under the European Slots Regulation the allocation of slots at congested airports such as Heathrow is undertaken by an independent, neutral co-ordinator (ACL) and not by the Government. There is no provision to set aside slots for certain types of operation, such as regional services. The only alternative mechanism is via EC Regulation 1008/2008, which allows Member States to impose Public Service Obligations (PSOs) to protect air services to airports serving a peripheral or development region, or on thin routes to regional airports. The imposition of a PSO on a route serving a congested airport would permit slots at that airport to be ring-fenced for that service; it is also a prerequisite for the subsidy of that service, should that prove necessary.

The UK Government views the Regulation as primarily being designed to protect lifeline routes to peripheral or development regions, rather than commercially viable regional services into congested hubs. We would however be prepared to intervene in well-defined circumstances in order to guarantee a minimum level of scheduled air services on domestic routes to London through the use of PSOs.

The Department published guidance on the protection of regional air access to London in 2005. It sets out how applications for the imposition of PSOs on routes to London will be assessed. No such applications have since been determined, and there are currently no PSOs in place to protect regional routes to London airports.

We are considering carefully the responses to our recent consultation on proposals to reform the economic regulation of airports that raise issues about regional access to London. But we cannot prejudge any decisions that might be taken in the light of these, and the other responses received.

Q8. Lord Adonis and Mr Moor told the Committee how the Department’s passenger forecasts for 2030 had been reduced and that the sensitivity analysis based on the Pre-Budget Report 2008 gave a figure of 435 mppa, compared with the central forecast of 465 mppa. The Department says in its written evidence to the inquiry that the forecast for 2030 lies between 410 and 480 mppa. At which airports will the reduced passenger demand forecasts have the greatest impact, and by how much? What are the implications of the reduced passenger demand forecasts for airport expansion plans particularly at Stansted and at Heathrow airports?

The range of 410-480 mppa represents the range of ‘constrained’ (taking account of airport capacity constraints) demand forecasts presented by the Department of Transport in UK Air Passenger Demand and CO2 Forecasts published in January 2009.

Analysis of 2030 demand under the Pre-Budget Report 2008 sensitivity test shows that, for the modelled airports (a full list of which can be found in the UK Air Passenger Demand and CO2 Forecasts report), demand falls at all locations except for Coventry airport which remains at full capacity. The greatest fall in demand occurs at Stansted, from 56 mppa in the central case to 46 mppa. Other significant reductions in demand would occur at Manchester (reduction of 3m) and Belfast International (reduction of 2m).

Analysis of the economic case for the ATWP-supported developments at Stansted and Heathrow was published in UK Air Passenger Demand and CO2 Forecasts in January 2009. This analysis, published in Table 4.4, page 96, showed that the economic case for additional capacity at both Stansted and Heathrow airports remained robust to the full range of sensitivity tests, including the Pre-Budget Report 2008 economic growth forecast.

Q9. It has been suggested to the Committee that Heathrow airport could hand up to 92 million passengers a year without the third runway. What is the official capacity projection for Heathrow with and without the new runway?

The current planning restrictions mean that 480,000 Air Transport Movements (ATMs) are allowed at Heathrow airport per year. However, the official annual passenger capacity of Heathrow airport is a matter for the airport operator. The Department uses an estimate of possible capacity for the purposes of forecasting, but these do not represent a legal capacity limit.

The working assumption used by the Department for Transport in its forecasting of air passenger demand for Heathrow airport with two runways is 86 million passengers per year.

With a third runway and a sixth terminal and associated infrastructure, it is estimated that Heathrow airport would be able to accommodate 135 million passengers per year.
Q10. By what date does the Government anticipate that EU air quality standards will be achieved at Heathrow?

The EU Directive requires Member States to meet the limits for nitrogen dioxide (NO2) by 2010, but has flexibility to defer compliance to 2015 where the Commission has consented. The UK plans, along with other Member States, to apply for this flexibility, which is needed for a number of areas across the country, not just Heathrow.

Q11. What was achieved by the ANASE study into noise from aircraft?

The Attitudes to Noise from Aircraft Sources in England (ANASE) study was the first major report on annoyance in twenty years, and was conducted by independent consultants (MVA Consulting). The last major UK study (ANIS, 1985) resulted in the adoption of the Leq (equivalent noise) index as the standard metric for measuring daytime aircraft noise and the assumption of 57 dBA for the onset of significant community annoyance. ANASE was intended to establish whether there had been any change in public attitudes to aircraft noise and any need to review metrics. In addition, it was tasked with attempting innovative work to determine a monetary valuation on aircraft noise.

The study produced two main findings. First, that people are more annoyed by all levels of aircraft noise than they were in the ANIS study. Secondly, there is no identifiable threshold at which noise becomes a serious problem. Even relatively low levels of noise can cause some annoyance, which rises as the noise increases.

However, expert peer reviewers advised that reliance on the detailed outcome of ANASE would be misplaced and counselled against using the detailed results and conclusions in the development of government policy. Accordingly the Government concluded that there was no evidence in ANASE for increasing or reducing the figure of 57 dBA Leq (16 hours) as the onset of significant community annoyance. The Government did announce however, that pending the availability of a better alternative it would apply existing valuation for road and rail noise when assessing the economic impact of noise in the cost benefit analysis of future aviation projects. Such an approach was taken for Adding Capacity at Heathrow Airport consultation.

Following publication of the study in November 2007, the Department has held a number of seminars with key stakeholders to review the study. In particular the Department is working with its Aircraft Noise Monitoring Advisory Committee—whose role is to advise the Department on policy relating to aircraft noise at Heathrow Gatwick and Stansted—on key issues. This work has resulted in the Civil Aviation Authority (CAA) publishing a report on noise metrics. Another work stream is considering the scope for noise modelling at lower levels; the reliability of modelling at such levels was an issue raised by peer reviewers. The Department is also been engaging with the OMEGA Partnership on exploratory work considering public attitudes to noise and metrics.

Q12. An NAO study cast doubt on the policy of reliance on the European Emissions Trading Scheme (ETS) to resolve the problem of increased CO2 emissions from aviation growth. How, and by when, do you expect the ETS to become a credible strategy for tackling climate change?

Emissions Trading is an extremely flexible and cost-effective mechanism. It allows a sector like aviation—in which emissions reductions are difficult and relatively expensive—to access emissions reductions in the sectors where these are cheapest. The EU Emissions Trading System provides an example of how environmental action can go hand in hand with economic development. It will cap emissions from aviation, whilst still allowing the aviation sector to grow and prosper.

Aviation will be included in the EU ETS from 2012. Allowances for aviation emissions will be surrendered for the first time in 2013. Total emissions will be capped at 97% of average 2004–06 levels in 2012 and 95% of 2004–06 levels from 2013. We expect the EU ETS regulations which include penalties for non-compliance with the System to be in force by spring 2010.

In addition, the Government is progressing a number of additional initiatives to reduce aviation’s impact on climate change. In January 2009 the Government announced a new target to reduce total UK aviation CO2 emissions in 2050 to below 2005 levels. Other measures to tackle aircraft CO2 emissions include:

— international work both through ICAO and the UNFCCC towards agreeing a global solution to tackling aviation’s climate change impacts;

— fuel efficiency improvements in aircraft engines and airframes through encouraging and funding research and development by aerospace manufacturers to reduce the climate impact of future aircraft;

— encouraging the use of alternative fuels, provided these can be produced sustainably;

32 The Environmental Research and Consultancy Department of the CAA provides technical support on aircraft noise matters to the Department for Transport.


34 Omega is a publicly funded partnership—led by Manchester Metropolitan University—that offers impartial, innovative and topical insights into the environmental effects of the air transport industry and sustainability solutions.
— improvements in air operations, both in terms of more fuel efficient practices and air traffic management. For example, the EU’s Single European Sky Advanced Research (SESAR) programme aims to achieve a reduction in CO₂ emissions through more direct flight routings; and

— reforming Air Passenger Duty (APD) to be structured around four distance bands, set at intervals of 2,000 miles from London, from 1 November 2009. This will send better environmental signals to passengers and industry. We estimate that 0.6 million tonnes of CO₂ will be saved in 2011–12.

Q13. What is the Government doing to ensure that international aviation is properly included in climate change negotiations at the Copenhagen summit in December?

It is a key priority of Government to ensure that emissions from international aviation, which are currently excluded from global agreements under the UNFCCC, are included in the Copenhagen Agreement later this year. Together with other EU Member States, we are pushing for the UNFCCC to agree and set a global sectoral target for international aviation, and Parties should commit to identifying and implementing means to achieve these targets through the IMO and ICAO. The Government’s June 2009 publication The Road to Copenhagen sets out the case for action and outlines what we consider to be the essential elements of the Copenhagen deal.

The International Civil Aviation Authority Organisation (ICAO) Group on International Aviation and Climate Change (GIACC), of which the UK was a prominent member, reached agreement in May on technical and operational measures to improve carbon efficiency. Foremost among these was a fuel efficiency goal of 2% per annum from 2005 until 2050.

Whilst this is an important first step, we believe that much greater ambition is needed and are encouraging ICAO to pave the way for inclusion of international aviation in a global deal at Copenhagen in line with the overall global ambition. At the ICAO High Level Meeting from 7-9 October, all ICAO states will be expected to agree a declaration endorsing the GIACC outcomes and putting them forward to Copenhagen.

Q14. Lord Adonis stressed the reductions in aviation CO₂ emissions that could be achieved through new technology. In the current financial climate, is it realistic to expect airlines to afford the investments in low emissions aircraft and systems that are needed to deliver the cuts in CO₂ emissions to which the Government is committed?

We plan to develop a detailed plan for achieving the 2050 emissions target for aviation next year once the CCC advice has been received and considered. We will then take a view on the scale of the challenge, the extent to which the target will be achieved through technology alone and what, if any, other policy measures will be needed.

Airlines operating costs consist of many elements including finance for new aircraft, maintenance, depreciation, crew and fuel. Each of these will influence procurement strategies for new technology. Some of these operating costs can be much lower for new technology, more than offsetting the increased cost of financing new technology. In such cases there will be very strong arguments to invest in more fuel efficient aircraft.

Q15. How will the Government ensure that security charges for airports are kept reasonable and that airport policing agreements are not “gold plated”, particularly as a result of the Policing and Crime Bill?

Meeting security costs is a legitimate aspect of running an airport business. This said, we recognise the commercial pressures that the industry faces and that security measures must be proportionate to the changing threat. This is why they are subject to continuous review and why we continue to consult and engage with the aviation industry to ensure that measures are commensurate and appropriate.

Under the current system of designation as provided for in the Aviation Security Act 1982 (as amended), some airports with a permanent police presence are required to pay for policing, while others are not. The collaborative planning framework proposed by the Policing and Crime Bill will level the playing field to ensure that all airports requiring a permanent police presence are required to pay for this. This requirement will come in 15 months following commencement of the provisions in the Bill to allow time for the risk assessment and security planning process to be completed.

The costs of policing at airports generally represent a relatively small fraction of overall operating costs—evidence provided by industry suggests a typical impact of around 8%. Where airports find themselves unable to absorb costs, it is open to them to pass costs through to their customers as they renegotiate contractual relationships. For many airports currently not required to pay for policing services the situation will not change. If, on completion of a full risk assessment process, security stakeholders agree that there is no need for a dedicated police presence, the airport operator will not be required to pay.

35 The Road to Copenhagen can be found at: http://www.decc.gov.uk/en/content/cms/what_we_do/change_energy/tackling_clima/copenhagen/copenhagen.aspx
Both the Association of Chief Police Officers and the Government have made it clear to stakeholders that these proposals do not represent an opportunity to “gold plate” policing services at airports. We do not expect any more police to be deployed at airports than those that both the airport operator and the police agree are sufficient to mitigate the identified threats. Ultimately, if the police and airport operator cannot agree on the level of policing necessary at an airport, it is open to parties to access the proposed dispute resolution mechanism. At determination, parties would be required to support assertions about the resourcing levels required with appropriate evidence. The Secretary of State for Transport would then make a determination. Any determination would only require the operator to pay for those police that were considered necessary to mitigate identified risks—any policing over and above this level would not be the responsibility of the airport operator.

What is important, beyond all else, is to ensure there are effective security arrangements in place at each airport with each stakeholder understanding the part they have to play. The airport security provisions of the Bill are designed to achieve this.

September 2009

Supplementary memorandum from the Department for Transport (FOA 07d)

Reserved Matters

1. The global nature of air transport requires the industry to operate in a complicated web of international agreements, and in the UK’s case, European legislation. Aviation policy and regulation in the UK is largely a reserved matter, which rests with the DfT and the Civil Aviation Authority (CAA). Reserved matters include safety regulation; economic regulation (except for Northern Ireland); aviation security; competition issues; and international aspects of aviation policy.

2. DfT has overall policy responsibility for aviation, as set out in the Future of Air Transport White Paper, and the CAA has UK wide responsibilities for safety regulation, economic regulation (except for Northern Ireland), consumer protection and air traffic management. In addition, the Office of Fair Trading and Department for Business, Innovation and Skill implement the Competition Act for aviation. DfT separately regulates aviation security across the UK.

Devolved Matters

3. The role of the Devolved Administrations in relation to aviation is largely restricted to certain matters pertaining to land use planning and airport surface access issues.
   — The National Assembly for Wales has devolved powers relating to airports in terms of land use planning and airport surface access issues.
   — The Scotland Act 1998 devolved responsibility for a number of areas of policy relevant to airports to the Scottish Executive. These include land use planning; surface access policy; and responsibility for and funding of aerodromes in public ownership.
   — The Northern Ireland Act 1998 devolved responsibility for a number of areas of policy relevant to airports to the Northern Ireland Executive and Assembly. These include regional land use planning; surface access policy and funding; and environmental policy. The Northern Ireland Executive also has responsibility for airport economic regulation; has powers over land in relation to aviation safety; the ability to grant aid for airport infrastructure; and may exercise certain controls relating to the management of airports.

Air Transport White Paper

4. The Future of Air Transport White Paper (ATWP), published in December 2003, sets out the strategic framework for the development of UK aviation over the next 30 years, in the context of increasing demand, constraints on airport capacity and airspace, and increasing concern about the environmental matters.

5. The ATWP recognises that aviation makes significant contribution to the economies and social welfare of Scotland, Wales and Northern Ireland. The ATWP and the 2006 Progress report were written in conjunction with the Devolved Administrations.

6. In terms of the ATWP and its ongoing implementation we recognise that issues, including land use planning, surface access improvements and day to day engagement with operators on airport issues, will be led by the Devolved Administrations. The White Paper does not itself authorise or preclude any particular
development, but sets out a policy framework that will guide decisions on future planning applications. In Scotland, Wales and Northern Ireland, the determination of planning applications relating to airport development is a matter for the planning authorities of the respective Devolved Administrations.

Memorandum from Stop Stansted Expansion (FOA 08)

1. EXECUTIVE SUMMARY

1.1 This submission deals only with economic aspects of the future development of aviation and focuses upon:
   — the methodology used by the Department for Transport (DfT) for assessing the (net) direct economic benefits of airport expansion;
   — the assessment of the wider economic benefits of airport expansion;
   — the adequacy of the current airport infrastructure in the UK, noting that Japan has less airport infrastructure than the UK and this supports a population which is more than twice the UK’s population and twice our GDP; and
   — whether the tourism deficit on international leisure travel in the UK balance of payments current account should be an economic consideration with regard to airport expansion.

1.2 The main conclusions and recommendations of this paper are:
   — the current DfT methodology for assessing the economic benefits of airport expansion is highly questionable and there is an urgent need to develop a more robust methodology which commands wider confidence; and
   — there is considerable merit in the recommendations put forward jointly by the Sustainable Development Commission (“SDC”) and the Institute of Public Policy Research (“IPPR”) last year for a special Commission to carry out an independent review of aviation policy and to compile an updated evidence base to inform future aviation policy.36

2. THE AUTHOR

2.1 I have the degrees of Bachelor of Commerce (hons) and Master of Business Administration (distinction) and I am a graduate of the Executive Programme of Stanford University Business School and a Fellow of the Royal Society of Arts. I have 25 years experience with a major UK plc in operational and corporate finance roles, interrupted by 2½ years in the Prime Minister’s Office advising on efficiency matters in Government. I am now semi-retired and have been Economics Adviser to SSE since 2003. I also provide, on a professional consultancy basis, economic and financial analysis and advice to clients in the financial services sector in the UK and internationally on matters relating to the air transport industry.

2.2 I am authorised by the Executive Committee of SSE to submit this paper on its behalf. SSE was established in 2002 in response to DfT proposals for major expansion of UK airport capacity, particularly in the south east. SSE has no political affiliations and represents over 7,500 members and supporters including almost 150 parish and town councils, residents’ groups, national and local environmental groups and other organisations.

3. CORE EVIDENCE

Direct economic benefits

3.1 The DfT’s methodology for assessing the direct economic costs and benefits of an airport development project (or a combination of airport development projects) combines economic and financial costs and benefits in such a way that considerable caution should be exercised before quoting the “bottom line” numbers.

3.2 In order to assist the Committee to understand the DfT’s methodology I attach at Annex A the summary page from a DfT model run. It should be stressed that this is just the tip of a very large iceberg but it nevertheless shows the actual assessed economic benefits for a particular project, in this case a third runway at Heathrow with an opening date of 2020, preceded by mixed mode between 2015 and 2019. This particular model run assumes low surface access infrastructure costs.

3.3 It can be seen from this example that economic benefits come from three sources, namely:
   — generated user benefits—ie economic benefits for additional passengers;
   — producer benefits—ie extra profits for airlines, the airport and suppliers; and

— additional APD revenues for the Government.

3.4 Set against these benefits are costs in relation to:
— developing the project, ie construction costs including the cost of new surface access infrastructure necessary to support the development; and
— the additional carbon emissions that would ensue from the development.

3.5 In each case, costs and benefits are assessed over a period of 60 years from the opening date of the proposed new runway, in this case to 2080, based on the DfT assuming that a third Heathrow would operate from 2020. All of the estimated costs and benefits are discounted back to the present day, so as to arrive at a net present value (“NPV”) for the project. The discount rate is 3.5% for the first 30 years and 3.0% for the next 30 years, all in accordance with Treasury “Green Book” guidelines.

3.6 On this basis the economic benefits for users and producers estimated for this project are £8.6 billion and £5.5 billion respectively and additional APD revenues for the Government are valued at £3.4 billion, giving a total of £17.5 billion in NPV terms.

3.7 On the other side of the equation, the construction costs have been estimated at £7.4 billion the cost of the carbon emissions has been estimated at £5.0 billion, giving a total of £12.5 billion (rounded). There is also assumed to be a small economic disbenefit for existing users (£0.2 billion) giving an overall (net) benefit for the project of £4.8 billion.

3.8 A “bottom line” figure of NPV £4.8 billion is not a very large number in the context of a project where benefits to 2080 are taken into account and it disappears completely if:
— the discount rate is raised to 5.1% (still very low by commercial norms); or
— the development cost was to be £12.2 billion rather than £7 billion; or
— costs and benefits were included only to 2054 rather than 2080.

3.9 In addition, the way in which the DfT arrives at this £4.8 billion figure is open to question in a number of material respects. However, before coming to these, it may be helpful to explain the nature of generated user benefits because these are the main source of the direct economic benefits claimed for airport expansion projects.

3.10 Generated user benefits are benefits to new passengers who, without the additional capacity, would be unable to use the airport. They would have been priced out by the higher airfares that would ensue from a shortage of capacity (which DfT describes as the “shadow” costs), by higher surface access costs and the value of passengers’ time spent getting to/from the airport and waiting for flights/connections (noting that more capacity allows greater service frequency). Some of the displaced passengers would switch to another less convenient airport and others would simply not travel by air.

3.11 The concept of generated user benefits is entirely sound in terms of economic theory (consumer surplus/marginal utility value). However, the DfT’s calculations are open to many uncertainties, not least by how much would air fares increase if the capacity was not provided and what is the value of time for any individual passenger?

3.12 In the example provided in Annex A, the net airfare premium at Heathrow was estimated by the DfT to be £4.29 in 2015 rising to £79.71 in 2080 at year 2000 prices (ie before applying RPI). All sorts of assumptions have to be made in estimating these airfare premia through to 2080, including future demand for air travel, price elasticity, the amount of capacity that would be provided elsewhere etc.

3.13 Also feeding into the DfT’s calculation of generated user benefits is a value of time (“VOT”) factor. The DfT has assumed that the VOT for leisure passengers (whether man, woman or child) is £7.31 in the year 2000 rising to £50.10 in 2000 rising to £252.67 in 2080. These values are applied to the extra time it would take for a surface access journey to a less convenient airport and to the additional waiting time between (for example) connecting flights. When new airport capacity is provided, the amount of wasted time is reduced, thereby creating an economic benefit.

3.14 Because of the many uncertainties involved in arriving at the key input assumptions, the DfT could, in reality, come up with almost whatever numbers it wanted to come up with, depending on what it wanted to show. This underlines the need for this type of assessment to be independent, authoritative and transparent.

3.15 There are three further aspects of the DfT’s methodology for calculating the direct economic benefits which raise eyebrows:

(i) The DfT counts additional APD revenues for the Government as an economic benefit. Clearly these are a financial benefit for the Exchequer but they are not an economic benefit for the UK. They simply represent a transfer of wealth from private individuals to the Government. Logically, only additional APD revenues from foreign passengers should be counted as an economic benefit to the UK. This would reduce the “bottom line” NPV £4.8 billion figure to NPV £2.5 billion.
Ev 124  Transport Committee: Evidence

(ii) In the example shown at Annex A the DfT has included £2.8 billion of foreign user benefits and it has not subdivided the £5.5 billion of producer benefits between UK and foreign residents. However, HM Treasury Green Book guidance states:

“All impacts (including costs and benefits, both direct and indirect) on non-UK residents and firms should be identified and quantified separately where it is reasonable to do so, and if such impacts might affect the conclusions of the appraisal. Generally, proposals should not proceed if, despite a net benefit overall, there is a net cost to the UK (for instance, after taking into account environmental costs).”

The producer benefits of a third runway at Heathrow would quite plainly accrue to foreign as well as UK airlines and the airport itself is foreign owned. It could be estimated that between one third and one half of the producer benefits would accrue to non-UK residents and firms, or c£2.3 billion as a very approximate figure. Thus, in total, foreign benefits of c£5.1 billion are included in the £4.8 billion figure.

(iii) The cost of carbon which has been used by the DfT’s in its calculation is £70 per tonne at year 2000 prices. This accords with Defra guidance but it assumes a trajectory of stabilisation of atmospheric CO2 at 450ppm. The cost of carbon is much higher for stabilisation at 550ppm and higher still for a “business as usual” scenario where Stern produced an estimate of £238 per tonne at year 2000 prices, ie more than three times more than the £70 figure used by the DfT.

3.16 To summarise, on direct economic benefits, it can (at the very least) be concluded that the DfT’s methodology does not provide a robust basis for estimation and that the treatment of some of the components in the DfT’s assessment is highly questionable resulting in the net direct economic benefits to the UK being substantially overstated.

Wider economic benefits

3.17 The Government considers that wider economic benefits arise in three areas:

— “the potential increase in productivity across the economy as a whole due to an increase in aviation capacity;
— the increase in foreign direct investment and trade; and
— the costs imposed on or the benefits to individual industries, for example, tourism, closely associated with aviation.”

3.18 All of the above effects are extremely difficult to measure and, even where strong correlations are found, it can be difficult to distinguish between cause and effect. This may explain why the DfT has not itself sought to estimate the value of the wider economic benefits that would flow from an expansion of air travel.

3.19 The DfT has however relied heavily upon work done by Oxford Economic Forecasting (“OEF”) in two reports—jointly commissioned by the DfT, the aviation industry and other bodies with an interest in airport expansion—which concluded that the wider economic benefits of increasing UK airport capacity were substantially greater than the direct economic benefits. It should however be said that the quality of the OEF’s work has been robustly challenged.

The Japanese comparison

3.20 In considering the importance of airport infrastructure to national economic prosperity the question should be asked: why is it that the Japanese economy can prosper with so much less runway capacity than the UK when our business leaders are crying out for more, particularly in the south east?

3.21 Annex B provides comparative data on the number of commercial runways in the UK and Japan and, whichever way these data are looked at, there can be little doubt that Japan has far less runway capacity than the UK. And yet Japan has more than twice our population, far higher GDP (it is the world’s second largest economy) and both countries are island trading nations.

3.22 To provide a definitive answer to this question would require more extensive research and investigation than I have so far been able to carry out but I submit that three of the main contributory factors are as follows:

39 In 2004, DfT acknowledged to the High Court that it had not followed HMT guidance in this respect but explained that foreign passenger benefits were included in its assessment of direct economic benefits as a proxy for the wider economic benefits to the UK from foreign tourists. (Wandsworth Council et al v Secretary of State for Transport, CO/1339/2004, Witness statement by Jeffrey Thompson, Economic Adviser, DfT on behalf of the Secretary of State for Transport, para 24).
41 Inflated at RPI plus 2½% pa.
44 For example, “Critique of the OEF Report”, AEF, Jan 2007 and “A critique of the DfT’s reliance on economic research sponsored by the aviation industry”, Airport Watch, Feb 2007.
(i) Use of larger aircraft—Tokyo’s Haneda airport (which has just overtaken Heathrow to become the world’s third busiest) handled 67.1 million passengers in 2008 with just 301,400 air traffic movements (“ATMs”)—an average of 223 passengers per ATM (and this was without any long haul flights, all of these being handled by Tokyo’s Narita airport.) Heathrow handled 66.9 million passengers last year with 470,300 ATMs—an average of just 142 passengers per ATM.\textsuperscript{45} Haneda achieves this high number of passengers per ATM because Japan Airlines (“JAL”) and All Nippon Airways (“ANA”) use Boeing 747s on domestic routes with up to 660 seats per aircraft.\textsuperscript{46}

(ii) Less leisure travel—Only 23% of all UK air travel was business travel in 2007\textsuperscript{47} whereas in Japan the comparable figure is reported to be 41%.\textsuperscript{48} Also, of the 243 million passengers handled by UK airports in 2007, only 8.0% were UK residents on international business trips. A further 9.5% were foreign residents on business trips to the UK.\textsuperscript{50}

(iii) Link between air travel and GDP growth—Once sufficient airport and route capacity is in place to accommodate the needs of business travellers, there is no real evidence that further increases in capacity drive GDP growth. Economic theory would in any event point to the law of diminishing returns. It is likely therefore that a point is reached where expansion of the air travel market is not a driver of GDP growth but a response to it, i.e. because increasing affluence creates higher demand for leisure air travel. In this context, it is important to recognise that the price elasticity of demand for air travel has been shown to be almost negligible for business travellers.\textsuperscript{50} If there is a shortage of capacity, it is leisure travellers, not business travellers, who are squeezed out.

The UK tourism trade deficit

3.23 In 2007, the UK’s tourism trade deficit on international air travel reached a record £19.4 billion and compares to the £2.0 billion recorded in 1995, before the UK “boom” in cheap flights began.\textsuperscript{51}

3.24 The Government expected that the policies set down in the 2003 ATWP would lead to a reduction in the tourism deficit and that “over time the higher number of foreign tourists coupled with their higher average expenditure could bring total expenditure levels broadly into line.”\textsuperscript{52} However, the UK tourism deficit has continued to increase since 2003 and the spending position has been reversed, with UK residents now spending more per visit abroad than foreign residents spend per visit in the UK.\textsuperscript{53}

3.25 Moreover, the current indications are that airport expansion would increase rather than reduce the tourism deficit. The 2006 Stansted “G” planning application and the 2008 Stansted “G2” planning application both contained projections from BAA showing that the main category of additional passengers that would be catered for if the developments went ahead would be UK residents on leisure flights abroad.\textsuperscript{54}

3.26 Some argue that none of this matters; that the impact on the UK trade deficit is not a factor to be considered when weighing the merits of airport expansion. Some even translate any reference to the trade deficit into a suggestion that hard working families should be prevented from taking their annual summer holidays. This is sometimes expressed even more emotively as an attempt to price poor people off planes.

3.27 I do not intend to stray into the social aspects of leisure air travel in this paper, except to note that (a) leisure air travel does not fall within any normally accepted economic definition of the term “necessities of life”; (b) the Government does not seek to ensure that the price of champagne and caviar is within everyone’s reach; and (c) the CAA passenger survey data evidence clearly shows that it is the affluent and not the poor who have seized the opportunity of cheap flights, to fly more often.\textsuperscript{55}

3.28 Purely from an economics standpoint, I submit that the growing trade deficit on leisure air travel is too significant and too much of a long term nature to be disregarded in the weighing of the economic costs and benefits of airport expansion.

3.29 The fact that the UK now has a floating exchange rate is often cited as a reason why a short term trade deficit can be ignored. However, in this case we have a long term trade deficit and the underlying impact of this is to sap economic wealth out of the UK economy. If the adjustment mechanism is the exchange rate,
the price to be paid is in higher prices for imported goods and lower prices for exports, ie a lower standard of living for UK residents. If the adjustment mechanism is higher interest rates the price to be paid is higher borrowing costs, job losses and a reduced level of domestic economic activity.

3.30 Just as it is true that the balance of payments must always balance, so also the fundamental macroeconomics must always balance. Somewhere along the line the cost of running a trade deficit must be met either in terms of a negative impact upon jobs, inflation, standard of living or some combination thereof. There is no free lunch.

3.31 For the Government of a “sunshine” island in the Caribbean, it would be reasonably safe to assume that expanding your local airport(s) would be economically beneficial to your economy. It would enable more tourists to visit and your exotic fruits to be more easily exported. However, from a UK perspective, the economic effects of airport expansion, principally to cater for the leisure market, are far less clear cut.

3.32 Of course, the environmental and social aspects also have to weighed in the balance and that is where other considerations, such as the social arguments referred to in 3.26 and 3.27 above should be considered. However, the social arguments should not be used in an attempt to stifle debate on the economic fundamentals.

3.33 For the avoidance of doubt, I do not suggest that the economic impact of the trade deficit should necessarily be dealt with as a component, alongside all of the other components, in the DfT’s modelling of direct economic costs and benefits. It could be dealt with in this way but it would probably be more sensible to weigh this (macro) economic impact separately.

Concluding points

4.1 The debate about the future development of air transport in the UK has for many years been one of the most controversial policy issues facing the Government. Opinions have become polarised and, in my view, this polarisation has been fuelled by the lack of independent analysis of the economic, social and environmental benefits and impacts of aviation.

4.2 The Government is committed to reviewing The Future of Air Transport White Paper (“ATWP”) in 2011–12 and, consistent with Ministerial commitments provided to Parliament during the passage of the Planning Bill (now the Planning Act 2008)56, a fresh national consultation must be held before the ATWP can be transformed into a National Policy Statement (“NPS”) for aviation.

4.3 The Government should, as part of its preparations for producing the aviation NPS and using the time available between now and 2011–12, accept the recommendation, made jointly in May 2008 by the SDC and the IPPR, to convene an independent commission to compile an updated evidence base to inform future aviation policy.

Annex A

<table>
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<th>SERAS ECONOMIC APPRAISAL</th>
<th>Example: SCAB26_PSDH4a (Summary)</th>
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<tr>
<td>Package Description</td>
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<td>Real Discount Rate to 2037</td>
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<td>Present Value post 2037</td>
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<td>56 For example, Hansard, 24 Nov 2008, Col 561.</td>
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SERAS ECONOMIC APPRAISAL  
Example: SCAB26_PSDH4a (Summary)

### SUMMARY INFORMATION

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<td>Carbon (Costs)</td>
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#### Results Summary (all results discounted)

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<td>Benefit:Cost Ratio</td>
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**Note:** UK benefits consist of benefits to all Scheduled UK Business and Scheduled UK Leisure and to the user defined UK proportion on Charter, International Low Costs Business, International Low Cost Leisure, Domestic Scheduled, and Domestic Low Cost purpose types.

Foreign Benefits consist of benefits to all Scheduled Foreign Business and Scheduled Foreign Leisure passengers and to the user defined foreign proportion on Charter, International Low Costs Business, International Low Cost Leisure, Domestic Scheduled, and Domestic Low Cost purpose types.

### Annex B

#### COMMERCIAL AIRPORTS WITH PAVED RUNWAYS

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<tr>
<th>Category</th>
<th>Japan</th>
<th>UK</th>
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<td>Over 3,047 metres</td>
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<td>8</td>
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<tr>
<td>2,438 to 3,047 metres</td>
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<td>1,524 to 2,437 metres</td>
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<tr>
<td>914 to 1,523 metres (disregard in total)</td>
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<td>Less than 914 metres (disregard in total)</td>
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<td>Total (over 1,523 metres only)</td>
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<tr>
<td>Add: extra runways at airports with &gt; 1 runway</td>
<td>9</td>
<td>2</td>
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<tr>
<td>Total: Commercial runways</td>
<td>97</td>
<td>174</td>
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**Comparators:**

- Population (m) (July 2008 est): 127.0, 60.9
- GDP (billion) (2008 est): 4,487, 2,279
- Commercial runways per million pop: 0.76, 2.86
- Commercial runways per Strillion GDP: 21.6, 76.3

**Sources:** Boeing Airport Directory, CIA World Factbook 2008, CAA, azworldairports.com and NATS AIS (Aeronautical Information Service).

*March 2009*

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*57* This threshold excludes (eg) London City Airport (1,504m) but includes Southampton (1,723m).

*58* GDP is shown in PPP (purchasing power parity) terms.
Memorandum from Flybe (FOA 09)

1. Introduction

1.1 Flybe welcomes the opportunity to submit a response to the Transport Select Committee inquiry into The Future of Aviation.

1.2 Flybe is the biggest regional airline in Europe. We currently operate more than 190 routes from 36 UK and 30 European airports in 13 countries and carried 7.5 million passengers in 2008. Based in Exeter, Flybe began life in 1979 as Jersey European Airways, later British European. Re-launched as Flybe in July 2002, the airline has become one of the Europe’s most innovative regional carriers and is the longest serving operator at a host of UK regional airports.

1.3 The Flybe business model is focused on providing low cost point-to-point air travel between Britain’s regions, with more than 70% of flights operating between UK domestic airports. According to the latest CAA statistics, during 2008 Flybe was responsible for 120,143 air movements, nearly 11% of the total for the UK, making us the 3rd largest airline in terms of departures from UK airports, behind only British Airways and Easyjet. In terms of purely domestic departures, Flybe is by far and away the biggest operator with 98,200 departures, 24% of the total and double that of our nearest rival.

1.4 Because Flybe aircraft, including those operated by our franchise partner, Loganair, currently fly from 36 UK airports—comfortably more than any other airline—we believe we have particular insight into the future of UK aviation. Moreover, as the recently crowned Air Transport World Regional Airline of the year (only the second British winner in 35 years), can speak with some authority and knowledge on what is a fast-changing sector across Europe. In this submission Flybe will set out our position on the range of questions posed in the inquiry’s terms of reference and would be pleased to offer further detailed, verbal evidence to the Committee.

2. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

The Value of Aviation

2.1 Aviation, and in particular Flybe make a real and measurable impact on the UK regional economies. Research conducted in 2006 by Oxford Economics Forecasting (now Oxford Economics) found that aviation employed 186,000 people directly and supported a further 520,000 jobs in the UK in 2004. The OEF also found that aviation contributed £11.4 billion to UK GDP, 1.1% of the overall economy in 2004.

2.2 Aviation also plays a very important and, while difficult to financially value, tangible role in supporting mobility from what are often transport-isolated regions. Both leisure and business passengers rely upon services to and from places such as Northern Ireland, the Highlands and Islands of Scotland, the South West and the Channel Islands; services that cannot be replicated, either in terms of speed or comfort, by train, car or ferry.

The roles of London and Regional Airport

2.3 Economic development of any region is dependant upon the access and communications into and out of that region.

2.4 Air travel plays a key role in delivering this, either through direct point to point services across the UK or to Continental Europe or through feeding major hubs in London, Continental Europe, the Middle east of the east Coast of the US.

2.5 London airports have an important role to play in the prosperity of the United Kingdom, the South East and the regions. The key issue to be addressed is which of the London airports will be the principal intercontinental hub ensuring the UK’s primary position in the globalisation of air travel.

2.6 No country in Europe has two major intercontinental hubs. Each country has given priority to one hub and has ensured the necessary investment and development of facilities and runway capacity to protect that status. The UK is no different. It needs to define which airport will fulfil that role and ensure adequate facilities to achieve this.

2.7 It is also important to highlight that the intercontinental competition is no longer merely restricted to competition from Europe. The emerging hubs in the Middle East are better positioned geographically than any European hub (ie you can fly direct from Dubai to anywhere in the world).

2.8 Whilst some may now argue that a hub system is no longer relevant, one only has to look at the UK’s regional airports to appreciate the role of the intercontinental hub airport.
2.9 The significance of the hub system can be clearly demonstrated by the success of Emirates and Continental Airlines. Whilst no British airline has been able to develop and sustain direct intercontinental services from the UK’s regional airports, both of the aforementioned airlines have successfully developed services from a significant number of the UK’s regional airports to New York (Continental) and Dubai (Emirates). They have achieved this because of the strength of their hubs at the other end of the spoke.

2.10 Our view therefore is that London Heathrow needs a third runway in order to protect its status as a premier intercontinental hub. However we would also argue that each of the UK’s regional airports should have access to Heathrow since this will ensure that every region in the UK has the ability to ensure good access into and out of that region to anywhere in the world. Such access is critical to generating prosperity in regional economies through inward investment from international companies and also access to international markets from their region. We would argue therefore that as and when any new runway capacity is created, then those regional airports which are currently denied access to Heathrow be given a minimum of three pairs of take off landing slots each day and that these slots should be the property of the region as opposed to the airline, thereby ensuring adequate service to offer interline connections and longevity through slot protection. Furthermore (as in other EC Countries) such services should be given financial support for aircraft up to 50 seat capacity. It should be noted this would exclude Flybe, demonstrating our desire to develop the strategy for UK Aviation and not merely one which services Flybe’s interests.

2.11 Furthermore, we believe that the development of London Gatwick, under new ownership, should focus upon making the airport a model of modern regional and short-haul airport.

2.12 Regional Aviation has become a mainstay of public transport over the last decade, with more and more of the travelling public making use of reliable, regular services provided by airlines such as Flybe. In its November 2007 report, CAP 775 “Air Services at UK Regional Airports” (referred to henceforth as CAP 775), the CAA capture that point when they state There has been a change in travel patterns as passengers to and from points outside London are using regional airports rather than travelling to London (1). To illustrate this point, taking four regional airports where Flybe is the largest scheduled operator, the figures below show how passenger numbers have grown to and from the regions.

<table>
<thead>
<tr>
<th></th>
<th>Southampton</th>
<th>Exeter</th>
<th>Belfast City</th>
<th>Norwich</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger numbers—2003</td>
<td>1,006,119</td>
<td>94,473</td>
<td>1,822,261</td>
<td>139,226</td>
</tr>
<tr>
<td>Passenger numbers—2008</td>
<td>1,910,905</td>
<td>685,602</td>
<td>2,553,580</td>
<td>377,876</td>
</tr>
<tr>
<td>Percentage rise</td>
<td>90%</td>
<td>626%</td>
<td>40%</td>
<td>171%</td>
</tr>
</tbody>
</table>

2.13 The uniqueness of Flybe’s regional business model is to enable our passengers to avoid the time-consuming trips from their home or business to the major international airports. The regional model developed by Flybe means that passengers can use their local airport to travel to destinations in the rest of the UK and Europe. There is no longer a need for a business or leisure traveller in, for example, the South or South West to travel to London in order to catch a flight to Scotland or a continental European city, when they can fly directly from their local hub such as Southampton or Exeter to their desired destination.

2.14 The benefits of regional aviation are particularly of use to our millions of business passengers. Flybe has hundreds of bespoke ticketing agreements with commercial businesses, ranging for multi-nationals to SMEs, guaranteeing those company’s a fixed price for their travel. Examples of these agreements include:

- 75,000 flights for the MOD
- 10,000 flights for an international bank, carrying their staff from Manchester to Edinburgh
- 7,000 flights for a major Northern Irish university, carrying staff to London Gatwick.
- 20,000 flights for a major telecoms company, carrying their staff around the UK.
- 4,000 flights for a multi-national pharmaceutical company, carrying their staff from Inverness to Gatwick and Birmingham to Edinburgh.
- 4,000 flights for a multi-national utilities company, carrying their staff from Birmingham to Dusseldorf.

2.15 Flybe also has a number of agreements with government departments for 7,000 civil servants and 25,000 military personnel allowing those passengers to travel from their local airport.

2.16 There is well-documented evidence to show that aviation has a direct impact on regional employment. As well as the OEF formula, the 2006 European Union Commission report “Airport capacity, efficiency and safety in Europe” sets out that “The airport sector directly creates on average 925 jobs per million workload units” (a workload unit being either one passenger or 0.1 ton of freight). Taking these statistics and applying them to Flybe passenger numbers, our flights in 2007 were responsible for the maintenance of:

- 1,700 jobs in Southampton
- 1,200 jobs in Belfast
- 1,350 jobs in Birmingham
— 1,350 jobs in Manchester
— 2,000 jobs in Scotland
— 950 jobs in Sussex (Gatwick)

2.17 And these figures do not include the 1,100 Headquartered staff based in Exeter.

3. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

Current Aviation Infrastructure

3.1 Flybe believes that the strengthening of regional hubs provides an excellent opportunity to improve the overall customer experience of air travellers. There is no point offering cheap and quick flights for our passengers, if their journeys to and from the airport to not reach this standard.

3.2 Flybe fully supports the initiatives to improve the accessibility of regional airports, in order to enhance the speed and convenience of journeys to and from these hubs. This includes high speed rail and road links not only at the major international airports, but also for regional airports that often have even greater capacity to take traffic off the roads.

3.3 The example of Southampton shows that investment in high quality surface infrastructure can make a major impact on the customer experience. With less than 100 steps from train platform to check-in desk, Flybe’s post-code analysis of where our passengers set out from shows that increasing numbers are from South and West London, and are opting to travel from Southampton airport rather than the busier, slower alternative of Heathrow.

Future Trends and Implications of Mergers

3.4 The current economic downturn is forcing a rapid rationalisation and merger of flag carrier European Airlines. From this process of consolidation—if allowed to continue without remedy—there will emerge two or three mega European Legacy airlines. UK PLC has benefited from strong competition at the UK’s major London airports among legacy, regional and low cost airlines. We believe it will be necessary for competition authorities to robustly intervene to ensure that there is not a major diminution on competition on domestic and European short-haul routes from London Heathrow and London Gatwick.

4. To what extent can rail provide an alternative to short-haul flights?

4.1 For shorter trips, where the journey time is less than two and a half hours, the train offers a convenient option for passengers. Fast rail links to the likes of Manchester, Birmingham, and Leeds from London terminals means that rail travel is a realistic option for travellers setting off from, or travelling to, London.

4.2 It is however, a very London-centric view to suggest that rail travel is a realistic option for regional travellers. Because the rail network remains clearly fixed on the terminals in the capital city, the urban “commentariat” all too often neglect the crucial role regional air travel plays in the country’s transport requirements.

4.3 Rail cannot, for the foreseeable future, be an alternative to regional aviation and decision-makers must be alert to the dangers of generalisation when discussing where and how regional travellers can realistically substitute air for rail. For example, a trip from Southampton to Newcastle by train takes up to six hours, including a tube journey through London. By contrast this would take 80 minutes on a Flybe flight. Exeter to Manchester by train is around four hours 30 minutes (often with a change in Birmingham) compared to a 60 minute flight time. Inverness to London is an eight hour train journey, while flying takes just 80 minutes.

4.4 Where the impact of water is added to journey time, the fallacy that that aviation is a luxury not a necessity is yet further exposed. Travelling from Belfast to Manchester over land and sea will take on average eight hours, as opposed to the 60 minutes it takes by aeroplane. Regional travellers, and in particular businesses, rely on fast, reliable air links. Any policy shift to limit such services runs the risk of damaging regional economies.

4.5 The current level of competitiveness of the rail system only exists because of the unfair level of state subsidy provided to this form of public transport. A level playing field for all forms of public transport should be an immediate policy objective.
5. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

The Societal and Environmental Impact of Aviation

5.1 Flybe has long-stated its opinion that human activity, including air travel, is contributing to global climate change. Flybe deeply regrets that the public debate over the cost of aviation, both financial and societal, has too often been ill-informed, out of context and emotional, rather than factual and academic. The Stern Report was right to focus on the global figure as CO2, once emitted, remains in the atmosphere with no regard to national borders. More recently, the government published its official statistics for CO2 emissions for 2007 which clearly showed that while International aviation CO2 emissions were down 1.9% from 2006 (in line with the economy as a whole), domestic aviation CO2 was down 6.6% on 2006. (2) What these figures very clearly show is that, contrary to what some of the more shrill might suggest, UK aviation emissions are not growing and that domestic flight emissions are in fact falling. As the UK airline that offered more domestic routes than any other, Flybe’s greener fleet has played a significant part in this improvement.

5.2 Aviation also has a noise impact upon the communities it serves. Again, Flybe is proud of the role we have played in reducing noise by our investment in a new generation of quieter aircraft over the last six years. As the Committee knows, we went one step further than simply talking about environmental impact. In June 2007, we introduced a new level of transparency to the debate with our innovative ecolabel. Under the scheme, which was subject to an assurance process by international consultancy firm Deloitte, Flybe passengers are provided at the time of booking via the internet with a user-friendly breakdown of the fuel consumption, carbon emissions and noise patterns of the aircraft type to be used on their journey.

5.3 The Treasury Select Committee welcomed its introduction and said, in January 2008, “Airlines should adopt a system of eco-labelling, so that consumers can compare the environmental footprint of each airline when purchasing their tickets”.

5.4 In making the recommendation, Committee Chairman John McFall MP said: “Our proposals for aircraft ecolabelling would at least provide customers with the environmental information they need to make a choice between providers”.

5.5 Examples of the label are shown below and illustrate the transparency of the system and also why, particularly in terms of CO2 emissions, Flybe phased out the BAe 146 and replaced it with the Bombardier Q400.

5.6 An often overlooked advantage of regional air travel is the number of cars it takes off the roads. Not only in terms of offering a real alternative to a long cross-country road trip, but also avoiding the number and length of car journeys to and from airports.

5.7 An analysis commissioned by Flybe into the impact of the growth of Southampton International Airport as a major transport hub of the South East, found that by offering a viable alternative to Gatwick, Heathrow and Stansted, Southampton airport has significantly reduced the need for travellers in the South East to drive through the congestion to reach one of these London hubs. Some 25 million car-miles are saved by offering customers the opportunity to travel from Southampton to a wide range of domestic and
European destinations, demonstrating not only the convenience of regional air travel for our customers, but also the environmental benefits of reducing car journeys and therefore carbon emissions from motor vehicles.

The Implications of Climate Change Policy on Aviation

5.8 Flybe supports the position of the European Low Fares Airline Association—ELFAA, which lent its support to the inclusion of aviation in EU ETS. ELFAA’s support was based on the assurance of European Environment Commissioner Dimas that, in proposing the inclusion of aviation in EU ETS, he had considered a range of measures, including taxation, but discarded them in favour of ETS on the grounds that ETS was the only measure which offered a real return for the environment, by setting a cap for the sector and the awarding of allowances within that cap on the basis of environmental efficiency. Commissioner Dimas further conceded that there was no environmental justification for taxes on top of ETS.

5.9 ELFAA’s support for inclusion of aviation in EU ETS was always subject to the explicit condition that it not be accompanied by taxes and we therefore call on the UK Government to withdraw the environmentally-unjustified and discriminatory APD from aviation’s entry into EU ETS.

6. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

The Impact of Taxation

6.1 Aviation is a privately-funded public transport system and as such pays its own way. Airport infrastructure, aircraft, air traffic management are all funded by the industry and, aside from a small amount of funding for Public Service Obligation (PSO) routes in Scotland and Wales, aviation makes no call on the public purse.

6.2 While the government’s recent reform of APD went some way to redressing the balance between long-haul and short-haul aviation, on balance, Flybe would have preferred an aviation duty that rewarded those airlines that fly newer, less environmentally damaging aircraft. APD raises about £2 billion each year and the proposed increases in the rates of APD, following the rejection of the concept of a “per flight tax” as a replacement, will increase this by more than a third over the next two years. With a projected £3.3 billion being extracted from the new Aviation Duty alone by 2011–12, it is hard to think of an industry that is contributes more in relation to its environmental impact.

6.3 Indeed, air transport in the UK already more than covers its climate change costs through as confirmed by the Government in its Aviation Emissions Cost Assessment, published in July 2008. No other form of public transport is required to pay more than its actual environmental impact through taxation in this way and the Transport Select Committee should make it a priority to challenge the government as to why this inequity has been allowed to happen.

Passenger Protection from Airline Collapse

6.4 Flybe believes that the various industry responses over the last year to airline collapse shows that our house is very firmly in order. Because the overwhelming majority of Flybe passengers book their tickets online with a credit card, they are covered already against this kind business collapse. Furthermore, Flybe was the first airline to offer Scheduled Airline Failure Insurance.

6.5 A case study that Flybe has first hand experience of is the collapse of the Isle of Man-based airline Euromanx in the spring of 2008. Within hours of the collapse, Flybe put together a rescue and repatriation programme to transport passengers to and from Liverpool, Manchester and Douglas. In the six months after the collapse, Flybe re-accommodated more than 20,000 Euromanx passengers completely free of charge, the majority of whom flew with Flybe within 48 hours of their original Euromanx booking. The airports involved waived landing fees in order that passengers would not be financially penalised and there was virtually no impact upon the travelling public.

6.6 Regrettfully, despite the Isle of Man government waiving APD charges, HM Treasury did not feel able to do the same, leaving Flybe to pick up a bill of £90,790.00. We would recommend that the Committee pursue this issue with the Treasury.

7. What is the impact of the aviation sector of changes in the security environment?

7.1 Flybe does not believe that aviation should be treated differently to any other form of transport when considering security issues. Tragically, as can be seen from the atrocities committed on the European rail network, the terrorist can cause havoc anywhere. Any legislative change in this area must be supported by scientifically robust and properly funded programmes from government. Aviation has much expertise in this area and will continue to work with government for the common good.
Memorandum from FlyingMatters (FOA 10)

SUMMARY
— Calculations of the value of aviation to the UK should include the importance of international and regional connectivity to innovation and economic stimulus as well as “hard” figures on job and revenue generation related solely to the aviation industry itself if the full value of aviation to the economy is to be understood.
— The revolution in access to flying has changed how and where we live and work.
— Notwithstanding the climate impacts of flying, we believe that the increase in access to flying and travel has had a beneficial impact on society in general, broadening horizons and making the global village a reality.
— In the UK there is currently only one high speed option (Eurostar). For other destinations in the UK there are a variety of proposals which require significant public and private funding (in contrast to airport infrastructure which receives no public funding other than lifeline services to the Highlands and Islands of Scotland) and are unlikely to be constructed let alone operational for some years.
— In the meantime, short haul flying will continue to provide an efficient and cost-effective alternative to rail.
— The UK aviation industry has had in place a strategy—Sustainable Aviation—since 2005 to reduce its environmental impact and produces periodic updates on progress. The inclusion of aviation within the UK’s climate change strategy (as part of the Climate Change Act 2008) is therefore welcome.
— We believe that the only effective approach to dealing with aviation’s contribution to climate change is a combination of new technology and international agreements. Aviation should be included within an international climate change framework to ensure a balanced approach across the world.
— Using tax to push up the cost of flying is regressive and contributes to pricing ordinary families out of flying. It does not result in environmental benefit but simply returns flying to the preserve of a privileged elite.

INTRODUCTION
1. We welcome the Committee’s inquiry into the future of aviation and are pleased to have an opportunity to present this submission.
2. FlyingMatters is a broad alliance of organisations which support sustainable growth in flying. Our members include trade unions, business organisations, tourism groups, farmers in the developing world, as well as the aviation industry (airlines, airport operators, aerospace manufacturers, and air traffic control).
3. Many of our members will be submitting detailed evidence to the committee covering the full range of questions set out in the terms of reference for this inquiry. We do not propose to repeat that detail here but will instead cover what the coalition believes are the social and economic benefits of flying and what we believe the balance should be between these benefits and the environmental impact of flying. We do not cover every question but concentrate on those where we have a particular point to make that may not be covered in individual submissions.

What is the value of aviation to the UK economy? What are the role of the London and regional airports? What competition do they face from abroad?
4. Calculations of the value of aviation to the UK should include the importance of international and regional connectivity to innovation and economic stimulus as well as “hard” figures on job and revenue generation related solely to the aviation industry itself.
5. The Committee will be aware of the Oxford Economic Forecasting work to quantify the economic benefits of aviation and airports in the UK. However further work of which the Committee may not be aware has been done by the National Endowment for Science, Technology and the Arts (NESTA) on the drivers of innovation throughout the UK regions.
6. Entitled Innovation by Adoption—Measuring and mapping absorptive capacity in UK nations and regions, (2008) the study explores the link between the ability to draw in new ideas from elsewhere and build on them at home. The report shows that the capacity of cities and regions to meet this challenge has a major impact on their ability to stimulate economic growth—something which is more important than ever in today’s world.

7. The researchers found a direct correlation between the number of international connections and the region’s ability to absorb innovation and take part in “knowledge transfer”. The number of international connections therefore forms one of their key indicators for the research.

8. The researchers also found that high knowledge flows using technology “exacerbated” the need for face to face contact which is crucial to enable relationship-building and trust where high-value knowledge transfer takes place.

9. In other words, 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.

10. Correspondingly, if those international connections are compromised or reduced, high-value knowledge transactions will shift to locations where these do exist.

Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

11. A revolution has taken place in flying since the 1960s. Today, flying is no longer the preserve of a privileged elite. Survey after survey conducted in the last few years shows that in any given year at least 50% of the UK population will fly at least once. Research by the National Centre for Social Research (NatCen) commissioned by FlyingMatters in 2008 showed that 53% of respondents had flown in the last year, a further 16% had flown in the last three years and 20% had flown more than three years ago—leaving only around a tenth who had never flown.

12. Contrary to assertions by anti-aviation groups, today it is not just the rich who fly. Whilst those with higher incomes fly more often and are more likely to have flown, the NatCen research found that 39% of those on low incomes (joint incomes of up to £13,500) and 50% of those on middle incomes (joint annual incomes of £13,500–£34,999) had flown in the last year.

13. The revolution in access to flying has also changed where and how we live. A Populus survey commissioned by FlyingMatters in January 2008 showed that nearly half the UK population said they had friends and extended family that live abroad. Families are now far flung and work takes people to all corners of the globe.

14. Notwithstanding the climate impacts of flying, we believe that the increase in access to flying and travel has had a beneficial impact on society in general, broadening horizons and making the global village a reality.

15. Indeed, affordable air travel has also provided access to UK markets to those who would not previously have been able to do so. A prime example of this is the emergence of a fresh produce—and particularly organic fresh produce—sector in the developing world. Developing world producers add value at source by processing fresh produce for the UK market. The year round availability of good quality fresh produce at affordable prices can only be beneficial in terms of the need for a healthy diet to reduce illness associated by poor diet and obesity in the UK.

16. 60% of air freight arrives in the UK in the belly hold of passenger aircraft. A reduction in flights also means a consequent reduction in space for freight, forcing up costs and squeezing developing world producers more than most.

17. The Soil Association recently recognised the importance of this market to developing world producers by dropping proposals to remove organic status from air freighted fresh produce.

18. We believe that the UK requires adequate aviation infrastructure to enable all those who wish to travel or move goods by air, to be able to do so in reasonable conditions at a reasonable price. Infrastructure policy must recognise the changed nature of our lives. The Air Transport White Paper sought to do just that and the Government should be commended for grasping this nettle. The alternative is that constrained capacity helps push up the cost of flying, pricing out low and middle income families who have only recently been able to afford to fly.
To what extent can rail provide an alternative to short-haul flights?

19. High speed rail could offer a realistic alternative to some short-haul destinations but not all journeys begin or end in London (e.g. Edinburgh to Belfast or Exeter to Aberdeen). In other instances high speed rail might be complementary (for example at major airports such as Heathrow and Manchester).

20. However, in the UK, there is currently only one high speed rail option (Eurostar). For other destinations in the UK there are a variety of proposals which require significant public and private funding (in contrast to airport infrastructure which receives no public funding other than lifeline services to the Highlands and Islands of Scotland) and are unlikely to be constructed let alone operational for some years. In the meantime, short haul flying will continue to provide an efficient and cost-effective alternative to rail.

21. We believe it is right that consumers should have a range of travel options when planning their travel. Where these options meet the traveller’s criteria in terms of convenience, length of journey and price, demand will grow.

What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

22. Alongside the considerable economic and social benefits there are costs in terms of noise, air quality and climate change.

23. Noise and air quality are local impacts which vary widely from airport to airport. We agree that all efforts must be made to reduce and mitigate these impacts as far as possible. Today’s aircraft are significantly quieter than those flying twenty or thirty years ago but more needs to be done. The industry has set itself a target of reducing the noise footprint of new aircraft by a further 50% by 2020 and reducing NOx (which affects local air quality) by a further 80%.

24. In relation to climate change, according to the International Panel on Climate Change, aviation currently accounts for 2% of global CO2 and they predict this will grow to 3% by 2050. Whilst this is a relatively small contribution, we recognise that it is growing and support efforts by the aviation industry to reduce the CO2 emissions of new aircraft by 50% by 2020.

25. Economic and environmental sustainability require solutions which are proportionate and recognise the differing levels of contribution sectors make to carbon emissions. According to the most recent report from the leading authority on climate change, the UN’s Intergovernmental Panel on Climate Change, the fastest emissions growth rate is in power generation—at 2% per year—followed by transport at 1.7% per year. The industry sector grows at 1.6% per year, the residential-commercial sector at 1% per year and international marine and aviation emissions at 0.7% per year.

26. The Department for Energy and Climate Change released figures in February 2009 which showed that between 2006 and 2007, emissions from international aviation decreased by 1.9% and carbon dioxide emissions from domestic aviation decreased by 6.6%.

27. The same figures showed that in 2007, 40% of carbon dioxide emissions were from the energy supply sector. Professor James Hansen, director of NASA’s Goddard Institute for Space Studies and a leading expert on climate change, said recently that the priority for tackling climate change is to address emissions from the energy sector. He said that he didn’t believe it is helpful to be trying to prevent air flight.

28. We also believe that the only effective approach to dealing with aviation’s contribution to climate change is a combination of new technology and international agreements. Aviation should be included within an international climate change framework to ensure a balanced approach across the world.

29. The UK aviation industry has had in place a strategy to reduce its environmental impact since 2005 through its cross-industry coalition Sustainable Aviation, which produces periodic updates on progress; we understand the next is due shortly. The inclusion of aviation within the UK’s climate change strategy (as part of the Climate Change Act 2008) is therefore welcome.

30. Progress is underway today. The average aircraft operating in the UK today is as fuel efficient as a hybrid car at around four litres of fuel required to achieve 100 passenger kilometres with newer aircraft seeking to improve on this performance. For example, three airlines currently operate the new Airbus A380 from Heathrow, which is so fuel efficient that it achieves 100 passenger kilometres with three litres of fuel.

31. In December 2008 Sustainable Aviation published its first report mapping the industry’s CO2 emissions to 2050. The report concludes that CO2 from all UK civil aviation can return to 2000 levels by 2050, after having reached a peak around 2020, against a background of threefold growth in passenger numbers.

32. There is no agreed methodology for allocating international aviation emissions, it would therefore be ineffective to include them within the UK’s legally binding targets for emissions reductions as there would be no guarantee that the amounts were accurately or fairly allocated and thus no guarantee that any changes in the amount of international aviation emissions could be accurately measured.
33. In addition there are other non-CO2 factors associated with aviation but there is currently scientific
disagreement about how to quantify these and how to account for them in greenhouse gas inventories. When
scientific consensus is reached on this issue it is right that these be fairly taken into account.

34. The imperative must be to focus on policy instruments which are effective against climate change but
which are economically as well as environmentally sustainable.

35. It would be economically disastrous to impose policies which limited mobility by air or which sought
to ration flying by increasing the cost. We urge governments to support the development and implementation
of new aviation technology to reduce and mitigate the climate change impacts and to bring renewed pressure
in international fora to secure international agreements.

What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately
protected from the collapse of airlines?

36. We have argued consistently that increases in the cost of flying do not fall equally on people in different
income groups and that this has a regressive effect.

37. Independent research commissioned by FlyingMatters in 2008 and conducted by the National Centre
for Social Research (NatCen) showed for the first time that middle income families were as likely to be
affected by price rises as low income families, whilst the better off would be left virtually untouched. The
research considered the potential impact of possible future increases in the cost of flying on people’s flying
intentions within various different social groups.

38. Price increases of just 25% would force 15% of low income families and 13% of middle income families
out of flying altogether but only 5% of those on higher incomes. Increases of 50% would force two out of
five low and middle income families out of flying. Those with children were more likely to be priced out at
every level of price increase than those without.

39. When the cost of flying increases by 50% those on higher incomes were more likely to change to
cheaper destinations or make fewer trips rather than give up flying altogether. Only two in five low or middle
income families would do so compared with over half of those on higher incomes.

40. This is why we argue that using tax to push up the cost of flying is regressive and contributes to pricing
ordinary families out of flying. It does not result in environmental benefit but simply returns flying to the
preserve of a privileged elite.

41. We do believe that aviation should pay for its environmental impact but smart, market-based
instruments such as emissions trading—when they are introduced in a fully international way—will be a
much more targeted and effective way of covering that cost and ensuring the money raised is directed
towards reducing carbon emissions.

42. We strongly believe that the UK govt should take great care to ensure that the tax regime for UK
and UK aviation is not placed at a competitive disadvantage to the rest of Europe Unintended and perverse
consequences can arise if the impact of tax rises or changes is not fully considered.

43. UK Government figures in the latest Emissions Cost Assessment show that aviation is already more
than covering its environmental costs through Air Passenger Duty. Further, aviation taxes are a particular
burden on regional airports, where airline yields are lower and passengers are more price sensitive.

44. We do not propose to address questions of cover for airline passengers in the event of the collapse of
airlines as this is likely to be covered by consumer groups and airlines themselves in submissions.

What is the impact on the aviation sector of changes to the security environment?

45. We do not have expertise in this area and respectfully direct the committee to evidence submitted by
others more qualified.

February 2009
Memorandum from the CBI (FOA 11)

INTRODUCTION

1. The CBI is the UK’s leading business organisation, speaking for some 240,000 businesses that together employ around a third of the private sector workforce. Aviation is a vital sector of the economy, both in its own right and for the benefits it produces for the wider economy.

2. The CBI has been a strong supporter of the 2003 Air Transport White Paper, including the proposals for expansion at Heathrow. Businesses today operate in an increasingly global environment and if the UK is to remain an attractive place for them to locate, we need good, direct access to major growing economies such as China and India.

3. Therefore this submission argues that:
   — Aviation is essential for business and the economy;
   — Capacity constraints are undermining airport effectiveness and competitiveness;
   — Alternative proposals—such as high speed rail—alone are not the answer; and
   — The environmental impacts of aviation must be addressed in a way which does not undermine competitiveness.

AVIATION IS ESSENTIAL FOR BUSINESS AND THE ECONOMY

4. Aviation is a strategically significant sector of the UK economy, not only in its own right but as a sector facilitating other dynamic businesses and industries, especially knowledge and technology intensive industries and key service sectors like financial services. In 2004, the contribution of the sector to the UK economy was assessed at over £11 billion, with over 520,000 jobs in total dependent on aviation.

5. Good international transport links are essential in maintaining the UK’s position as a connected, leading world economy, and are especially important for the economy of London. Heathrow is the UK’s major intercontinental hub airport, aggregating surface and air transfer passengers, connecting the UK economy with the distant major economies of the world such as India, China, the United States and Japan. Even in the current climate the Indian and Chinese economies are continuing to grow (albeit at slower rates than previously) and evidence suggests these are likely to be even more important markets for UK exports going forward. If the UK is to remain an attractive place for businesses to locate we need good direct access to these economies.

6. Aviation—through regional airports—also has a vital role in connecting the UK’s regions both to London and through direct international links to the global economy. In Scotland and Northern Ireland particularly, CBI members regard air links with London as being very important for their businesses.

7. The CBI’s view that aviation is an important facilitator of business activity is routinely supported by surveys of business opinion:
   — Around 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.59
   — Around 64% of respondents considered air services to be either “critical” or “very important” for internal company business1
   — 73% of respondents to a recent survey said that a third runway at Heathrow (built subject to strict environmental criteria) was either “important” or “very important” to their businesses.60

8. Aviation is also a crucial part of the UK’s goods distribution network having a particularly strong role in the movement of high value freight. 30% by value of exports from the UK are transported by air—Heathrow is also the world’s second biggest cargo handling airport and over half the total UK airfreight shipments pass through it.

CAPACITY CONSTRAINTS ARE UNDERMINING AIRPORT EFFECTIVENESS AND COMPETITIVENESS

9. Put simply, many UK airports are operating at the very limit of their capacity. Heathrow is full up, operating at 99% of runway capacity, compared to the other European hubs which operate at around 70% of capacity. Whilst Heathrow currently has only two runways, both Frankfurt and Paris CDG have four, and Amsterdam has five. This has implications for Heathrow’s continuing ability to function effectively as a hub.

10. In fact, this is already being undermined—the number of domestic destinations the airport serves has fallen from around 20 in 1995 to nine now. Both Amsterdam and Paris CDG already serve more regional airports (in the UK) than Heathrow does—Amsterdam, for example, serves 19 UK regional airports, over twice as many as Heathrow, and Paris CDG 13. Overall, since 1990 the number of destinations served from Heathrow has fallen from 227 to 180.

11. While the situation is most acute at Heathrow, other UK airports are also facing difficulties. Gatwick, for example, is operating at 90%. Operating so close to the limits of capacity means that the resilience of the airports—ie their ability to cope with unforeseen circumstances such as adverse weather conditions or significant flight delays—is limited. Lack of resilience inevitably impacts the quality of service provided to passengers using these airports.

12. With air traffic predicted to continue growing—while the economic climate is inevitably impacting on immediate demand this is unlikely significantly to impact on long term growth projections—it is essential that action is taken to ensure that the UK’s competitiveness is not undermined. The macroeconomic benefits of the capacity expansion at Heathrow were quantified by Oxford Economic Forecasting (OEF) in their October 2006 report which found that a third runway at Heathrow would generate wider economic benefits estimated at £7 billion additional GDP a year. More recently the Government in its consultation document estimated a net benefit of around £5 billion a year (for a new runway, but without “mixed mode” operation in the interim).

**Alternative Proposals—Such as High Speed Rail—Alone are not the Answer**

13. Many proposals have been put forward as alternatives to expanding Heathrow—not least building a new airport in the Thames Estuary. While such proposals appear attractive on first consideration, they are not the simple solutions many consider them to be:

— such an airport would be very expensive, reflecting the fact that construction would take longer compared with expanding existing airports, and would be more difficult in a challenging maritime environment;

— it would also require a huge surface transport network to be built from scratch. Big hub airports, as the Thames Estuary airport would need to be, generate an enormous traffic of people and goods. Ensuring efficient access would be essential for the success of the airport, and a huge and very expensive challenge in its own right;

— while some of the environmental impacts, especially the noise footprint, would probably be lower than at Heathrow, an offshore airport would generate other environmental impacts, and any site in the Thames Estuary would be more vulnerable to bird strikes;

— a Thames Estuary airport could probably only be viable if Heathrow were to close.

14. Similarly CBI does not accept that the introduction of a High Speed Rail line to Heathrow would obviate the need for a third runway. Rail is often a very environmentally effective mode of transport. And good rail access is valued highly by many businesses, and the ongoing development of the UK’s rail network, including high speed rail, is an important business priority, recognised by the CBI as such.

15. Rail is generally considered to be competitive with air for distances of around 300 miles and journeys taking up to three hours. There are already two recent examples where significant improvements to rail services in the UK have led to growth of rail’s “market share”. The massive programme of upgrades for the West Coast Main Line has led to a significant growth in the share of rail—compared with air—for travel between London and Manchester (where the typical rail journey time is around two hours). A similar phenomenon has occurred with the Eurostar service to Brussels and Paris following the completion of the High Speed link to the Channel Tunnel—the Eurostar share of London-Paris traffic is now 70%.

16. However there are many flights for which rail would not always be an attractive option—for example passengers transferring to other (possibly long haul) flights at Heathrow. The development of a new high speed link in the UK would be very welcome—indeed CBI supports Government’s recent announcement to investigate the role of such a link at Heathrow as part of a more holistic approach to infrastructure strategy. However, in practice, we do not believe this would free up sufficient capacity to allow Heathrow to operate efficiently and effectively without further runway capacity.

**The Environmental Impacts of Aviation must be Addressed**

17. While we believe that there is an overwhelming business and economic case for capacity expansion at Heathrow, it is essential that this expansion is sustainable, in terms of local environmental impacts (noise, local air quality) as well as greenhouse gas emissions. Therefore we welcome the environmental conditions Government has attached to the proposed expansion.

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18. Tackling climate change is a major priority for the CBI, business in general and the aviation industry. Globally, aviation contributes around 2% of man-made CO₂ emissions. The UK Government has estimated that aviation accounts for around 6% of UK CO₂ emissions. However, it is important to recognise that aviation is a global industry—thus policies must ensure that savings can be made in a way which does not put the UK industry at a competitive disadvantage.

19. The CBI was strongly opposed to the Government’s proposals to replace the existing Air Passenger Duty (APD) with a new “per-flight” tax. The key reasons for this position were that:

— The proposals were likely to be ineffective as a “green tax”;
— Following the doubling of APD in 2007—aviation already paid a “fair” amount of tax;
— The increase in UK aviation’s tax burden resulting from the tax would have undermined the competitiveness of the UK industry; and
— The tax would have generated significant competitive distortions in many airline markets, especially those catering for transfer passengers and air freight. The effect of these distortions in some cases would have run counter to the environmental objectives of the tax.

20. In the CBI’s opinion, inclusion of aviation in the EU Emissions Trading Scheme is a far more economically efficient way for the sector to address this issue and we welcome the recent agreement which will see its inclusion from 2012. Although aviation has a very strong track record of continuous improvement in the environmental impact of aircraft—the industry is working to an ACARE\textsuperscript{62} target to improve the fuel efficiency of new aircraft by 50% by 2020—emissions trading will be important in helping to establish a price for carbon to encourage further efficiency savings. In addition, the overall ETS cap will ensure that if aviation emissions do continue to rise in the medium term, airlines will have to pay for offsetting cuts in other sectors (by buying carbon allowances from them). Ideally the trading scheme should extend beyond Europe so that we can avoid distorting competition and unnecessary carbon leakage. Therefore we are encouraging Ministers to press for a global deal.

21. The Climate Change Act made an 80% reduction in CO₂ emissions across the economy by 2050 mandatory. An additional target independent of ETS has since been announced by Government—that aviation emissions in 2050 should be reduced to below 2005 levels—and the Climate Change Committee has been asked to advise on how this can best be achieved. This will be a very challenging target—indeed it sets the aviation sector apart from others as the only one which has a separate sectoral target—which will provide strong incentives for airlines to invest in low-carbon aircraft etc.

22. Of course the issue of international competitiveness does not just relate to environmental concerns, it has implications for all areas of aviation policy. The CBI is aware of Ofcom’s proposal to introduce charges for the use of spectrum (radio waves) to aeronautical (and maritime) sectors. This proposal has caused significant concerns in the industry on the grounds of potential safety impacts, doubts about whether it will genuinely lead to a more efficient use of spectrum, and concerns about international competitiveness. Aviation is by its nature a global industry and placing costs on UK operators that are not borne by foreign competitors places the sector at a disadvantage. Any moves to place UK companies at a competitive disadvantage are unwelcome, particularly at the present time. We will be making our own representations to Ofcom in the coming weeks.

**Conclusions**

23. Aviation is a very valuable industry which makes a very significant contribution to the UK economy. The case for providing the additional capacity—at Heathrow and other airports—to ensure it can continue to fulfil this role is very strong, with the future prosperity of London and the wider UK economy depending on it. As the CBI’s recent “Time to change gear” publication recognised, in order to deliver a transport system capable of supporting business in the 21st century, we need to develop political consensus around a clear vision and then focus efforts on delivery. Endless rounds of consultation and changing priorities are hindering development of the UK’s transport system. The Government’s recent decision on Heathrow is welcome and the challenge must now be to focus on delivering that vision.

*February 2009*

\textsuperscript{62} Advisory Council for Aerospace Research in Europe.
SUMMARY

The target in the Climate Change Act of an 80% reduction in greenhouse gas emissions by 2050 compared to 1990 levels is already extremely challenging. The potential growth in aviation emissions puts achievement of this target at considerable risk and raises the prospect of further emission reductions being required in other sectors to counteract the growth in emissions from aviation. The policy framework as it currently stands does not provide enough certainty that these risks can be reduced to an acceptable level.

Emissions of nitrogen dioxide from aviation, combined with high background concentrations, present an ongoing risk to meeting local air quality standards in the immediate vicinity of airports. This risk is lower for emissions of PM10, as overall levels of emission are lower. However PM10 appears to have a greater long-term impact on human health when considered at a regional or national scale.

Releases of nitrogen oxides and PM10 from major airports are broadly comparable with some major industrial installations, yet are generally not directly regulated. We welcome the announcement of new powers for the Environment Agency over air quality around Heathrow and will make sure that air quality limits are rigorously enforced.

In our response to the Department for Transport Consultation on Heathrow we expressed concern about the limited consideration of uncertainties and alternative emission scenarios. We have developed consistent and auditable techniques for the assessment of impacts from major sources and believe there is scope to apply similar approaches to air quality impact assessments undertaken for major developments such as airports.

1.0 INTRODUCTION

1.1 The Environment Agency is the Government’s principal advisor on the environment. More specifically, we have:

— a statutory duty to report on the state of the environment;
— responsibility for regulating major sources of air pollution; and
— responsibilities around the development and implementation of emission trading schemes.

As such, we have a specific interest in the future of aviation from the twin perspectives of air quality and greenhouse gas emissions.

2.0 What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

2.1 Aviation’s share of the UK’s 2050 greenhouse gas emissions budget

2.1.1 By 2050, the Department for Transport (DfT) predicts that emissions of carbon dioxide (CO2) from the aviation sector will grow from 37.9 megatonnes (Mt) CO2 in 2006 to 59.9 MtCO2, within the range 53.0 MtCO2 to 65.0 MtCO2.

2.1.2 This figure does not include the impact on the climate of non-CO2 aviation emissions at high altitude. These include emissions of water vapour, oxides of nitrogen and particulates such as soot and sulphate particles, which all affect the climate in different and highly complex ways.

2.1.3 To estimate the impact of emissions at high altitude, a “radiative forcing” factor is applied. The size of the factor is dependent on the altitude the emissions are released at and the local climatic conditions, among other things. The DfT’s central estimate of a radiative forcing factor is 1.9, with a range of one to four.

2.1.4 The chart below shows aviation’s share of the UK’s overall greenhouse gas (GHG) emissions budgets in 2006 and 2050. In percentage terms, aviation’s share of the UK’s GHG budget rises from just over 5% in 2006 to between 38 and 72% depending on whether a radiative forcing factor is included. Increases at these levels would require a reduction in GHG emissions by the rest of the economy of between 85 and 93%.
2.1.5 Our concern is that increases in emissions from the aviation sector will leave little or no headroom for GHG emissions from other sectors. This in turn suggests that either very costly abatement measures will be needed in these other sectors or that there is a risk that the overall target will not be met.

2.2 Inclusion of aviation in the EU’s Emissions Trading Scheme

2.2.1 Figure does not take into account the inclusion of aviation in the EU ETS from 2012. While we welcome this development we do not feel that it is a sufficient response to the problem of growing emissions from the aviation sector for three reasons.

2.2.2 First, the ETS does not cover the effects of non-CO₂ GHGs on the climate. The ETS does place a cap on EU emissions of CO₂ from the aviation sector, but this can be achieved by allowing airlines to continue to increase their operations while buying emission reductions from other parts of the economy. These emissions reductions do not cover the effects of other pollutants and there is therefore a risk of increasing damage to the climate system from these pollutants unless other policies are also pursued.

2.2.3 Second, the ETS cap for aviation implies only a modest curb on emissions at EU level. Emissions are capped at 97% of the average annual emissions for the 2004-06 period between 2008 and 2012 and 95% between 2013 and 2020. This is the overall EU cap, which means that emissions from the aviation sector in the UK could continue to increase if other countries chose to act to reduce emissions from their own aviation sectors.

2.2.4 Third, no cap has yet been determined for total emissions beyond 2020, so there is no carbon price signal for the longer term. However, decisions are being taken now to put in place infrastructure that will facilitate growth in GHG emissions from aviation over the 2020 to 2050 period.

2.3 Other Government policies to address GHG emissions from the aviation sector

2.3.1 The Government’s announcement of a range of other policies to address GHG emissions from the aviation sector is encouraging. In particular we welcome the Government’s intention to press for a deal on a global climate change framework for international aviation and to promote progressively stricter limits on carbon dioxide emissions from aircraft.

2.3.2 However, the outcomes of such policies are uncertain. They are likely to take a long time to be agreed, and their effects will take still longer to feed through into a reduction in GHG emissions. We therefore welcome the fact that the Government has asked the independent Committee on Climate Change to report by December 2009 on if and how aviation emissions can be limited to below 2005 levels by 2050. It is unfortunate that this review comes after the Government’s announcement to allow expansion at Heathrow.
2.4 Air quality

2.4.1 Poor air quality in the UK is estimated to reduce the life expectancy of every person in the country by an average of seven to eight months. Estimated equivalent health costs are up to £20 billion each year mainly due to the effects of particulate matter.

2.4.2 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 PM\textsubscript{10}) can cause cardiovascular problems.

2.4.3 Oxides of nitrogen and particulate matter are produced by aircraft, service vehicles on the ground and by passengers and staff travelling to and from the airport. Releases of oxides of nitrogen and PM\textsubscript{10} from aircraft and associated support vehicles are shown in Table 1. Emissions of oxides of nitrogen from aircraft and associated ground vehicles are equivalent to nearly 40\% of the total emissions from major industrial sources regulated by the Environment Agency but, unlike industrial sources, they are not directly controlled.

Table 1

<table>
<thead>
<tr>
<th>Data source</th>
<th>Oxides of nitrogen</th>
<th>PM\textsubscript{10}</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Atmospheric Emissions Inventory (2006)</td>
<td>172 kilotonnes/year</td>
<td>2 kilotonnes/year</td>
</tr>
<tr>
<td>airports and aviation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial sources regulated by the Environment Agency in England and Wales</td>
<td>433 kilotonnes/year</td>
<td>18 kilotonnes/year</td>
</tr>
</tbody>
</table>

2.4.4 To put emissions from Heathrow Airport in context it is useful to compare them with those of other major industries. For example, table 2 shows that the emissions from Heathrow are broadly comparable with those of a major industrial installation.

Table 2

<table>
<thead>
<tr>
<th>Pollutant</th>
<th>Heathrow</th>
<th>Existing 1GW coal power station without Flue Gas Desulphurisation</th>
<th>New coal fired power station with Flue Gas Desulphurisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oxides of nitrogen</td>
<td>~ 7 ktonnes/year</td>
<td>~ 9 –10 ktonnes/year</td>
<td>~ 2 –3 ktonnes/year</td>
</tr>
<tr>
<td>PM\textsubscript{10}</td>
<td>~ 0.1 ktonnes/year</td>
<td>~ 0.4 ktonnes/year</td>
<td>~ 0.1 ktonnes/year</td>
</tr>
</tbody>
</table>

2.4.5 Aviation’s contribution to ground level concentrations of oxides of nitrogen will depend on the size of a particular airport. Annual average concentrations of nitrogen dioxide in the vicinity of Heathrow airport are in the region of 40–50 \(\mu\text{g/m}^3\) (depending on the monitoring site) and are expected to continue to exceed the EU air quality limit of 40 \(\mu\text{g/m}^3\) by 2010 when the limit is due to be met. Air dispersion modelling studies suggest that in 2010 approximately 30 to 45\% of local nitrogen oxide concentrations at some monitoring locations could be attributed to airport operations, 30\% to traffic and the remainder to regional background sources.

2.4.6 The overall low level of release of PM\textsubscript{10} from aviation suggests that this is unlikely to lead to local air quality problems. However a study of Heathrow Airport commissioned by DfT indicated that the cost of air emissions to human health over the period 2015–80 for the baseline airport operation (ie without expansion), was approximately £750 million of which nearly 70\% could be attributed to PM\textsubscript{10}.

2.4.7 We therefore welcome the Government’s recent announcement that the Environment Agency will have a legal duty, and necessary powers, to take action, or require others to take action, if air quality limits are breached around Heathrow. We will make sure that these limits are rigorously enforced.

2.4.8 We note that there are different approaches to modelling air quality around airports. For example, the costing of Heathrow impacts was focused on particulate matter, whereas the local air quality management guidance for airports focuses on nitrogen oxides. These variable approaches to the assessment and costing of air quality impacts can undermine the credibility of decision-making.
2.4.9 In our response to the Department for Transport Consultation on Heathrow we expressed concern about the limited consideration of uncertainties and alternative emission scenarios. We have developed consistent and auditable techniques for the assessment of impacts from major sources and believe there is scope to apply similar approaches to air quality impact assessments undertaken for major developments such as airports.

February 2009

Supplementary evidence from the Environment Agency (FOA 12A)

HEATHROW NOx FIGURES

As discussed I write with further details on the NOx levels around Heathrow airport. The figures that we quoted were derived from the Cambridge Environmental Research Consultants report on behalf of the Project for the Sustainable Development of Heathrow.

The relative contribution of emissions in 2010 from aircraft, other sources of airport NOx and roads to air quality in the vicinity of Heathrow will depend on the position of the receptor in relation to the direction of the prevailing wind and the location of the sources.

The relative contribution of aircraft related contributions quoted in our evidence are for monitoring locations downwind of the airport. For example, at the monitoring site known as LHR2, 41% is from aircraft and 4% from “other airport NOx”, mainly airside vehicles and 27% from roads.

In contrast at the LHR10 site which is located upwind of the airport and adjacent to the M25, the contribution from aircraft is approximately 2%, other airport NOx, less than 1% and roads 82%.


The percentage contributions were derived from the data in Table 10.3 Predicted concentrations of NOx, NO2 and PM10 for 2010SM (µg/m3)

The report can be downloaded from the following link: (short title “Air Quality Studies for Heathrow”) http://www.dft.gov.uk/consultations/archive/2008/heathrowconsultation/technicalreports/

May 2009

Memorandum from Greenpeace UK (FOA 13)

SUMMARY

— The government’s policies of aviation expansion and tackling climate change are completely contradictory.
— The Department for Transport forecasts that aviation will emit nearly 60 million tonnes of CO2 in 2050 but has a target for it to emit no more than 37.5 million tonnes.
— Experts say that the scale of technological improvements needed to achieve the required reductions in emissions are, at best, highly optimistic and demand massive investment, and, at worst, are impossible to deliver.
— This means that the policy of airport expansion, and the 2003 Aviation White Paper, must be overturned.
— This need not damage connectivity or the UK economy, if proper investment is made in rail and other technologies.

1. Greenpeace

1.1 Greenpeace UK is the autonomous regional office of Greenpeace, one of the world’s leading environmental campaigning organisations. Greenpeace has regional offices in 40 countries, 2.8 million supporters worldwide and around 150,000 in the UK. It is independent of governments and businesses, being funded entirely by individual subscriptions.

1.2 Greenpeace was one of the first organisations to campaign for action to be taken to halt anthropogenic climate change. It has built up considerable knowledge and understanding, and has access to independent expertise on the links between aviation and climate change.
1.3 Greenpeace welcomes the opportunity to submit views on the future of aviation. This submission will chiefly address the following questions suggested by the Committee.

— What costs does aviation impose on society and the environment?
— What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?
— What is the value of aviation to the UK economy?
— To what extent can rail provide an alternative to short-haul flights?

2. Aviation and climate change

2.1 An average rise in global temperature of 2°C above pre-industrial temperatures is widely regarded as the limit beyond which irreversible climate change impacts will occur. Global greenhouse gas emissions, primarily carbon dioxide, have already generated a rise of 0.7°C and due to the inbuilt lag in the earth’s atmospheric system we are already committed to a further rise of approximately 0.7°C. It is therefore clear that the window of opportunity to limit a global temperature rise below 2°C is closing swiftly. Climate change impacts are already abundantly evident, but if we fail to constrain our carbon emissions, such that we are on a rapidly decreasing emissions pathway by the end of the next decade, then we can expect that within decades from now climate change will be transformed from a key political agenda item into a threat to global security, economies and resources far greater than any seen in the global conflicts of the 20th century.

2.2 The government is legally bound to cut emissions by 80% by 2050. This is the scale of reduction that the Committee on Climate Change says is needed to give a 50% chance of keeping the average rise in global temperatures between 2 and 2.4°C.

2.3 Aviation expansion threatens to seriously undermine the UK’s ability to meet its climate change targets and the science. Research from the respected Tyndall Centre shows that if the aviation industry is allowed to expand as predicted, aviation would absorb a significant proportion of the UK’s climate budget, and potentially all of the science-based budget.

2.4 The aviation sector currently accounts for 13% of the UK’s climate impact and over the long-term, emissions from aviation are growing faster than any other sector in the UK economy. Between 1990 and 2000 emissions from aviation doubled, and if flight numbers are allowed to increase as the industry expect, then emissions will double by 2030.

2.5 The industry makes much of the positive contribution aviation brings to the economy (explored in more detail below) but the costs of climate change will dwarf these benefits. The Stern Report estimated that if we carry on with business as usual, climate change will cost between 5 and 20% of global GDP.

2.6 The aviation industry tries to play down its climate impact claiming that aviation is only responsible for 2% of global emissions. This figure applies only to carbon dioxide emissions, not the overall climate impact of aviation, and refers to 1992 data.

2.7 According to the European Federation for Transport and Environment, in the year 2000, air transport actually accounted for between 4% and 9% of the climate change impact of human activities. The variation in estimates is due to the difficulty of measuring the impact of other pollutants and gases emitted by aeroplanes and the additional impact of their release at high altitude. Scientists multiply aviation emissions by 2–3 to calculate their increased climate impact.

2.8 Including aviation in the EU Emissions Trading Scheme (ETS) will not solve the problem either. According to a report from Ernst and Young, even in the toughest ETS scenario, emissions from the aviation sector would grow by 83% by 2020.

2.9 More recent research from the Tyndall Centre says that aviation should work from an earlier base line year (currently the sector will only have to pay for emissions that exceed 95% of the sector’s average emissions from 2004–06). This would mean that aviation would have to pay for the growth in emissions from 1990, as other sectors that are part of the ETS will have to.

2.10 In addition, only C02 from aviation will be included in the ETS—non-C02 impacts will not. This means that rather than having to pay to cover the growth in all its emissions, the aviation sector will only pay to cover the growth in C02 emissions.

2.11 Finally, the ETS allows aviation to pay for its emissions reductions through buying permits from outside the EU generated by the Clean Development Mechanism. Not only does this promote the misguided belief that reducing emissions in developing countries can happen instead of reducing emissions in developed countries, there is widespread evidence that CDM projects do not reduce emissions in developing countries.
3. **Aviation expansion is incompatible with the government’s climate change policy (including the Climate Change Act 2008)**

Climate Change Act 2008

3.1 As suggested above, the UK’s climate change policy is completely at odds with the predict and provide model of aviation set out in the 2003 Aviation White Paper.

3.2 In their first report, the Committee on Climate Change estimated that 35% of the UK’s carbon budget could be absorbed by aviation by 2050. This assumes significant improvements in the efficiency of aircraft and demand constraints, though they took no specific view on London Heathrow.

3.3 The government’s recent decision to approve a third runway at Heathrow, means that once running at full capacity, Heathrow alone will account for over a fifth (22.6%) of the UK’s entire carbon budget by 2050, assuming no improvements in efficiency.\(^{x}\)

3.4 The Committee on Climate Change recommended that whilst emissions from aviation should not be included in the new climate budgets directly, they ruled that there must be “clear strategies” in place to cut emissions from aviation, otherwise any cuts made in other sectors will be wiped out.

3.5 The Chair of the Committee, Lord Turner, estimates that the rest of the economy will have to make reductions of around 90% to allow for the growth in aviation emissions. This means that other sectors will be forced to shoulder the burden of delivering even bigger cuts than previously expected and this could push up prices, for example in the energy sector. It is unfair that when all sectors should be playing their part in helping the UK move to a low carbon economy, the aviation industry is afforded special treatment. We must proceed on the basis that the polluter pays.

Government target to cut aviation emission to 2005 levels by 2050

3.6 On the same day that the government gave the green light for Heathrow expansion, the Department for Transport announced a new target to cut aviation emissions to 2005 levels by 2050. The Department has since confirmed via e-mail that this condition applies to emissions from all aircraft departing from UK airports and can not be met by offsetting. In effect this means that aviation emissions will not be allowed to emit more than 37.5 MtC02 by 2050. This is completely at odds with the Department for Transport’s own forecasts of C02 emissions from aviation. These predict that aviation will grow to 58.4 MtC02 in 2030, increasing to 59.9Mt C02 by 2050. These forecasts are based on updated White Paper passenger forecasts, and in consultation with aerospace manufacturers about likely improvements to technology and operations. The target is therefore incompatible with the 2003 Aviation White Paper, and it must be overturned.

Technological fixes will not enable the target to be met

3.7 The government argues that aviation can grow, whilst keeping emissions at 2005 levels (37 MtC02), thanks to technological advances and efficiency gains, as set out in the Sustainable Aviation Roadmap. The assumptions upon which this rests are highly optimistic.

3.8 Whilst in the last 16 years, airlines have made average efficiency gains of 1.5% per year, passenger numbers and emissions have continued to grow at approximately the same rate. In effect, small efficiency gains have been completely wiped out by the growth in demand.

3.9 The Sustainable Aviation Roadmap argues that this will not be the case in the future. Between now and 2020, they predict a 10% saving from optimising ATM and operations, and an annual 1.5% gain in efficiency from gradual fleet renewal. From 2020, the Roadmap assumes that a new generation of aircraft will be introduced in 2020 to produce 50% less C02 per passenger km than in 2000. The Society of British Aerospace Companies notes that—“these goals are demanding . . . [they] represent a doubling of the rate of improvement over the past 30 years”.\(^{xii}\)

3.10 Other experts go further and say that the scale of technological advances required to meet the 2050 target are completely unachievable. David Learmount, Operations and Safety Editor of Flight International said that—“the massive investment required to build technologies, like blended wing aeroplanes, and the massive investment required in airports to take different shaped aeroplanes will be such as the investment will not be made.”\(^{xiii}\)

3.11 The Royal Commission on Environmental Pollution found that the industry’s targets (from which any emissions standards would be derived) are—“clearly aspirations rather than projections.”\(^{xiv}\) The Chairman of the Committee on Climate Change, Lord Turner notes that—“whilst estimates and targets suggest significant potential to drive efficiency improvement, it is likely that many of these improvements are already factored into projections of aviation emissions. More radical changes….. to aviation technologies eg blended wing bodied aircraft, are likely to be more expensive, require changes to infrastructure and may not lead to significant additional emissions reductions.” He concludes that—“the limits to feasible fuel efficiency improvement… make it likely that aviation emissions will continue to grow significantly unless demand is constrained.”\(^{xv}\)
3.12 If the technology gains are somehow delivered, they will come at a significant cost increase to consumers, which will in turn suppress demand. As the government’s former Chief Scientific Adviser, Sir David King, has noted, the expansion of airports such as Heathrow threaten to become tomorrow’s white elephants, as passenger demand drops in the face of better competition from rail and the penalties of CO2 pricing take effect.xvii

3.13 In a further effort to mitigate the environmental impact of expanding Heathrow, the government also announced that they would initially restrict extra capacity at Heathrow to 125,000 flights per year to ensure that expansion does not jeopardise the UK’s climate change targets.

3.14 Any further increases in capacity would be conditional upon the Committee on Climate Change being satisfied that more flights would be compatible with the UK’s climate change targets. However, there are serious questions as to how this will be enforced. The Committee on Climate Change is an advisory body whose recommendations are not binding on the government. Furthermore, it would seem illogical to allow BAA to invest £13 billion in a new runway that they are then not able to use. We believe the political forces in favour of the full exploitation of a runway once built will overcome any advice from the Committee on Climate Change.

The role of biofuels

3.15 The Transport Secretary has also suggested that biofuels may play a role in reducing emissions.

3.16 Biofuels present huge problems in terms of fuelling the destruction of rainforests and threatening food security. The government’s own review of biofuels called for a slow down in their use. Whilst the airline industry pretends otherwise, there is no viable alternative to kerosene at any significant level. The government’s own Renewable Energy Strategy consultation makes clear that the biofuels that are available in the future will not be best used in planes—“due to a range of technical, safety and economic challenges, it is arguable that…. biofuels would be used either in road transport or electricity generation in preference to aviation.”xvii

3.17 In short, the assumption that technological fixes and efficiency improvements will allow aviation to expand whilst still enabling the UK to meet its climate change targets is at best wildly optimistic, and at worst an irresponsible distraction from the real solution—constraining demand.

4. The economic benefits of aviation expansion are overstated

4.1 The government does not factor into the economics the cost to the UK economy of the tax breaks that the aviation industry receives (for example not paying fuel duty or VAT) which have been put as high as £9 billion.

4.2 In addition, cost-benefit analyses of expansion at airports such as Heathrow and Stansted fail to take into account the true cost of carbon. An independent study commissioned by WWF UK used the government’s own model to calculate the costs and benefits of a new runway at Heathrow. By making a few reasonable adjustments, such as using a carbon price in line with that recommended in the Stern Review, the report found that an extra runway at Heathrow would not benefit the UK economy but would instead lead to a £5 billion loss.xviii

4.3 The report also shows that, if modelling assumptions are adjusted, for example, to a realistic oil price (DfT assume that oil will fall to $53 a barrel and stay there indefinitely), improved rail competition and slower GDP growth, then the demand for aviation contracts rather than expands.

4.4 The government’s own environment and economics advisory body, the Sustainable Development Commission, have asked the government to completely rethink aviation policy because of doubts over economic data and they say that the evidence used to support development at Heathrow, was “inadequate” and the subject of “fundamental disagreement”.

4.5 They also state that the data underpinning the Government’s whole civil aviation policy is fundamentally flawed and that the government’s calculations regarding the economic benefits of the Stansted and Heathrow Airport expansion plans had used a false “base”, resulting in over-estimation in the economic benefits and under-estimation of carbon dioxide emissions from the proposed developments.xix

4.6 In fact, even the government’s own figures don’t support the economic argument for more expansion. Whilst the original industry-funded study relied on by ministers, by Oxford Economic Forecasting, claims that every passenger arriving in the UK contributes £120 to the British economy, the Department for Transport’s own calculations put the figure at around £30.xx

4.7 Any cost-benefit analysis also needs to take into account the “tourism deficit” created by increasing airport capacity. There is at least a £15 billion annual deficit in aviation tourism—that is the difference between the amount of money spent abroad by Britons flying out of the UK (£26 billion) and the amount visitors into the UK spend here (£11 billion).xxi

4.8 Michael Meacher, former Environment Minister and Treasury Select Committee Member questioning the economic case for expansion at Heathrow said: “The aviation industry is only the 26th largest industry; it is half the size of the computer industry, and just a tenth of what was, until a few months
ago, the size of banking and finance. So far from being key to the balance of payments, it actually helps to create a tourism deficit of £17bn a year—this figure being the excess spent by British tourists abroad over what visitors to Britain spend here."

4.9 In addition, the recent global economic downturn is casting further doubts over the “need” for expansion. Passenger numbers have already dropped over recent months\(^{\text{xxxi}}\), and this month, BAA, announced that a drop in passenger demand would delay the opening of a second runway at Stansted by two years.

Potential of rail travel

4.10 For London and UK business to thrive we do not need to expand airports. London is already well-connected—the five airports that serve London have twice the collective capacity of Paris’ main airport Charles De Gualle.\(^{\text{xiii}}\)

4.11 Good travel connections do not have to mean more flying. For example, the number one destination from Heathrow is Paris. The fourth most popular destination is Manchester—with 32 flights per day between London and the city. In all, 100,000 flights a year go between Heathrow and cities within 500 kilometres of the airport—destinations easily reachable by train.

4.12 Eurostar claim that their trains are around 10 times less damaging to the climate than flying and for many travellers rail is also more convenient. Transferring these 100,000 short haul flights from Heathrow to the rail network would take Heathrow capacity back to 1990 levels, largely negating the need for a third runway at Heathrow.

4.13 New high speed rail links between Barcelona, Madrid and Seville have seen passenger numbers on domestic flights tumble by 20% in the last year alone.\(^{\text{xxiv}}\) If similar investment was made in the UK, capacity could be increased without needing to expand airports.

4.14 Technology, such as state of the art video conferencing facilities, has the potential to reduce the demand for long-haul flights. For example, in a report commissioned by WWF, Travelling Light, 85% of businesses said video conferencing could help them fly less.\(^{\text{xxv}}\)

5. Conclusion

5.1 Aviation growth is incompatible with Britain’s climate responsibilities and technology is unlikely to be able to let the aviation industry expand without compromising UK climate policy. The economic case for aviation expansion is overstated by the Department for Transport and BAA whilst the alternatives are not being sufficiently supported.

5.2 Greenpeace is calling for:

1. A moratorium on all airport expansion and the Aviation White Paper to be overturned.
2. A immediate cap on flights at current levels. This would mean any efficiency gains would have a positive impact by reducing overall emissions.
3. A clear strategy put in place to reduce emissions from aviation to 1990 levels in line with other sectors.
4. The billions channelled to aviation in tax breaks to instead be ploughed into the UK’s railway network, to increase capacity and make trains cheaper and more accessible, reducing demand for domestic flights.

REFERENCES


\(^{\text{iii}}\) Gillian Merron Answer to parliamentary question 26 April 2007.


\(^{\text{v}}\) http://www.hm-treasury.gov.uk/media/4/3/Executive_Summary.pdf


Committee on Climate Change—“Building a low carbon economy: The UK’s contribution to tackling climate change” (December 2008)

The Department for Transport’s “UK Air Passenger Demand and CO2 Forecasts” (1) November 2007 states that in 2005 Heathrow emitted 18.2 million tonnes of CO2, with 476,000 flights. Using this as a base line, an extra 226,000 flights at Heathrow (bringing total numbers of flights to 702,000) would result in an additional 8.64 million tonnes of CO2 per year.

In 1990 (the baseline year for the proposed 80% emissions cut) the UK emitted 592.4 million tonnes of CO2 in total (2)

Therefore, the third runway alone would take up 7.29% of our entire carbon budget for 2050 on current emission levels (8.64 /118.5 x 100 = 7.29%)

If aircraft technology does not improve, one single airport, (Heathrow) would account for 22.6% of the UK’s entire carbon budget by 2050.

Even with the increase in flights from a third runway limited to 125,000 per year (the initial constraint that Hoon suggested), it would lead to a 4.7 million tonne increase in CO2 emissions (18.2m tonnes at Heathrow divided by 476,000 x additional 125,000 flights = 4.7 million tonnes), meaning that Heathrow alone would swallow just under a fifth (19.32%) of our entire carbon allowance.

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February 2009
Memorandum from the Aviation Environment Federation (FOA 14)

Question 1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

1.1 What is the value of aviation to the UK economy?

The source frequently quoted by those promoting the positive impact of aviation’s economic benefits to the UK is the updated October 2006 report, commissioned jointly by the industry and the DFT, “The Economic Contribution of the Aviation Industry in the UK” from Oxford Economic Forecasting.

OEF claimed that:

— The aviation industry directly contributed £11.4 billion to UK GDP in 2004 and employed 186,000 people.
— Over 520,000 jobs in the UK in total depend on the aviation industry.
— Visitors arriving by air contribute over £12 billion a year to the UK tourism industry, generating a further 170,000 jobs.

The £11.4 billion figure is approximately 1% of UK GDP. The direct employment figure of 186,000 seems reasonable to us—but the claimed total of more than 520,000 jobs being dependent on aviation is arrived at by the use of arcane and opaque multipliers that are little better than guesswork.

As a result, we believe that the OEF study significantly overstates aviation’s secondary employment impacts.

1.2 Because the higher socio-economic groups of our society are frequent flyers the UK economy operates a substantial tourism deficit as the latest information from the ONS indicates:

“In 2007 travel expenditure by non-residents visiting the UK accounted for 13% of total exports of services, while expenditure by UK residents traveling abroad accounted for 34% of total imports of services. The travel deficit has grown significantly since the late 1990s. The £17.3 billion deficit in 2007 was the highest on record, up from £16.0 billion in 2006. Exports of travel services to nonresident visitors to the UK increased by 2.8% in 2007 to £18.8 billion, while imports by UK residents traveling abroad grew by 5.4% to £36.2 billion.”


OEF similarly recognises that the outward flow of UK citizens abroad is substantial:

“In the 2005 there were 66.5 million visits abroad by UK residents…. tourism spending abroad is now more than twice foreign spending in the UK, with the difference equivalent to around 1.5% of GDP (about £18 billion a year)”.

It may well be societies’ choice right now that holidays abroad are desirable, a theme we will return to later in this submission.

However, the imbalance noted here should be subtracted from the total benefits claimed along with a further sum to cover the absence of fuel duty, VAT on tickets, duty free sales of around £9 billion (this estimate is net of the tax take from Air Passenger Duty).

1.3 It is important to note the DfT’s uncritical acceptance of the OEF’s conclusions, in itself perhaps not a surprise as they part-funded it. Using just this one non-peer reviewed, highly partisan study, as the basis for Government policy is unacceptable.

There is some further linked difficulty when the DfT examine and pronounce on the external costs of aviation’s environmental impacts, another key area when assessing the overall cost benefit analysis of the sector’s wider economic balance, in particular whether their valuation of the cost of carbon is correct or not.

1.4 Recommendation 1

The Committee should consider asking a combination of the NAO and DfBERR to conduct, by the end of 2009, a review of the OEF report(s) and the DfT’s use of the OEF claims to justify unrestrained airport expansion, as set out in “The Future of Air Transport” 2003 White Paper and subsequent 2006 Progress Report. Defra in conjunction with DECC and the Office on Climate Change should also be charged with carrying out a review of the DfT’s statements on aviation’s externalities, the costs and methodologies used, and come to a view as to their suitability and accuracy. The 2 reviews should use an independent expert oversight panel, or panels, to set out a more accurate CBA of the DfT’s planned aviation growth forecasts through to 2030 as the current approach is partisan and fundamentally flawed.

1.5 What are the roles of the London and regional airports?

All UK airports exist to provide passenger, freight and aircraft handling facilities to airlines wishing to use them. Airline route development is dictated by a combination of factors; the intrinsic demand from passengers in each airport’s catchment to fly to and from particular destinations for leisure or business purposes; similar demand from incoming passengers originating in other airport regions; or simple competition between airlines.
Airline growth is closely linked to GDP, typically twice that of a nation’s positive GDP. Judging from the growth of services and passenger numbers at most if not all UK airports the current infrastructure appears adequate and fit for purpose. This is not to say that all airlines or their routes are profitable however. And we are certain that some smaller UK airports are loss-making too. We do not think there are any capacity or service level constraints at any UK airport at the moment.

We accept that there is and should be, subject to proper environmental and sustainability limits—not those imposed by the DfT—some growth in the overall system in the future. We will return to what these levels might be later.

We have some concerns that regional airports are overstating their case for expansion. Looking at Manchester Airport it seems there is clearly an overly ambitious program of expansion as laid out below:

![Manchester Airport Annual Terminal Passengers Graph](image1)

**Source:** MAplc reporting to Consultative Committee; MAplc Public Inquiry statements.

The airport’s forecasts when seeking consent to build a second runway were a target of almost 30 million passengers by 2005—actual numbers were 22 million representing a staggering 27% shortfall.

![Manchester Airport Annual Aircraft Movements Graph](image2)

**Source:** MAplc reporting to Consultative Committee; MAplc Public Inquiry statements

Similarly, aircraft movements are way below forecast too. This means that the economic benefits claimed at the time construction permission for the second runway was sought and obtained will also be significantly lower than predicted. We would ask the Committee to note this underperformance by the UK’s largest airport outside London and the South East.
1.6 London’s five airports operate as a unique system. Their joint capacity, range of destinations and variety of airlines is unmatched by any city region anywhere in the world. Much is made, however, of the so-called competition Heathrow in particular faces from its European counterparts.

Those supporting the unrestrained expansion of Heathrow continually use the fact that air traffic at Heathrow airport is approaching the current movement limit of 480,000 take-offs and landings, firmly stating that perceived capacity constraints will cause Heathrow to decline rapidly in the course of the next 20 years.

They say that without a third runway and Terminal 6, Heathrow will lapse into terminal decline, along with the entire economy of the City of London, the South East and much of the UK.

This is incorrect.

1.7 For a close examination of Table C1 on page 205 of the recent Department for Transport Heathrow Consultation document shows BAA’s own forecasts for Heathrow, with the current 480,000 limit still in place over the entire period from 200 to 2030, growing from 67 million passengers in 2006, to 85 million in 2015 and on to 95 million by the year 2030, a near 30% increase. This will happen because the movement limit will rightly force airlines to fly larger and larger aircraft per flight, increasing passenger numbers per movement. We don’t think this shows an airport in decline—at the very least its owners are very optimistic about significant growth under a capacity-controlled regime!

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Year</th>
<th>Air Transport Movements (000s pa)</th>
<th>Passengers (million pa)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outturn</td>
<td>2000</td>
<td>450</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>471</td>
<td>67</td>
</tr>
<tr>
<td>Maximum Use of existing runways</td>
<td>2015</td>
<td>480</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>2030</td>
<td>480</td>
<td>95</td>
</tr>
<tr>
<td>Mixed Mode 2015-2019 at 540,000 ATMs, then Third Runway at 605,000 ATMs rising to 702,000 ATMs in 2030</td>
<td>2015</td>
<td>540</td>
<td>90</td>
</tr>
<tr>
<td>Third Runway at 2020 at 605,000 ATMs rising to 702,000 ATMs in 2030</td>
<td>2030</td>
<td>702</td>
<td>122</td>
</tr>
</tbody>
</table>

1.8 And in the same section of this document, the Department for Transport’s own forecasts for Heathrow operating under the same 480,000 aircraft movement limit almost exactly mirror BAA’s forecasts of massively increased passenger numbers without a third runway or a new Terminal 6. According to the Department for Transport, even within today’s limit of 480,000 movements, Heathrow would still be able to handle 85 million passengers by 2030. So quite clearly, both the Department for Transport and the airport’s owners, BAA, are content with their own forecasts showing significant growth at Heathrow within the current movement limit.

It would seem therefore that it is a fact that Heathrow airport can grow substantially without the wholly negative environmental impacts of a third runway and its accompanying sixth terminal.

1.9 An expanded Heathrow catering for 85 to 95 million passengers a year by 2030 would require careful environmental impact assessment, sensible and sensitive land use planning, and significant investment in public transport accessibility programmes like Crossrail.
And it may well be possible to keep a Heathrow airport of this size within the present noise guarantee and mandatory EU air quality limits, a situation that is surely worthy of urgent investigation? This option has a much higher degree of potential compliance with noise and EU air quality limit values than a third Runway.

If one looks at the time the Department for Transport have spent locked away with both BAA and British Airways trying to cook the books in respect of their beloved third runway option—as documents obtained and released by Justine Greening, MP for Putney, have shown—it’s a real pity they haven’t bothered to look at the impacts of their own capacity-limited proposals as well.

And we believe too that recent proposals from a number of sources, including the Conservative party, for connecting Heathrow and points within the UK and Europe by high speed rail also make economic and environmental sense, although they too would need to be subject to rigorous environmental impact assessment.

1.10 Many supporters of Heathrow expansion have also discussed Heathrow’s two runway layout relative to both Amsterdam Schiphol and Paris Charles de Gaulle. Schiphol does have five runways but they operate in a two plus one configuration, with only two out of the four nearest the terminal in use at any one time for take offs and landings, in line with wind direction, and the newest fifth runway in use for take offs only. Schiphol does not have 2.5 times the capacity of Heathrow, as Heathrow’s supporters infer.

Charles de Gaulle has four parallel runways contained within its boundaries of different lengths utilised by different sizes of aircraft, but again because of their relative closeness and consequent operational safety reasons, the airport does not have twice the capacity of Heathrow.

However it is true to say that both airports do have more flight capacity than Heathrow, probably in the region of 30%+ more movements potentially available over time.

1.11 But does this really matter? Both these continental airports have significant numbers of low cost carriers; Heathrow has none. Low cost carriers simply fly and are based elsewhere in the South East.

Schiphol has large numbers of charter airline movements; Heathrow has none. Charter airlines use Luton, Gatwick and Stansted.

In South East England we have a five airport system, Heathrow, Gatwick, Stansted, Luton and London City each catering for different sectors of the air transport market place—if some traffic migrates from Heathrow to these other airports and they grow organically, what’s the problem? The South East airport system will always collectively offer more choices of flights to more destinations at a greater range of prices, times and convenience with more airlines than for example Charles de Gaulle and Schiphol put together.

No other capital city region anywhere in Europe or the world has such a 5-airport system—and none on this scale are even being thought of, let alone planned.

Added together, London’s five airports currently handle more than 137 million passengers—and this is set to grow within current planning limits to around 210 million passengers by 2030.

1.12 To put this figure further into context Heathrow currently handles 68 million passengers; Charles de Gaulle, 60 million; Frankfurt, 54 million; Madrid, 52 million; and Schiphol, 48 million.

<table>
<thead>
<tr>
<th>Airport</th>
<th>LATA Code</th>
<th>Passenger in Mio</th>
<th>Cargo in mio tons</th>
<th>Aircraft Movements</th>
</tr>
</thead>
<tbody>
<tr>
<td>London: Heathrow</td>
<td>LHR</td>
<td>67.9</td>
<td>1.31</td>
<td>475,713</td>
</tr>
<tr>
<td>Paris Roissy: Charles De Gaulle</td>
<td>CDG</td>
<td>59.9</td>
<td>2.30</td>
<td>543,810</td>
</tr>
<tr>
<td>Frankfurt on the Main</td>
<td>FRA</td>
<td>54.2</td>
<td>2.10</td>
<td>492,569</td>
</tr>
<tr>
<td>Madrid: Barajas</td>
<td>MAD</td>
<td>51.2</td>
<td>0.32</td>
<td>483,284</td>
</tr>
<tr>
<td>Amsterdam: Schiphol</td>
<td>AMS</td>
<td>47.8</td>
<td>0.61</td>
<td>435,973</td>
</tr>
<tr>
<td>London: Gatwick</td>
<td>LGW</td>
<td>35.2</td>
<td>0.17</td>
<td>258,795</td>
</tr>
<tr>
<td>Munich</td>
<td>MUC</td>
<td>33.9</td>
<td>0.45</td>
<td>431,815</td>
</tr>
<tr>
<td>Rome: Fiumicino</td>
<td>FCO</td>
<td>32.9</td>
<td>0.13</td>
<td>334,848</td>
</tr>
<tr>
<td>Barcelona</td>
<td>BCN</td>
<td>32.8</td>
<td>0.10</td>
<td>352,489</td>
</tr>
<tr>
<td>Paris: Orly</td>
<td>ORY</td>
<td>26.4</td>
<td>0.11</td>
<td>232,991</td>
</tr>
</tbody>
</table>

So all Heathrow’s so-called continental competitors lag some way behind and will continue to do so as our five-airport system develops.

1.13 Recommendation 2.

We would respectfully ask the Committee to request that the Government research and publish as a matter of urgency accurate runway use patterns, together with all passenger and growth forecasts for London’s 5 airports alongside a similar analysis of the 2 Paris airports Charles de Gaulle and Orly, Frankfurt, Madrid and Amsterdam Schipol, passenger and aircraft movements through to 2020 and 2030. We could then all see and understand if the claims that London and the South East’s 5 airport system will lose out to continental competitors stand or fall.
Question 2. *Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?*

2.1 We believe the current level of UK aviation infrastructure is adequate. The future development of aviation infrastructure should be wholly dependent on the sector paying its full external environmental costs which we believe will result in less passengers over time than the DfT’s 2030 forecast. We do not believe that under a full external costs regime any new runways will be needed in the UK but we acknowledge that some terminal capacity may need to be built. We return to this theme in our response to question 4 and cover future passenger trends too.

2.2 Airline mergers within the UK happen now—for example, Ryanair’s acquisition of buzz from KLM; easyjet’s takeovers of Go (the former BA low cost subsidiary) and GB Airways (another former BA associated company) happen without any drama.

Large mergers across national boundaries are problematic as BA’s proposed mergers with both American Airlines and Iberia show. The only outcomes of interest to us from successful mergers would be:

— Is the newly merged airline reducing routes where there were previously two competing airlines? This has environmental and efficiency benefits.
— Is the new airline more profitable and therefore better able to invest in newer aircraft?

We believe the first point is likely to occur but airline profitability, or not as the case may be, is an ongoing case study! Airline fleet renewal happens when the age of aircraft an airline operates comes up for replacement and this is planned over a 15–20 year cycle for major legacy carriers. This cycle seems to us to be the almost natural course of events within the industry.

In terms of the first few lines of the second part of Question 2 we would like to draw the Committee’s attention to official Government advice from 2 websites in particular:

— The Energy Saving Trust http://www.energysavingtrust.org.uk/Travel/Flying-the-facts

If the advice on these sites, which we wholeheartedly support, to fly less, use videoconferencing, take the train and holiday within the UK is meant to be followed, then there seems to us to be an inherent conflict with unrestrained aviation expansion.

2.3. *Recommendation 3.*

We would be grateful if the Committee could seek clarity from the DfT or Defra at Ministerial level as to any behavioural change targets, aspirational or otherwise, the Government may have as a result of the EST and direct.gov “avoid air travel” advice.

Question 3. *To what extent can rail provide an alternative to short-haul flights?*

3.1 For most if not all inter-city UK trips we believe the current rail system should be every travellers’ first choice. The CAA’s Route Licensing authority of air routes should include mandatory comparative environmental impact assessment of air versus rail alternatives including overall door-to-door travel times.

For trips to our near-Continental neighbours we believe High Speed Rail services should again be subject to comparative environmental impact assessment. In fact, we would like to see all air services from London’s airports to Paris, Amsterdam and Brussels severely curtailed and passengers directed towards HSR services as a matter of urgency.

3.2 We support the analysis carried out by TransformScotland in their “*The Railways Mean Business*” report which can be found here: http://www.transformscotland.org.uk/resources.aspx

and we would also like to draw the Committees’ attention to this very recent study by the UIC of rail’s environmental impact, “*Building on the Railway’s Environmental Strengths*”:

http://www.uic.asso.fr/homepage/railways_and_the_environment09.pdf

Taken together, these reports give a clear indication of the advantage of rail travel over air transport for journeys, given appropriate infrastructure, of up to 1000 kilometres.

3.3 Finally, the recent expansion of Spain’s high speed AVE network shows how quickly rail can gain market share at the expense of airlines:
Question 4. What costs does aviation impose on the environment? What are the implications of climate change policy—in particular the Climate Change Act—for the aviation industry and infrastructure?

4.1 The chart below is from the “gold standard” reference work on the external environmental costs of transport in Europe by INFRAS/IWW, endorsed by the European Environment Agency. The €52.5 figure for aviation is per 1000 passenger kilometres ie each time one passenger flies 1000 kilometres, the externalities amount to around £46.

Since this work was published in 2004 the factor used to express aviation’s non-CO2 impacts has gone down to 2 from 2.5 following more expert scientific analysis. However, neither figure includes all non-CO2 impacts specifically excluding cirrus cloud formation as a result of persistent aircraft condensation trails. The report is currently being updated and the expected release date is December 2009.

If external costs at this level were added to ticket prices around £10 billion would be raised. Previous work by Brendon Sewill and the AEF using the DfT Air Passenger Allocation model and HMT’s model of UK GDP showed the impact of green taxation based on these figures would halve the growth in passenger demand from 3–4% per annum to around 1–2%, neatly in line with the efficiency improvements the industry claims it can achieve, resulting in a standstill in CO2 emissions. Passenger figures would fall to around 320 million per annum by 2030 instead of the DfT’s 476–500 million range of estimates.
4.2 The second section of the Committee’s Question 4 is related in part to whether or not aviation emissions growth can fit within the UK’s 2050 target. We don’t believe they can. But recent events may have overtaken this question. On the 15th January 2009, the Government asked the Committee on Climate Change “…to conduct a review into how UK aviation emissions can be limited to below 2005 levels in 2050. The aviation target will play a useful role in buttressing the UK’s overall commitment to an 80% reduction in greenhouse gas emissions (below 1990 levels) in 2050”.


The CCC is to report back by December 2009, essentially looking at the Society of British Aerospace Companies Sustainable Aviation CO₂ Roadmap, which can be found here:

http://www.bata.uk.com/Web/Documents/media/Pressreleases/SACO2RoadmapPR12-12-08.pdf

4.3. Recommendation 4.

This project means that anything the Committee might like to say about aviation’s emissions and the implications of the Climate Change Act before the CCC has reported could potentially be based on an incomplete analysis and commentary. We would respectfully suggest the Committee acknowledges that this project is underway and awaits the outcome. The Committee could then look at the CCC’s vitally important report when it becomes available later this year.

Question 5. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

5.1 Aviation in effect receives massive subsidies because of the absence of any fuel tax, VAT on ticket sales and duty free sales. Air Passenger Duty is not a “green” tax—it has no measurable supply or demand side targets let alone impacts at all as far as we can tell and in its present form covers only a fraction of aviation’s external costs. As an instrument for getting the sector to make a contribution to general taxation—this is a
concept we strongly support. Airlines and airports will all bleat about APD but there is little independent evidence to support any claims they make about demand impacts—the sector simply wants to retain its tax-free status come what may.

5.2. Passengers on scheduled services should have access to a compensation scheme similar to the CAA ATOL bonding scheme. The Government need to ensure that all schemes are funded by levies on the sector with appropriate capital reserves. Claim procedures should be easy and quick.

Question 6. *What is the impact on the aviation sector of changes in the security environment?*

6.1 We believe that tougher security regimes cost airports money to implement. These costs are and should be passed on to airlines and recovered from passengers, who benefit from this service. There is no case whatsoever for the wider tax-paying public to carry any of these costs.

6.2 Most passengers recognise that there may be additional time involved in passing through enhanced airport security measures and adjust their arrival/waiting times at airports accordingly. Airports enjoy a captive income-generating market for their highly profitable retail services for extended time periods as a result.

6.3 We are convinced that the widespread introduction of free biometric screening at all UK airports for all UK citizens would be both a cost and security-effective way of processing passengers in a safe and speedy manner.

6.4 Recommendation 5.

The Committee might like to act on this suggestion and ask the Government, airports and airlines to institute more biometric screening for passengers at all UK airports with a view to processing 50% of outgoing UK citizens by these methods within three years.

We hope this submission is clear and we hope too that the House of Commons Transport Committee is able to give due weight to the recommendations we make.

*February 2009*

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**Supplementary memorandum from the Aviation Environment Federation (FOA 14A)**

**Including Aviation Emissions in the EU ETS**

Aviation’s CO2 emissions will be an important element of the EU’s climate change greenhouse gas reduction policies by being included in the EU ETS from 2012—an outline of the scheme follows:

— Cap and trade scheme for airlines—the cap will be 97% of 2004-06 average CO2 emissions starting in 2012, decreasing to 95% from 2013 onwards.

— All incoming and departing flights covered. Non-EU states can be exempted from inward-bound emissions if they implement equivalent measures.

— % auctioned will be 15%—and will remain at this level until 2020, unlike other sectors. The EU/EC’s ultimate goal is 100% auctioning for all sectors.

— AEF estimates that an average airline will be paying for 40% of its CO2 emissions (15% auctioning + 25% additional permits based on estimated growth of 25–30% above base line between 2005 and 2012). The present economic slowdown will result in approximately two years of reduced growth with the sector expected to recover from late 2010 onwards.

— Share of permits to airlines based on overall % share of EU emissions in 2010–11—airlines to report this data to responsible EU Member States, around 780 airlines are “monitored and verified” by the UK authorities, in this case the Environment Agency.

— Environmental “benefit”—the CO2 reduction from sector is −36% or 122 MtCO2 by 2015. This is forecast to rise to −46% or 183 MtCO2 by 2020.

— These figures include all the “savings” from bought credits.

— Difficult to assess how aviation emissions count towards UK national CO2 reduction targets as set out in the Climate Change Bill—domestic flights are included but international flights aren’t, although Government has promised to take them into account. By way of contrast, the Scottish Executive has very recently decide to include international aviation emissions in its Climate Change Bill calculations and targets.

— EC cost pass-through estimated at €4.6 to €39.6 for return trip, trip length dependent, based on a carbon allowance price of €30 per tonne (current allowance price of €13.36 at 9 July 2009). We assume these costs will be passed on by airlines to passengers.
— Demand impact: 135% growth over period instead of 142%—our view is that much of these claimed “reductions” are supply-side efficiency improvements that would have happened anyway eg better aircraft, better engines, more efficient operational and ATM procedures.

July 2009

Memorandum from Newcastle International Airport Ltd (FOA 15)

**SUMMARY**

— Newcastle International is the main airport serving North East England, with a passenger throughput of 5.7 million passengers in 2007.
— Aviation is a critical component of the global economy and, in order to compete, the UK and the North East must secure those air services necessary to deliver the required level of connectivity.
— The North East relies upon a mix of hub connections and direct air services. We are supportive of a third runway, but call upon the government to impose a planning condition that ring fences part of the additional capacity for use by regional services.
— A regional airport is a “balanced business” ie it provides the connectivity the region depends upon through scheduled services BUT also provides charter/low cost services for people wanting to holiday abroad. Without the latter element the business simply wouldn’t stack up. Therefore, in order to deliver connectivity, the Airport must also provide for the outbound leisure market.
— High speed rail is not an adequate alternative to short haul flights in all cases.
— The external environmental costs of aviation will be addressed through its entry to the EU ETS, by improvements in technology, and by local action by airport operators.
— The government should assess the potential impact of taxation increases and cumulative cost burdens on regional airports, and the viability of regional airport businesses.

1. **Introduction**

1.1 The Airport has, over a number of years, developed a comprehensive route network. It benefits from having a good balance of types of airline operating, with roughly a third of throughput in each of the traditional scheduled, low cost scheduled and charter categories. The balance is essential in ensuring the viability of the business.

1.2 The Airport provides connections from the North East region to the main London airports. This includes six times daily service to Heathrow, four times daily to Gatwick, and twice daily to Stansted. There are also services to other UK centres, including Bristol, Exeter, Belfast, Southampton, Aberdeen, Cardiff, and Birmingham and to number of major European centres, including Paris, Amsterdam, Copenhagen and Düsseldorf.

1.3 In 2007 we secured a daily service to Dubai, providing onward connections to over 80 points across the Far East, India, China, Africa and Australia/New Zealand. Our focus now, notwithstanding the economic downturn, is a New York service, which would provide a similar range of connections to the west.

1.4 In 2003 the Airport published a Masterplan, which sets out developments required to meet growth up to a possible 9.5 million passengers by 2016. The Masterplan remains a useful document in setting out the way in which the Airport is likely to expand in due course, but now needs to be reviewed to reflect the current economic downturn, and lower passenger growth expectations.

2. **What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?**

2.1 The UK is now part of a global economy. The globalisation of economic activity is something that has developed over many decades, but which has accelerated in the recent past. This trend cannot be reversed, especially not by just one country. For businesses to function within the global economy, they require connectivity, and this means (in part) that they require air services. Air services provide them with access to markets, customers, service providers, head offices and a whole host of other functions where face to face contact is essential in order to do business. Technological improvements, such as telecommunications and electronic media have, on one hand, reduced the need to fly, but on the other have increased the amount of business being done between companies in different parts of the world, thereby increasing demand for flying.

2.2 This requirement is especially the case in the UK, an island nation, and in the North East, amongst the more peripheral of regions. Major businesses, such as Nissan, Proctor and Gamble, Sage, and growth sectors such as bio-sciences, knowledge businesses, the universities, cannot function in a region like the North East without air service connections. They are reliant principally upon the services between Newcastle and the main hubs at Heathrow, Amsterdam and Paris, but increasingly benefit from the direct service to
Dubai and the onward connections it provides. Businesses in the region have been putting the Airport under pressure to deliver a direct New York service, and have been involved in the process of attracting an operator to this route.

2.3 On this basis, our view is that the UK regions are reliant upon a combination of hub connections, domestic and European point to point, and direct long haul services. In the case of the North East, the long haul component is likely for some time to be limited to the existing Dubai service to the east, and a possible New York service to the west. Of the hub connections, Heathrow remains the most important and it is for this reason that we are a supporter of the proposed third runway, as set out later.

2.4 In 2007, the Regional Development Agency, One North East, commissioned Ecotec to consider the economic impact of Newcastle Airport within the North East region. A copy of the report and executive summary is provided with this submission. The main findings are set out in 2.5 to 2.7 below.

2.5 Employment on the Airport site reached 3476 in 2007, and the Airport supported directly an additional 5000 jobs across the region.

2.6 Airport’s direct contribution to regional GDP amounted to approximately £400M, or 1% of total GDP in the region.

2.7 It was estimated that on account of aggregate time savings and accessibility improvements, the catalytic impact accruing from the Airport to the regional economy supported over 13,000 jobs in the period 1999-2007. The contribution of this catalytic impact on North East GDP is estimated at over £700M in the same period.

3. Is the current aviation infrastructure adequate for the needs of the UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

3.1 Transport infrastructure in the UK, including airport capacity, has failed to keep pace with demand. Unfortunately this means that the UK has fallen behind its competitors. In Europe there has been investment in new roads, railways and airport terminals and runways. In order to catch up, the UK must deliver, amongst other things, a third runway at Heathrow. The Heathrow hub is critical to businesses in the UK regions, including the North East.

3.2 Without additional runway capacity, regional air services will increasingly be squeezed out of Heathrow. Our view is that the Government should consider imposing a planning condition on the third runway which ring fences part of the additional capacity provided by the runway for services from UK regions.

4. To what extent can rail provide an alternative to short haul flights?

4.1 The UK needs a modern transport network in order to succeed in the future. This should include high quality, high speed rail AND a good system of air connections. The rail and air networks should complement each other, and where possible link together. High speed rail is likely to only cover certain parts of the country, perhaps only London-Birmingham-Manchester. Many other parts of the country will still be reliant on air services for fast, efficient connections, such as Newcastle to Bristol, Exeter, Belfast or Cardiff. Rail is therefore not an alternative to short haul flights in all cases.

4.2 A high speed rail connection to the North East would seem to be a relatively remote prospect. The delivery of such a major piece of infrastructure would be of enormous benefit to the region, and may take some of the emphasis away from Newcastle to Heathrow/Gatwick/Stansted air services for point to point passengers. It is less likely to provide an adequate replacement for those passengers connecting to onward destinations. For it to work for these customers there would need to be the ability to check baggage in at the point of boarding the train. With this in mind, it would seem that the only sensible locations for high speed rail station stops in UK regions would be at airports. In the case of the North East, a high speed station at Newcastle Airport would provide rail, air and Metro interchange at a single location, and would allow for passengers to be checked in and security checked before either flying out or boarding a high speed train to Heathrow.

5. What costs does aviation impose on society and the environment? What are the implications of climate change policy— in particular the Climate Change Act 2008— for the aviation industry and infrastructure?

5.1 There is both willingness and a desire within the aviation industry to ensure that the external environmental costs of growth are addressed. The sector has somewhat unfairly been “centre stage” in the climate change debate, but has perhaps failed to adequately communicate the steps it is taking to minimise its impact, including airframe and engine design, fuel technology, airspace management, and operational procedures.
5.2 As already stated, aviation is an essential component of the global economy, and it is only via global, or at least international, agreements that the necessary adjustments, such as the entry of aviation to EU ETS, can be made to ensure the environmental costs are addressed.

5.3 At a more local level, Newcastle Airport has a strong track record of managing its environmental impact, with strategies and actions in place to deal with noise, air quality, biodiversity, water quality, and waste. We have measured our carbon footprint, produced our Energy Performance Certificate, and adopted a Climate Change Policy aimed at limiting growth in carbon impact.

6. **What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from collapse of airlines?**

6.1 We welcome the recent abandonment by government of the proposed Aviation Duty, but remain concerned at the proposed increases to Air Passenger Duty (APD,) and are particularly concerned that in 2012 this Duty will be ON TOP OF the costs imposed as a result of the entry of aviation to the EU ETS.

6.2 Any across the board taxation of air travel which increases the cost will suppress demand. Demand is not spread evenly and will tend to fall away more quickly where it is weakest. The weakest demand exists where there are fewer people and businesses, and where people have less money. It is the more peripheral regions of the UK, including the North East, that display these characteristics. Geographical location also generally means that operating cost for airlines (such as fuel, linked to distance flown) tend to be higher. The consequence of all of this is that taxation of air travel has a greater impact on the regions than on London and the South East. Already, Newcastle Airport has suffered the consequences of increases in ADP, including the loss of rotations to Belfast and Bristol, and the loss of a service to Bergen. In the current economic climate, the proposed further rises in APD, and the further cumulative impact of the entry to the ETS, will jeopardise the entire portfolio of routes out of Newcastle.

6.3 Urgent action is required to assess the potential impact of these taxation changes upon regional air services, and upon the economies of the regions they support.

7. **What is the impact on the aviation sector of changes in the security environment?**

7.1 Regional airports are incurring significantly higher costs associated with changes in the security environment and increased requirements from aviation security checks and processes. In some European countries these additional security costs are not incurred by their airports, as it is a cost covered by the State. As airports compete for air services, and the hosting of aircraft, these additional costs put the North’s airports at a competitive disadvantage.

7.2 There is now also a proposal for the costs of airport policing, much of which is linked to the security situation, to be passed on to airport operators. Consideration needs to be given to the growing cost burden being placed upon regional airport businesses, and whether this is likely to grow to such an extent that it threatens the future viability of some of those businesses.

February 2009

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**Memorandum from Mr L Price (FOA 16)**

**Summary**

— Previous Transport Committee Inquiries into UK aviation identified key issues and solutions covering both runway capacity issues in the South East and securing regional air links to London.

— However, 11 years on there are no new runways for London and the South East nor has there been a UK adoption of EU PSOs to protect vital regional air links to London’s hub airports.

— The UK has been highly successful at air transport but does not now have the infrastructure to maintain its leadership in Europe.

— Today, Heathrow is connected to just six UK domestic points; by contrast Amsterdam is connected to 22 UK regional airports.

— The development of runway infrastructure has not kept pace with demand for air travel resulting in increasing delay, congestion and adverse environmental impact—it will increasingly frustrate the UK’s attempts to be the market leader in Europe.

— Regulatory changes have increased the demand for runway slots. Without increased capacity long haul airlines are the only ones that can afford the current price of slots at Heathrow—the final six routes to Heathrow remain under threat.
— The UK urgently needs more immediate access to additional runway capacity to serve London and the South East than can be met by the current earliest expectation of a 2017–20 timescale.
— Restrictions on international airline ownership are an anachronism
— The UK needs both comprehensive air and rail services providing integrated travel options for travellers.
— The UK air transport industry makes a £3 billion contribution to the exchequer and pays for all its infrastructure, vehicle and operating costs in marked contrast with the subsidies paid to the European rail industry.
— The air transport industry in the UK generates 1.7% of CO₂ (Stern Report) which needs to be balanced against its unique contribution to the economy and society
— Aviation in the UK is the only mode of public transport that is required to charge a tax on the passengers it carries.
— There should be uniform financial protection for all air passengers against airline failures; and protection against the loss of vital regional air services to London.
— The industry should seek to provide improved, consistent security searches that maximise the use of technology, are minimally intrusive to passengers, and are appropriate to the levels of risk anticipated.

BACKGROUND

a) This is a crucially important Inquiry for the UK air transport industry. But, like so many similar Inquiries into aviation over the last 30 years it needs to either inspire or demand some action to ensure that the crucial shortage of runway capacity to meet the UK’s requirements in London and the South East of England are developed quickly. The country needs action not words to resolve the problem.

b) I had the privilege of serving as Aviation Adviser to the House of Commons Transport Select Committee between 1997 and 2005. During that time the Committee held a number of Inquiries into Aviation, including on Regional Air Services in 1998 and Aviation in 2003.


d) It is interesting to note that had that Committee’s further key recommendations on:
— reliever airports—Northolt and Redhill,
— protection of regional routes to London via PSO, and
— airport ownership.
been adopted, many of the capacity and access issues facing the industry and regions would have been resolved by now. The country would have secured vital air links and provided interim runway capacity solutions whilst the plans for Runway 3 at Heathrow, a second runway at Stansted or Gatwick were formulated and implemented.

e) It is now some 11 years since that prescient report was published, we are still awaiting the development of additional runway capacity for London and the South East and just recently three more routes, to Leeds/Bradford, Teeside and Jersey have been lost from London Heathrow. In the meantime, the UK’s leading role in air transport is increasingly threatened as the Governments and airports in France, Germany and the Netherlands, working in concert with their air transport industry, have sanctioned and built new runways to enable them to compete and develop.

f) The UK is uniquely good at air transport with, generally, some of the world’s leading and most innovative airline, airport and aviation manufacturing companies. Many around the world see our safety and, albeit residual, economic regulatory oversight, and airport transaction experience as providing examples of best practice around the world; a combination which, with our legal system and English language, creates additional opportunities for exports and consultancy around the world. But that situation and opportunity requires that we maintain leadership in the field. That in turn requires a shop window in the UK and the necessary infrastructure in which it can operate.

THE SPECIFIC QUESTIONS FROM THE COMMITTEE

1. What is the value of Aviation to the UK Economy? What are the roles of London and regional airports? What competition do they face from abroad?

1.1 The UK air transport industry is a major UK success story. It carries 240 million passengers a year, whilst NATS handle some 2.4 million flights in UK airspace every year. The industry contributes over £10 billion to the economy and represents the equivalent of 3% of GDP. It employs over 200,000 people directly with three times that number supported by the industry in secondary and tertiary roles. London
Heathrow is one of the UK’s largest single centres of employment and provides the economic focus and engine for large parts of the South East of England whilst contributing more broadly through the unique network of air services, frequencies and schedules there.

1.2 Despite the impact of the current recession, and this is the fifth recession I have experienced since joining the industry in 1971, the industry has always recovered. Its resilience is significant, with all projections still pointing to substantial growth in air traffic over the next 20 years. What has not kept pace is the development of vital runway capacity in the South East. This has resulted in increasing delay, congestion, fuel usage and adverse environmental impact.

1.3 The market has become more segmented with traditional full service airlines such as BA, Virgin and bmi operating network services mostly from hub airports whilst the growing Low Cost sector which now accounts for 50% of inter European air transport serves other major airports and secondary facilities. The development of the Low Cost Carriers has been particularly fast in the UK regions, significantly reducing the overall share of UK aviation focussed on London and the South East in the last 10 years. There is also a major but increasingly specialist charter segment serving markets of three or more hours, focussed still on the Inclusive Tours sector. The specialist all cargo market is now focussed largely on the operations of all cargo aircraft, primarily from London Stansted and East Midlands (having been largely pushed out of London Heathrow) and the operation of the Integrators such as DHL, TNT, UPS and FedEx and the post office.

1.4 In addition, airlines serving the UK regional airports are being denied access to the global hub at Heathrow, as a result UK regional airports are increasingly targeting new services to Europe and beyond and non London destinations as runway capacity constraints at London Heathrow and Gatwick continue to bite. Only six UK points will have direct air services to London Heathrow in Summer 2009 compared with 17 over 20 years ago. In the meantime, Amsterdam Schiphol has links to 22 UK airports to the benefit of the Dutch economy, KLM/Air France and detriment of the UK airlines and UK PLC!

1.5 Industry data shows that some 1.2 million passengers with origins or destinations in the UK fly via Amsterdam Schiphol alone, largely because they cannot access a UK hub airport. Whilst the UK has been developing its aviation policies, the French, Dutch and Germans have been developing new runway capacity at Paris Charles de Gaulle, Schiphol and Frankfurt. Meanwhile London has some of the most intensively utilised runways in the world with all the implications on delay congestion and poor punctuality and service standards.

1.6 The failure to invest denies UK revenue and jobs. The policy exists; the failure is in delivery and the planning system.

1.7 The UK lost out from its one time leading role as a maritime nation due to a failure to make timely investment in port facilities. We are in grave danger of letting air transport go the same way.

2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

2.1 No it is not. The failure to provide additional runway capacity and inevitable temptation to “over use” that which exists has resulted in the current position of longer block times, increased costs, more fuel burn, delay, congestion, poorer customer service and increased environmental impact.

2.2 The UK is losing its competitive position in air transport against European hub airports. The UK has the number one in demand but is number four in terms of infrastructure provision. Historically, the UK has been the largest market between Europe and the USA, by a factor of 40%, but if we fail to develop adequate runway capacity in the right location, that historic position could be lost.

2.3 It now takes 50% longer (with 50% more resources) to get to Scotland from London than it did 20 years ago due to delays, holding and congestion in the air and on the ground.

2.4 The lack of adequate runway capacity is the key cause in the loss of the vital regional air links to London. The scarcity in runway slots has forced the now privately owned and run airlines to maximise the value from these assets. As such, slots which were at one time used for UK domestic links are now used for increased operations to the US, India and the Far East as such operations are the only ones that can bear the cost of acquisition of £30 million a pair for slots at Heathrow.

2.5 Changes in air service regulation, such as the EC/US Open Skies have reduced the regulatory hurdles but increased the demand for and value of slots at London Heathrow. It is absurd that the value of airlines is now being determined in terms of the value of their slot holding at Heathrow!

2.6 Policy without infrastructure provides very limited gain.

2.7 The Government must find more immediate solutions to the need for additional runway capacity. The scheduled dates for the availability of new runways for London and the South East have already slipped from 2011–12 in the Aviation White Paper to perhaps 2017 or even 2020. Yet your predecessor Committee suggested innovative options which would have provided almost immediate runway capacity solutions, certainly long enough to allow retention of now lost regional links and to allow more detailed planning to be undertaken.
2.8 Many UK airports are now in the private sector or run as PLCs, the majority of those are profitable and do not call on subsidy from Government. The exception to this being the Highlands and Islands airports which facilitate a network of air services that remains vital for the economic and social development and cohesion of the region.

2.9 The problem is that with the current ownership structure it is difficult for the UK Government to compel such companies to invest. This is not the situation in most of Europe where the state is still an investor in airport infrastructure.

2.10 In terms of passenger growth, the indications are that post the recession, traffic will continue to increase at 3–5% per annum, particularly to the new and emerging markets in India and China as their economies grow and their populations seek to travel more frequently by air. The UK must ensure that it captures a proportion of those opportunities.

2.11 In the context of mergers it is an anachronism that almost uniquely, truly international ownership of airlines is not freely permitted due to concerns about the strategic role of airlines, ownership and control. Such rules distort trade, impede investment and opportunity and reduce the development of new services and innovations for travellers. The US anti trust and ownership and control rules are particularly difficult and are a fetter to much needed industry consolidation.

2.12 If there is increased merger activity amongst airlines, then it should increase market stability, certainty and continuity for consumers. However, it might also increase pressure on the existing hub airports capacity and the need for runways, and might adversely impact on UK regional services in the short term.

3. To what extent can rail provide an alternative to short haul flights?

3.1 On sectors of up to 300 miles they offer an alternative in some circumstances.

3.2 But we need both. We need choice and integrated solutions as recognised over 70 years ago when the original Gatwick airport was developed with an integral rail station!

3.3 It is worth noting that a 3 kilometre stretch of road takes people or goods just 3 kilometres, a 3 kilometre stretch of rail takes people or goods just 3 kilometres. In contrast a 3 kilometre stretch of runway can take over 30 million people or the goods equivalent to or from any point in the world!

3.4 Contrast the eight million passengers who used the 110 kilometre Channel Tunnel rail link from St Pancras to Folkestone with the 36 million passengers who used London Gatwick’s single 3.4 kilometre runway in 2007. Which kilometre of infrastructure provides the best return?

3.5 The UK air transport industry meets all its infrastructure investment and vehicle acquisition and operating costs itself. It makes a £3 billion contribution to the exchequer every year through Air Passenger Duty alone. The rail industry receives some £3 billion in subsidy a year. In addition, because of its additional “social” role there is a massive public subsidy into the rail network infrastructure upgrade of some £15 billion over the next five years. Yet the air transport industry is as important to the general economy and especially important to remote communities.

3.6 Clearing 3 kilometres of runway of snow was a significantly easier task than clearing 1000s of kilometres of rail track.

4. What costs does aviation pose on society and the environment? What are the implications of climate change policy—in particular the climate change act 2008—for the aviation industry and infrastructure?

4.1 The air transport industry fully recognises the environmental and social costs that it imposes and has invested heavily in reducing its use of fuel and reducing emissions and noise. But these need to be put in perspective and contrasted with the unique contribution that the industry makes to the economy and society and with other sources of environmental impact.

4.2 For instance the Stern Report showed that aviation in the UK in the year 2000 used some 3% of primary energy and generates 1.7% of CO2 emissions. Industry and commerce are far greater sources of environmental impacts. Agriculture alone in the form of “flatulent bovines” produces some 14% of greenhouse gas emissions yet we do not see the same campaign waged against non vegetarians that we do against the aviation industry!

4.3 In the last 30 years the fuel burned per air passenger has reduced by some 70%, whilst the number of people living around airports subject to the worst effects of noise at 57Leq or worse has halved.

4.4 Allowing for losses in transmission through electricity distribution, and not wishing to get into the rights or wrongs of the Nuclear energy debate, the unit of energy consumed per unit carriage of air transport compares favourably with the most fuel efficient modes of transport, usually assumed to be rail.
5. **What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?**

5.1 The air transport industry uniquely is charged a sliding scale tax, Air Passenger Duty or APD, for the right of passengers to use its services. In terms of offsetting the limited impact that it makes on the environment this is probably fair, even if the gradation and mechanism may not be perfect. Those payments will amount to a net cost to the industry of some £3 billion. No other form of public transport is subject to such a tax.

5.2 For many residents of the UK, particularly those in Peripheral Areas as identified in the Transport Committee’s 1998 report on Regional Air Services, air transport offers the only real option for fast efficient transport and day returns to major centres. Yet, except for the case of air travel within the Highlands and Islands of Scotland which is exempt, all air travellers pay. It means that residents of Northern Ireland pay a tax to fly to London when their counterparts in Eire, flying from Dublin to London do not. A rail passenger from Plymouth to London just pays the fare according to class and time of travel. An air passenger from Plymouth to London pays a tax. Studies have shown that this adversely impacts the economies and inward investment to such regions in contrast with other areas of Europe. For many investors, the concept is, often based on local US experience, if you cannot fly there, you cannot get there! Adding a tax to UK air travel just increases the difficulties in attracting inward investment. Cases can be shown for Inverness, Plymouth and Northern Ireland.

5.3 In terms of consumer protection, there is an anomaly in as far as passengers booking inclusive tours, whether flown on charter or scheduled airlines are protected by the CAA ATOL bonding system. Passengers travelling on other than inclusive tour arrangements are not covered, unless the ticket was purchased by a credit card.

5.4 Passengers can be protected financially from airline failure and the services of most failed airlines will be replaced by others. What cannot be replaced are routes from hubs such as Heathrow once the slots have been re-allocated.

5.5 There should be uniform protection for all air travellers.

5.6 As the recent withdrawal of services to Leeds/Bradford, Teesside and Jersey from London Heathrow has shown, vital UK regional air links are still vulnerable to closure due to lack of protection. The 1998 Regional Air Services Inquiry identified a way in which they could be protected using existing EC PSO protection as used extensively by the French and Spanish Government, yet which the UK DfT has resolutely failed to adopt. The Committee might wish to repeat its recommendation at paragraph 122 (i) to (v) of that report and ask why the Government has failed to act despite repeated calls for such action from the UK regions. It is interesting to note that such routes are being lost at five weeks notice, despite the existence of a Government requirement of four months notice of withdrawal.

6. **What is the impact on the aviation sector of changes in the security environment?**

6.1 The air transport industry has been living with the issue of a very tight security regime for almost 40 years. The activities of the IRA, the PLO, Bader Minhoff and others in the 1960s and 1970s pre dated the more radical activity of Al Qaeda.

6.2 Some in the industry believe we only discovered security post the awful events of 9/11! Yet as with all transport modes, even more so with air transport, the focus is on safe and secure operations first time, every time.

6.3 Yet, despite the best efforts of the industry to meet the ever increasing demands of both national and international authorities, the requirements on air transport seem more onerous than on other forms of transport, for instance Eurostar. Yet an incident in the Channel Tunnel, as has been shown by two fires already, could be appalling. The attacks on the rail system in Madrid and London show the consequences.

6.4 Do we really need to subject passengers on the 20 seat Twin Otter flying from Barra Beach to Glasgow to the same security search as that for International services from Heathrow, when any connecting passengers would be screened again! Do we really need to ask 80 year old travellers to remove their shoes on an arbitrary one in three regime? With better use of modern technology and profiling, we have to be capable of providing an improved, more consistent Aviation Security regime than is currently available for the traveller and our international standing.
I would be pleased to elaborate on any of the points made or give evidence in person, if that was the Committee’s wish.

February 2009

Memorandum from London Luton Airport (FOA 17)

1. A. SUMMARY AND INTRODUCTION

1. SUMMARY
— Aviation is worth over £11 billion per year to the UK economy; London Luton airport contributes over £750 million per year to its region.
— London Luton airport performs both a transport and a regeneration role.
— International competition is real and growing.
— The UK airport infrastructure requires new capacity but must make full use of existing capacity at London Luton airport and others.
— Demand for air travel will continue to grow in the long term and passengers will demand higher service levels at airports.
— The extent to which rail can provide a sustainable, convenient and affordable alternative to short haul flying is limited.
— Aviation pays its social and environmental cost through tax; further taxation is neither welcome nor necessary.
— The security environment represents a real challenge, on cost and service grounds; further changes must be handled and communicated with great care to avoid passenger disengagement.

2. London Luton Airport Operations Limited (LLAOL) is pleased to submit this response to the inquiry being conducted by the Commons Transport Committee (CTC) into the future of aviation, as described in the press notice released on 18 December 2008.

3. LLAOL is wholly owned by TBI plc, which in turn is owned by abertis (90%) and Aena (10%), both of Spain. The comments made in this paper by LLAOL are in line with the views and policies of its parent companies, and it may be assumed that these parent companies are in general agreement with the views expressed here although no formal Board approval has been given.

4. LLAOL have also consulted with the freeholder of London Luton Airport, London Luton Airport Ltd., who support the points made in this submission.

B. SPECIFIC QUESTIONS

Q1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

5. Aviation makes substantial contributions to the UK economy. Oxford Economic Forecasting (2006) demonstrated that the industry contributed £11.4 billion to the UK’s GDP in 2004, which alone represented 1.1% of the overall economy. Additionally, the aviation industry directly and indirectly supports more than 700,000 jobs. Assuming aviation continues to grow in line with Government forecasts and historical trends in the last decade, aviation’s contribution to GDP will rise to some £19.7 billion by 2010.

6. Some very broad generalisations can be made about London relative to regional airports, but each airport in the London system tends to perform a specific role which is unique to itself rather than to its geographical location. at top level, the London airports are bigger than their regional counterparts (four of the five largest airports in the UK are in London—LHR, LGW, STN and LTN) and so tend to offer a wider range of routes as well as higher frequency.

7. At an individual airport level, roles currently vary. London Luton is focused on low cost, though it is also a centre for cargo, maintenance and business jets and it has a nationally high proportion of business travellers on scheduled services. its role however, extends far beyond its function within a transport system. it is a very material generator of employment (direct, indirect and induced) and such represents a stimulus to general economic activity within its local and regional economy. Luton is identified as a Priority Area for Regeneration and London Luton is the largest private sector employer in Luton, as well as the wider sub-region. In 2004, Halcrow identified 8,400 jobs directly associated with London Luton Airport, around 50% of which are taken by local residents. Annual business expenditure alone in the regional economy amounted to £406 million and the total contribution was £750 million. In 2004, annual passenger throughput was eight
8. London Luton Airport also acts as a “Regional Interchange Centre”, connecting national, regional and local highway and public transport networks, which benefit both non-airport and airport users.

9. The roles that these London airports can play in the future are affected by questions of capacity, both existing and new. The White Paper “The Future of Air Transport”, published on 16 December 2003, makes it clear that “there is an urgent need for additional runway capacity in the South East”, arguing that “provision should be made for two new runways in the South East by 2030”. However, it also states that “The first priority is to make best use of the existing runways, including the remaining capacity at … Luton.” The DfT document “Improving the Air Passenger Experience”, published in August 2008, notes of Luton “The airport has spare runway capacity at all times of day for both departures and arrivals”. It further remarks “Terminal capacity at the airport is not fully utilised.” A key future role for London Luton should be to supply the demand which plainly exists (London Luton was unique among the large London airports in posting positive traffic growth in recession-hit 2008) without generating a requirement for a new runway.

10. The future role of the airport as a stimulus to regeneration should not be overlooked. As a rule of thumb, for each 1m new, annualised passengers, an additional 1,000 jobs are created. Although the ratio may be slightly slower for a low cost dominated airport, the job creation and associated economic impact remains very significant.

11. The evidence for European (and indeed, Middle Eastern) competition to hub airports has been thoroughly rehearsed. The extent to which other airports face European competition is less well established. In its Q5 price control review of Stansted, the Competition Commission was “not convinced that Continental European airports were a significant constraint on Stansted.” (Stansted Airport Ltd Q5 price control review, p22) This comment is made about a specific airport in a specific context but it does not lend weight to a general argument that UK airports compete to a material extent with continental European airports.

12. Nevertheless, the existence of surplus capacity at, in particular, secondary European airports, is commonly used by airlines as a negotiating tactic with UK airports. And, more compellingly, there is clear evidence in Winter 2008–09 of a switch of capacity by, for example, easyJet, from the UK to Europe, as the chart below shows.

![EasyJet's top 15 airports chart](chart)

13. In essence, easyJet has reduced its Winter 08 UK weekly departures by 167 (−9.3%) but increased its European departures by 68 (+4.6%). This may not be prima facie evidence of competition but it is indicative of the ability and willingness of airlines to move capacity between the UK and Europe.
Q2. *Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?*

14. The White Paper “The Future of Air Transport”, recognises that “Some of our major airports are already close to capacity, so failure to allow for increased capacity could have serious economic consequences, both at national and at regional level.” (Executive Summary) We fully agree with this position and also with the qualification that the need to address this issue “must be balanced by the need to have regard to the environmental consequences of air travel” and, indeed, that “simply building more and more capacity to meet demand is not a sustainable way forward” (Ibid.) With that in mind, we reiterate our position that there is both clear and recognised merit in utilising existing capacity at London Luton Airport (as well as at others) as well as addressing the need for new capacity. We further reiterate our assertion that London Luton Airport is able to supply significant future demand without the need for the construction of a new runway.

15. The current economic climate and associated reduction in demand for air travel might encourage the view that future trends in passenger volumes will be materially different from the sustained growth trend seen over recent years. We do not subscribe to that opinion, retaining instead the long term perspective of passenger growth approximately two percentage points above GDP growth. This, clearly, implies the need to supply capacity capable of responding to that growth trend.

16. Moreover, the recent work by DfT on the end to end dimension of the air passenger experience underlines, in our view, the importance of airports positioning themselves as integrators of a bundle of services provided to passengers, more than as elements of a transport infrastructure. It will not be enough to provide capacity, therefore. Instead, it will become ever more essential to provide and co-ordinate the provision of services to consumers who possess choice and considerable discretion in its application. In practice, this means ensuring that areas under the direct management control of airports, such as security, function to deliver customer-driven as well as regulator-driven levels of service. It also, and more challengingly, means that the passenger perspective is fully represented by airports to service providers in areas not under direct management control, such as immigration.

17. We have no general view on the implications of possible mergers in the airline industry, other than to observe that any such mergers should not be permitted to materially diminish competition.

Q3. *To what extent can rail provide an alternative to short-haul flights?*

18. The argument has been made that rail provides a clear alternative to short haul flying. “The number of flights using Heathrow could be cut by around 100,000 a year if there were no flights to and from the destinations where there already is a good rail alternative.” (http://www.hacan.org.uk/resources/reports/short.haul.flights.clogging.up.heathrows.runways.pdf)

19. This claim is undermined by three core arguments: the relationship between short haul and long haul flying, customer convenience and the relative environmental impact of air and rail services. It should also be pointed out that cost remains a factor, with estimates of the cost of a partial high speed rail network in England alone quoted at £20 billion.

20. The importance of short haul “feed” traffic to long haul operations is seriously debated by no-one. Even those making the case for rail as an alternative to flying note, a propos of short haul flights, “It may well not be realistic to get rid of all of them. Some of their passengers are those transferring to/from long-haul flights” (Ibid).

21. Given the rigour applied to airport security and its implications for passengers, it may seem counter-intuitive to argue that rail is a less convenient mode of travel than short haul air. However, the fact remains that for many journeys, the actual travelling time involved in rail is very significantly higher than that associated with air, as the following chart demonstrates.

<table>
<thead>
<tr>
<th>Journey time from London to major short haul destinations: air vs rail</th>
<th>Hours by air</th>
<th>hours by rail</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paris</td>
<td>1</td>
<td>2.5</td>
<td>-1.5</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>1.25</td>
<td>7.5</td>
<td>-6.25</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>1</td>
<td>4.75</td>
<td>-3.75</td>
</tr>
<tr>
<td>Manchester</td>
<td>1</td>
<td>2.5</td>
<td>-1.5</td>
</tr>
<tr>
<td>Brussels</td>
<td>1.25</td>
<td>2.25</td>
<td>-1</td>
</tr>
<tr>
<td>Glasgow</td>
<td>1.25</td>
<td>5.75</td>
<td>-4.5</td>
</tr>
</tbody>
</table>

22. Even if a material increase in check in times for air is added, the difference remains significant, to the extent that rail is compromised, particularly as an offer to the business traveller wishing to complete her or his work within a single day.

23. Furthermore, the rail “experience” is not necessarily better, as this media comment illustrates. “The lounge was thronged with bleary-eyed and grumpy suits looking in vain for seats. The endless queue for coffee snaked past whimpering children and inconsiderate backpackers. As the PA speakers announced imminent
departure, the throng became a mêlée at the exit—an escalator had jammed. It could be a typical morning at Heathrow, but in my case it was a 7am departure from the Eurostar terminal at St Pancras.” (Carl Mortishead: World business briefing, The Times Online, 9 July 2008)

24. Mr Mortishead is actually making the case for rail but his balanced reporting makes it clear that the case is not entirely clear cut on convenience grounds.

25. The Environmental dimension of the debate between short haul flying and train travel is commonly claimed to be strongly in favour of rail. However, two points are relevant. First, the aerospace industry has made, and continues to make, large steps forward in pursuit of the objective of reducing the impact of flying on the environment. “New aircraft, such as the Airbus A380 superjumbo, produce less CO₂ per passenger kilometre than the average car that is exempt from the London congestion charge on environmental grounds.” (Matthew Knowles, Society of British Aerospace Companies) Second, the case that rail travel, in particular high speed rail travel, is more environmentally benign than short haul air travel is very far from proven. In “Facts sheet 5(b)—Carbon emissions: high speed rail and air compared”, independent commentator Transwatch, concludes that “no strong case can be made for claiming an advantage for rail compared with air or indeed the reverse”. In fact, a reasoned case is made in the fact sheet that Eurostar emissions, at 13,750 gms CO₂ per 100 passenger kilometres, compared to 8,475 with Ryanair, may be substantially higher—not lower.

Q4. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

26. In 2004 Airline paid £3.6 billion in direct taxes into the Exchequer. £1 billion of this was raised by Air Passenger Duty (OEF 2006). APD was doubled in 2007, raising aviation's tax bill to £5.6 billion. Extrapolating for future growth, inflation, and the rises (relative to APD) in Aviation Duty announced in the Pre-Budget Report and the Budget suggests that the total tax-take from aviation in 2010 to be in the region of £11.1 billion. This equates to a more than 200% increase in aviation’s contribution to the Exchequer between 2004 and 2010.

27. After the doubling of APD in 2007, the tax/GDP ratio of aviation was 37.2% (CBI 2008). This was similar to (if not slightly higher than) the ratio for the economy as a whole. The Airport operators’ Association (AOA) has calculated that this ratio for aviation will approach 57% in 2010, suggesting that aviation’s contribution to tax revenues will come to outweigh those of other sectors of the economy.

28. Aviation also pays more in tax, and received less in subsidy that other forms of transport. Consultants (Volterra) have shown that once airlines, bus and rail transport are assessed on an equal basis, then rail receives £1.6 billion in subsidy (£1.69 per passenger) and buses a £650 million subsidy (£0.15 per passenger), whilst aviation is a net contributor of over £750 million or £4.15 per passenger.

29. On this basis it seems very probable that aviation will, by 2010, be making far more than its fair contribution to supporting public services. Aside from ensuring that aviation makes a fair contribution to supporting public services, the proposal to replace APD with Aviation Duty is also to ensure that “aviation makes a greater contribution to covering its environmental costs”. (HM Treasury Aviation Duty : A Consultation (2008) p.3). It is worth noting that Ruth Kelly, then Secretary of State for Transport, speaking in the House of Commons on 2 April 2008 said: “Since APD was doubled, aviation will meet its climate change costs, taking account not just of carbon dioxide emissions, but of other aviation greenhouse effects such as NOx emissions and contrails” (Rt. Hon. Ruth Kelly, Secretary of State for Transport Hansard 2 April 2008)

30. DfT’s consultation on the Emissions Cost Assessment (ECA) process proposed the use of the social cost of carbon as the basis for calculating the cost of aviation’s CO₂ emissions. Based on a cost of £25.50 per tonne of CO₂ and aviation emissions were 10.2 million tonnes of carbon (in 2005), then the social cost of aviation’s carbon emissions amounts to £954 million. (1 tonne of carbon equates to 3.67 tonnes of CO₂.) Even allowing for a multiplier of 1.9, as proposed in the ECA to cover the non- CO₂ externalities of aviation (noise, other GHGs etc.), the total external cost of aviation can be calculated as c. £1.8 billion. In 2007 APD raised £2 billion. (Emissions figure taken from DfT Emissions Cost Assessment (August 2007); Defra estimates the cost of carbon to be £25.50 in 2007 prices. http://www.defra.gov.uk/environment/climatechange/research/carboncost/step2.htm )

Q5. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

31. In general, we accept the contention that aviation should pay for its social and environmental impacts through taxation. However, as stated in the response to Q4, we strongly argue that aviation already does so. In the PBR on 24 November 2008, the Chancellor announced his decision to scrap the proposed Aviation Duty. This is welcome but we remain concerned that the industry is taxed more than its fair share at this critical time, with the UK economy now in what seems likely to be both a deep and a prolonged recession and we would be very strongly opposed to further taxation.

32. We have no opinion on the extent to which passengers are adequately protected from the collapse of airlines.
Q6. **What is the impact on the aviation sector of changes in the security environment?**

33. The changes to the aviation security regime over the recent past, however necessary, have had a profound impact on London Luton Airport. They have generated real and substantial on-costs and created a major challenge to the delivery of acceptable levels of customer service. Through the recruitment of more staff, the installation of new x-ray equipment and the development of Bluetooth-based technology to measure and manage queues in real time, London Luton has mitigated that impact. Its average “Central Search” queue is under seven minutes. Nevertheless, the absence of a clearly communicated and consistently applied security regime across the EU, combined with a limited understanding of both the detail and the rationale for UK regulations among UK travellers means that passenger frustrations can run high. The task of maintaining an appropriate balance between “hard” security requirement and “soft” service requirements is very demanding. It is important, therefore, that any further extension to the former be managed and communicated with great care, in order to avoid the risk of passenger disengagement. Were disengagement to set in, it could undermine the security objective as well as damaging airports financially at a period of considerable commercial pressure.

February 2009

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**Memorandum from WWF-UK (FOA 18)**

**Summary**

Growth in aviation emissions will force deeper carbon cuts in other sectors of the UK economy.

The DfT has forecast that aviation will emit 60 million tonnes of CO2 in 2050 but has a target for it to emit no more than 37.5 million tonnes, which is the most the industry can emit if it is to play a fair part in a low-carbon UK.

Achieving this target will mean radical technology improvements, or constraining capacity though increased taxation or by scaling-back airport expansion plans.

On examination, the required efficiency improvements are technically implausible and extremely expensive. Therefore, we must constrain capacity.

Capacity constraint need not damage the UK economy: leisure flying is a net drain on the UK, while with the right investment in rail and telecommunication infrastructure, businesses can stay connected in a low-carbon world.

Investment in telepresence and high definition videoconferencing, in particular, has the potential to boost productivity of UK businesses at the same time as reducing their need to fly.

1. WWF-UK welcomes this opportunity to submit its views on the future of aviation to the Transport Select Committee. Our evidence is presented as a continuous narrative, rather than answers to individual questions, but of the questions suggested by the Committee we are chiefly addressing the following:
   - What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?
   - What costs does aviation impose on society and the environment?
   - Is the current aviation infrastructure adequate for the needs of UK business and individuals?
   - To what extent can rail provide an alternative to short-haul flights? [We also consider the role of telecommunications in replacing business flying]

2. The Climate Change Act requires the UK to reduce its greenhouse gas (GHG) emissions by 80% from 1990 levels by 2050, in effect giving the UK a carbon target of around 160 Mt CO2e in 2050. Emissions from international aviation and shipping, although not explicitly included in the UK’s five-yearly carbon budgets, need to be accounted for within this total, so that if they do not reduce emissions, other sectors will have to make even deeper reductions. The Chair of the Climate Change Committee, Lord Turner of Ecchinswell, has estimated that the rest of the economy will have to make reductions of around 90% to accommodate aviation, even if it succeeds in stabilising emissions at present levels.

3. Aviation expansion places tougher carbon constraints on other economic sectors. This is likely to cause greater price rises in electricity generation, home heating and road transport, as these sectors are forced to decarbonise faster than would otherwise have been the case. To our knowledge, there has been no systematic attempt to estimate the size of this “carbon opportunity cost” of aviation expansion, or its implications for social equity: it is predominantly the well-off who fly, but every family needs a heated home and many rely on the private car—far more than on the annual holiday.

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4. When he gave permission for the third runway at Heathrow airport, Secretary of State for Transport Geoff Hoon announced “a new target to limit aviation emissions in the UK to below 2005 levels by 2050”. The Department for Transport (DfT) has since confirmed via e-mail that this condition applies to emissions from all aircraft departing from UK airports, and, crucially, that it will not be met by offsetting. In other words, there is now an absolute target for UK aviation to emit no more than 37.5 MtCO₂ in 2050.

5. WWF-UK supports the proposed target. Our own analysis of pathways to a low-carbon UK, which modelled an 80% reduction in UK emissions using the Government’s own modelling tools, suggested that stabilisation of aviation emissions at around today’s levels would be the maximum allowable from the sector, given the reductions that are feasible elsewhere in the economy. In addition, the introduction of an absolute target is a welcome acknowledgement by Government that total reliance cannot be placed on the EU Emissions Trading Scheme; we only regret that the target is being established alongside permission to build a new runway. The EU ETS is currently failing to prevent investments of this sort that risk locking the UK into long-lived, carbon-intensive infrastructure—hence the need for supporting policies. To grant permission for a runway without assessing its impact on meeting the target is, in WWF’s opinion, to conduct policy backwards.

6. The Government’s 2050 carbon target is derived from a document published by Sustainable Aviation, a group of UK airlines, airport operators and aerospace manufacturers, which sets out a “Roadmap” of emissions to 2050. The Roadmap asserts that passenger numbers in the UK could more than triple by 2050, while emissions grow modestly to 2020 then decline below 2000 levels by 2050, thanks largely to sustained and radical improvements to aircraft technology, with some help from biofuels and the optimisation of air traffic management (ATM).

7. On day the Heathrow decision was announced, the DfT also published its own revised forecasts of CO₂ from UK aviation. These predicted that emissions would grow from 37.5 MtCO₂ in 2005 to 58.4 MtCO₂ in 2030, then stabilise due to capacity constraint, ending at 59.9 MtCO₂ in 2050 (under the central scenario). These forecasts are based on updated White Paper passenger forecasts, and detailed consultation with aerospace manufacturers about likely improvements to aircraft technology and operations.

8. The DfT is thus in the embarrassing position of having a target that says one thing and a forecast that says another. If the target is to be met, either improvements to aircraft technology will have to take place much more rapidly than the DfT itself predicts, or airports will have to expand more gradually than is set out in the Future of Air Transport White Paper.

9. The question then arises: are the technological improvements set out in the Sustainable Aviation Roadmap plausible? Between now and 2020, the improvements consist of a 10% saving from optimising ATM and operations, and an annual 1.5% gain in efficiency from gradual fleet renewal, purportedly based on recent trends. A glance at recent trends shows that in fact, emissions have not at all de-coupled from passenger growth.

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66 The 10% claim is based on the “stretching” target that the National Air Traffic Services (NATS) has set itself. Given the UK’s already crowded airspace, and the need to balance noise concerns, even a 5% reduction would be an impressive achievement. Alexander ter Kuile, secretary general of the Civil Air Navigation Service Organisation (of which NATS is a member) is on record as saying he believes there is only room for a 4% improvement left in the system: http://www.theaustralian.news.com.au/business/story/0,28124,24716438-36418.00.html
10. Why has the claimed improvement in fuel efficiency not resulted in lower emissions per passenger? Either:
   a. it is based on manufacturers’ certifications, and has not been realised under real-world operating conditions;
   b. load factors have dropped (but the evidence suggests the opposite); or,
   c. passengers are flying further. This possibility highlights a flaw in the entire roadmap approach—its baseline CO₂ emissions are calculated in proportion to pure passenger forecasts, but the efficiency gains that are then subtracted from that baseline are calculated on CO₂ emissions per passenger km—the units are not the same.

11. From 2020, the Roadmap assumes that a new generation of aircraft will be introduced that meet the industry ACARE target for new aircraft in 2020 to produce 50% less CO₂ per passenger km than in 2000. The Society of British Aerospace Companies notes that “These goals are demanding… [they] represent a doubling of the rate of improvement over the past 30 years.” Greener By Design, a strongly pro-aviation technology group, has said of them:
   The ACARE targets for 2020 may be extremely challenging but the laws of physics do not, in our view, make them unattainable in due course.

12. Clearly, these are stretching targets from a pure technology point of view, and there are further question marks over whether some of the solutions envisaged could achieve significant market penetration. For instance, one of the technologies is “open rotor engines”, but these have “very significant noise and safety issues” (to quote a recent academic study), have lower flight speed (so do not fit well with the low-cost airline logistics model of high numbers of “rotations” or daily return trips per aircraft) and are only suitable for short-haul flights.

13. Looking beyond 2020, the Roadmap enters a realm of even greater speculation. It is next to impossible to comment on the validity of individual technologies this far into the future. It is, however, worth noting the unrealistic way in which savings from different technologies are piled on top of each other (see tables 1, 2 and 3 of the Roadmap). Savings from disruptive technologies are added to the gradual improvements to conventional aircraft, even when the two technologies cannot exist on the same aircraft. So the 15% improvement offered by open-rotor engines would be an alternative to gradual improvements to conventional jet engines, not an addition. The aerodynamic improvements of blended-wing body aircraft—if the designers ever work out where to put the passengers—would not be additional to improvements to conventional wing design—since the two features cannot be present on one plane.

14. The Committee on Climate Change (CCC) commissioned a study into technological potential for aviation emissions reduction for its inaugural report in December, and it appears to share WWF’s scepticism regarding long-range, radical improvements, noting that:

Sources: UK GHG inventory prepared for Defra; CAA Airport Statistics

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67 ACARE stands for Advisory Council on Aeronautical research in Europe.
70 http://www.omega.mmu.ac.uk/Files/Integrated%20study%20of%20AORs.pdf
More radical changes [...] to aviation technologies, eg Blended Wing Bodied aircraft, are likely to be more expensive, require changes to infrastructure and may not lead to significant additional emissions reduction.

The CCC also expresses caution over the speed at which improvements could penetrate the overall fleet:

The pace at which average fleet fuel efficiency improves will be driven by investment cycles. These tend to be long—up to 55 years—and there is limited scope to retrofit new technologies to existing aircraft. Improvements in fleet fuel efficiency will therefore lag improvements to new aircraft as the global fleet could take several decades to turnover.

And concludes that emissions will continue to rise in the absence of demand restraint:

the limits to feasible fuel efficiency improvement [...] make it likely that aviation emissions will continue to grow significantly unless demand is constrained.71

15. Finally, the Roadmap makes no attempt to cost the measures it envisages. Marginal abatement costs in the aviation industry are high (hence the industry argument that it should be allowed to increase its absolute emissions if it purchases emissions reductions elsewhere), and the market highly competitive. It is not clear what incentive an airline would have to invest beyond purchasing the best currently available technology, if such an investment were likely to lead to increased fares. The problem is compounded by the fact that the target has been set by a group of UK airlines, but applies to airlines of all nationalities flying out of the UK. It is hard to imagine Michael O’Leary, for one, compromising his guarantee of the lowest fares in Europe in order to tackle climate change.

16. If the technology gains are somehow delivered, they will come at a significant cost increase to consumers, which would in turn suppress demand. The main mechanism for incentivising delivery is a carbon price, but this would have to be significantly higher than currently assumed, calling into question the benefits of carbon-intensive airport expansion in the first place. Furthermore, since the carbon price for airlines will be determined by the EU ETS, there would have to be an extreme tightening of overall environmental policy before airlines face anything like the carbon price necessary to drive the assumed improvements. Unless that happens, it will be cheaper to purchase credits to offset rising emissions than to invest in radical new technology.

17. For illustration, the International Energy Agency’s Blue Map scenario suggests that for a carbon price of $200/tCO2 in 2050 there would be a 42% reduction in aviation emissions against baseline growth, including by modal shift.72 The Sustainable Aviation Roadmap envisages a 69% reduction, without any help from modal shift, but makes no attempt to cost this shift. Accepting the IEA numbers implies that delivery of the Roadmap targets would require a carbon price well in excess of $300 in 2050—a conservative estimate since more extreme abatement options become exponentially more expensive.

18. As an example, it is possible to estimate what a carbon price of this magnitude would do to the business case for a third runway at Heathrow, using the figures published in the Cost-Benefit Analysis that accompanied the consultation and decision documents. Government guidance on the Shadow Price of Carbon puts it at £19/tCO2 in 2000 prices, rising in real terms by 2% annually, and this was the price used for the Heathrow analysis. At today’s exchange rates, this yields a price in 2050 of £71, less than a quarter of what would be required to drive radical technology change. Doubling the cost of carbon used in the Cost-Benefit Analysis destroys most of the benefit from the runway;73 quadrupling it would turn it into a gigantic loss-maker.

19. In short, the Sustainable Aviation Roadmap is an unfundable techno-fantasy. The only way to ensure aviation plays its fair part in the transition to a low-carbon UK is to constrain capacity at the UK’s airports. This does not imply zero aviation growth in the UK, rather sustainable growth at around 1% per annum, conditional on proof that equivalent efficiency improvements have materialised. Note that aviation gets an extraordinary degree of special treatment in comparison to other sectors of the UK economy—it holds its emissions steady while other sectors must reduce their emissions by around 90% by 2050.

20. What the aviation industry does not get, however, in this scenario, is substantial infrastructure expansion. WWF-UK does not believe that this will hamper the UK economy, rather the reverse.

21. If today’s level of flying were distributed evenly throughout the population, every man, woman and child in the UK would be making on average two return trips per year. No-one is being prevented from going on holiday. Enabling even greater volumes of foreign travel would in fact be detrimental to the UK economy: there are more out-bound leisure travellers than in-bound and airport expansion would only exacerbate this effect. The “tourism deficit”, the difference between what visitors spend here and what UK residents spend abroad, is already £17 billion, with every region except London running a deficit. It is already hurting UK tourism operators; Grant Hearn, the Chief Executive of Travelodge, has described budget airlines as “squeezing the life out of the British holiday”.74

22. Improvements to the High Speed Rail network would allow the train to substitute for a significant share of current air journeys. Taking Heathrow as an example, in 2006 there were the following flights to UK and near-continental destinations:

- Paris: 2 million passengers per annum (mppa).
- Edinburgh: 1.5 mppa.
- Glasgow: 1.3 mppa.
- Manchester: 1.0 mppa.
- Brussels: 0.8 mppa.
- Aberdeen: 0.7 mppa.
- Newcastle: 0.5 mppa.
- Leeds: 0.1 mppa.
- Durham: 0.1 mppa.

23. In total, some 8 million passengers flew between Heathrow and destinations easily reachable by train in 2006, out of a total of 67 million. A total switch to rail on these routes would free up 12% of the landing and take-off slots at the airport, although this would require improved rail connections to the airport.

24. A new high-speed line between Brussels and Amsterdam is due to open in 2010, reducing journey times from London to under four hours and providing an attractive alternative to many of the three million annual air journeys between the two cities. WWF notes that the main opposition parties are enthusiastic about the potential for modal shift to high-speed rail. For example, in a speech on 9 February 2009 entitled “Smarter Choices and Low-Carbon Transport”, Shadow Transport Secretary Theresa Villiers said:

> With the European high speed network expanding all the time, and with progress expected through ticketing and timetabling connections, the potential for rail to air switching is getting greater all the time. [...] The next few months will also see the last gap plugged in the high speed route between Brussels and Cologne, opening up the potential for increased use of rail travel to German destinations as well.

> It is clear that over four hours, rail is highly competitive with air. For leisure passengers the journey time over which a switch to rail is attractive could be even longer.\footnote{See \url{http://www.bettertransport.org.uk/system/files/09.02.20.theresa_villiers_speech.pdf}}

25. In addition to train travel, there is another alternative to business flying that is often overlooked. In recent years there have been huge improvements in videoconferencing technology; in particular the latest “telepresence” systems offer a totally immersive, life-like experience that provides a genuine alternative to many face-to-face meetings for the first time.

26. WWF-UK wished to understand the appetite of UK businesses to reduce business flying, with a particular emphasis on attitudes to videoconferencing. In January 2008, we commissioned independent market research company Critical Research Ltd to survey 100 of the FTSE 350 about their green travel plans. We found that:

- 89% expected they would want to fly less over the next 10 years.
- 85% believed that videoconferencing could help them to fly less.
- 89% believed that increased use of videoconferencing could improve their productivity.

27. In other words, the huge majority of the UK’s largest businesses believe they can fly less yet remain competitive, indeed that they can increase profits by doing so. Case studies of progressive companies who have already invested in videoconferencing bear this out:

- Kevin Hayes, Executive Director of the Man Group, stated: “the benefits of videoconferencing are clear to us. The Man Group has saved $1 million per year, and has cut around 600 tonnes of CO₂ from our footprint”.

- Accenture invested in over a dozen telepresence facilities at its offices around the world. In the first six months, they saved $5.6 million (re-couping their investment) and 1,500 tonnes of CO₂.

- GlaxoSmithKline recouped the cost of their ten-room telepresence installation within three months. Travel costs were reduced 20%, yielding $25 million in annual savings. Lost productivity related to time travelling to meetings was reduced 50%.

28. Videoconferencing helps businesses stay connected and productive in a carbon-constrained world, or during difficult economic times when transport budgets are being frozen or cut, as at the moment when business traffic is seeing a sharp decline. WWF-UK believes that Government support for videoconferencing should be part of any green stimulus package, as it can meet both environmental and economic objectives simultaneously.

29. Videoconferencing can be supported through grants or tax concessions to reduce the capital cost of equipment, by allowing businesses to give employees tax-free incentives to hold “virtual meetings” instead of flying, and by investing in public access, for-hire suites. For-hire facilities would increase access to videoconferencing for Small and Medium-sized Enterprises (SMEs), for whom the capital costs of
installation might not be justifiable, and could be targeted in regional economic centres through funding to Regional Development Agencies, helping to deliver on regional planning objectives to cut CO2 from transport and reduce the need to travel.

30. There is a clear environmental imperative to constrain airport capacity. Leisure flying is a net drain on the economy, so objections are really based on political grounds. As for business flying, with the right investments in alternative infrastructure, both rail and telecommunications technology, airport capacity constraint need not be a burden and should in fact stimulate smarter business practices which boost productivity.

*February 2009*

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**Supplementary memorandum from the WWF-UK (FOA 18A)**

**Carbon Emissions from Aircraft Stacking at Heathrow**

Emissions from aircraft stacking are estimated by the Government to be 50,000 tonnes of CO2 annually, see DT answer to written question on 23 February 2009.76

Jim Fitzpatrick: The Department for Transport’s report, “Improving the Air Passenger Experience”, provides appropriate estimates of aircraft stacking above Heathrow. This report is available at:

http://www.dft.gov.uk/pgr/aviation/airports/improveairpassenger.pdf

Figure 27 on page 25 shows that in 2006–07, 56% of arriving aircraft were held in a stack and for those held, there was an average 8.5 minute hold. This equates to roughly 50,000 tonnes of carbon dioxide emitted by aircraft stacking at Heathrow in 2006–07.

Additional direct emissions from a third runway at Heathrow are estimated at 6.2 million tonnes of CO2: Table G10 on page 143 of the 2009 UK Air Passenger Demand and CO2 Forecasts77 estimates that Heathrow’s emissions in 2030 will be 23.6 million tonnes of CO2, compared to 17.1 million tonnes in 2005.

So even if all stacking is eliminated by a third runway, the carbon saved will be only 0.8% of the additional emissions.

Put another way, the runway will generate over 120 times more CO2 than it saves through reduced stacking.

*July 2009*

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**Memorandum from Virgin Atlantic Airways Limited (FOA 19)**

**Summary**

1. Virgin Atlantic Airways welcomes the opportunity to submit evidence to the Transport Committee’s very timely inquiry into the future of aviation. The aviation industry has been a UK success story, contributing an estimated £11.4 billion to the UK economy, directly employing 176,000 people and a further 500,000 people in ancillary jobs. But the UK’s leading position in Europe is under threat, in large part because of serious capacity constraints at our airports and poor management of existing infrastructure. Ensuring a thriving aviation industry is essential to the success of key sectors driving UK economic growth and to the delivery of continued widespread consumer benefits and (near) universal accessibility.

2. Virgin Atlantic Airways was set up in 1984 to provide a competitive alternative for business and leisure passengers on long-haul routes between the UK and major destinations. It has grown steadily over the past 25 years and now serves 30 destinations in the US, the Caribbean, Africa, India, Asia and Australia from Heathrow, Gatwick, Manchester and Glasgow. Virgin Atlantic currently has 38 long-haul aircraft in its fleet and around 9000 employees. It is the second largest UK scheduled carrier by revenue and Revenue Tonne kilometres.

3. The key points of our submission are:

   — Additional airport capacity is essential to help to alleviate congestion, reduce delays, and enable sustainable growth of aviation over the long-term. Virgin Atlantic therefore supports the Government’s recent announcement to approve a third runway at Heathrow. In the meantime, in a capacity-constrained environment, it is vital that policies are adopted that promote competition.

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76 http://www.publications.parliament.uk/pa/cm200809/cmhansrd/cm090223/text/90223w0107.htm
77 http://www.dft.gov.uk/pgr/aviation/atf/co2forecasts09/co2forecasts09.pdf
— Barriers to the full liberalisation of the aviation industry must be removed. The UK has provided commendable global leadership on this issue, but it is vital that progress on ownership, control and access to the US market is made as core element of the second “Open Skies” agreement.

— A degree of industry consolidation is inevitable in the current economic environment. Any such moves must be closely scrutinised by the regulatory authorities (in the UK, as well at EU level and in the US) to ensure that the consumer interest is prioritised in the decision making process.

— We support the Competition Commission’s provisional decision that BAA should be broken up. The consequent increase in competition will help drive up service delivery by airports. However, ongoing capacity constraints mean economic regulation should be retained and reformed to deliver necessary improvements in the management of airports.

— Virgin Atlantic accepts that the future growth of airlines and airports is conditional on aviation assuming its fair share of responsibilities for sustainable development. To this end we have set ourselves challenging fuel efficiency targets, are investing in new aircraft, operational efficiencies, and the development of sustainable bio-derived fuels for aircraft.

— We believe a mandatory global approach to tackling emissions is the most economically efficient way of addressing aviation’s environmental impacts and support the Government’s efforts to achieve this. But it must resist at the same time over-burdening the UK industry with inequitable, disproportionate and poorly designed taxes that exceed the industry’s environmental costs and risk damaging its competitiveness.

**Introduction**

4. In 2009, Virgin Atlantic celebrates its 25th birthday. During that time we’ve endured the first Gulf War, the bursting of the dotcom bubble, the aftermath of 9/11, the SARS outbreak, the second Gulf War and oil prices spiralling up off the chart. But the economic crisis we’re currently facing is potentially even more damaging to our industry than any of the above.

5. The UK has—by a mixture of fortuitous geographical position, sound regulatory policy and innovative entrepreneurial spirit—a thriving and competitive airline industry that is the envy of the rest of Europe. However the continuation of this situation is not guaranteed. If it is to be maintained, the Government must adopt policies which support, bolster and stimulate the aviation industry. These policies should not only be for the short-term but also need to ensure the aviation industry’s post-recession viability. It is therefore essential that the Government should find the right solutions to the key issues facing the industry; airport expansion and management, environmental issues and airline consolidation.

6. Aviation is a UK success story and Virgin Atlantic is a key part of it. Apart from being an essential part of a modern thriving society, aviation brings significant economic and social benefits to the UK as a whole. The economic benefits should not be underestimated. According to the OEF78, aviation contributes £11.4 billion to the UK economy—approximately 11% of UK GDP. Moreover, the industry directly employs 176,000 people and a further 500,000 people in ancillary jobs. A thriving aviation industry is critical to the success of key sectors driving UK economic growth. It brings widespread consumer benefits and (near) universal accessibility.

7. However, the UK’s leadership position in EU aviation is being challenged and, in some areas, overtaken. Maintaining and building on the UK’s success is at risk due to primarily, airport capacity constraints and poor management of existing airport infrastructure. As the Government have recently recognised, increasing airport capacity is an essential part of the industry’s continued success, but in the meantime, in a capacity-constrained environment, it is vital that policies are adopted that promote competition.

8. Virgin Atlantic accepts that the aviation industry should assume its fair share of responsibilities for sustainable development. But sustainable development will only be maximised when overall cost burdens are fairly attributed, taxation is effectively targeted and competition ensures that scarce resources are used as efficiently as possible.

**Liberalisation and Industry Consolidation**

9. It is essential for airlines that barriers to liberalisation are removed so that there are no restrictions on traffic rights or foreign ownership. The UK has provided global leadership on this and the Government should be congratulated for so-doing. This process has a long way to go. It is our view that the EU has an increasingly vital role to play in the global process towards increased liberalisation. The EU/US agreement—on which negotiations to finalise the deal in a second stage are ongoing—must deliver progress on ownership, control and access to the US market. If necessary and in order to achieve an acceptable result, the EU must be willing to use the stick of the claw-back clause from the first stage agreement and withdraw new rights it gave to US airlines at Heathrow.

78 OEF, 2006
10. Liberalisation and the global economic downturn will inevitably lead to industry consolidation. Virgin Atlantic recognises that the airline industry needs to undergo significant restructuring. We believe that in certain circumstances consolidation should take place and that the rationalisation of the market can reap benefits to UK consumers and UK plc. However, there are two distinct types of consolidation in the aviation industry. Where consolidation takes place between entities with complementary networks and services this increases competition and delivers pro-consumer benefits. Conversely, bad consolidation, between entities with overlapping networks and services, simply weakens competition and operates to the detriment of the consumer.

11. A clear example of bad industry consolidation is the application for anti-trust immunity by British Airways and American Airlines [BA/AA]. The proposal is centred on an effective merger of each airline’s overlapping operations on six routes between Heathrow and the US. If the BA/AA proposal were approved, the alliance would have nearly 60% of all Heathrow—US frequencies and a market share ranging from 49% to 100% on the overlap routes. BA/AA would dominate these markets. Meanwhile, existing competitors would struggle to compete and new entrants would be deterred.

12. In practice, EU/US Open Skies has not led to a significant increase in the degree of competition from Heathrow to US gateways due to the airport’s capacity constraints. Furthermore, Heathrow is by far the most important UK and EU airport for transatlantic services. Even without AA, BA already has almost twice as much capacity to the US than any of the other alliances combined at their home hubs [STAR at Frankfurt or SkyTeam at Charles De Gaulle]—a one world alliance immunity would further entrench BA’s dominant position at Europe’s key airport.

13. Anti-trust immunity would allow BA/AA to raise prices, rationalise services and reduce innovation. Existing competitors and new entrants would struggle to compete with fewer frequencies, and would be unable to launch additional services due to capacity restrictions at Heathrow.

14. Any restructuring that takes place must be subject to thorough regulatory investigation. Exemption from competition laws should be granted sparingly and only in those rare circumstances where applicants have met the high burden of demonstrating that public benefits exceed the risk to competition.

UK AIRPORTS: CAPACITY, OWNERSHIP AND REGULATION

15. As already stated, UK aviation brings significant benefits to UK plc. That is why Virgin Atlantic welcomed the 2003 Aviation White Paper which set out the Government’s long-term strategic approach to delivering necessary new airport capacity in the UK, particularly at Heathrow.

HEATHROW

16. Virgin Atlantic welcomes the Government’s recent announcement to approve a third runway at Heathrow. A third runway will help to alleviate congestion and delays, and will enable the long term, sustainable growth of Heathrow so that the UK’s only international hub airport can offer a comprehensive route network. This growth will ensure that Heathrow can continue to generate wealth and employment, compete effectively with other European hubs, and maintain the UK’s position in the global economy.

17. Heathrow’s success as an international hub airport is, in part, a result of the high volumes of connecting passengers that use the airport each year. Of all passengers connecting between flights in the UK, 70% do so at Heathrow. By increasing load factors and capturing economies of traffic density, connecting traffic permits air carriers to offer a greater number of routes and frequencies to passengers than would otherwise be possible.

18. Heathrow is of particular importance for time-sensitive and business passengers, due to the route network, frequency and convenience offered, alongside its proximity to London. Heathrow has been recognised as a separate distinct market to other London airports by various competition authorities. In this respect, no other London airport can be viewed as an alternative to Heathrow.

19. The unique nature of Heathrow—the number of carriers that operate from Heathrow, the number of passengers and connecting passengers carried and the route network and frequency offered—has unquestionably contributed to the overwhelming success of the UK aviation industry and the contribution aviation makes to the UK economy.

Potential “Alternatives” to Heathrow—High Speed Rail and an Airport in the Thames Estuary

20. Rail is a complementary mode of transport to air travel but not an alternative. Currently there are about 50,000 domestic flights per annum to the UK mainland from Heathrow and around a further 50,000 to Amsterdam, Paris, Brussels and Rotterdam. Even if half of the passengers on these flights switched to rail, Heathrow would still be operating at around 90% of capacity and would still be full by the time a third runway will be operational. High speed rail is a means to complement air transport requirements rather than a viable alternative to additional airport capacity.
21. Furthermore, ending short-haul flights would have a hugely detrimental effect on regional economies reducing the ability to export from them, and to attract inward investment, as well as affecting the viability of long-haul flights to some destinations and the frequency of flights to others.

22. The Thames Estuary proposal has been seriously investigated by the Government twice in the last 40 years, and was last rejected in the conclusions of the 2003 White Paper. On both occasions, the proposals were rejected on the grounds of financial cost and safety concerns. The Government puts the infrastructure costs of a new Thames Estuary airport at £33 billion, compared to £7.8 billion for a new runway at Heathrow.

23. A recent press article put the cost at £45 billion. Unlike the development of Heathrow, which will be privately funded, it is doubtful that the level of investment required for a Thames Estuary airport would be commercially viable without very considerable public subsidy. It would also mean the effective closure of Heathrow resulting in 72,000 lost jobs in west London.

ENSURING_CAPACITY_REQUESTEMENTS_FOR_THE_LONG-TERM

24. Capacity planning is a long-term strategic issue of national importance. On the evidence of historic economic downturns, the resulting effect on long term demand for air traffic is marginal. It is essential that going forward, the long-term vision is not thrown off course by shorter-term issues caused by the economic cycle. Indeed, it is vital that domestic infrastructure is in place to ensure that the UK is well positioned to recover from the current economic downturn.

AIRPORT_OWNERSHIP_AND_REGULATION

25. Virgin Atlantic supports the Competition Commission’s (CC) recent provisional decision that the common ownership of airports by BAA has had an adverse effect on competition. Virgin Atlantic agrees that divestiture is likely to create a long-term, sustainable ownership structure, where potential rivalry between the airports and incentives to compete will improve the management and operation of the airports.

26. We support the CC’s recommendation that divestiture should be accompanied by continued economic regulation of the designated airports. Capacity constraints will restrict potential competition, therefore regulatory oversight of Heathrow, Gatwick and Stansted will be necessary for the foreseeable future.

27. Virgin Atlantic recognises that whilst delivering additional capacity, it is important that UK airports function appropriately to ensure that passenger expectations are met. It is our view that the current structure, framework and application of airport regulation is not delivering the outcomes necessary to improve the management of airports and should be re-evaluated. We support the Government’s decision to review the current structure of the economic regulation of UK airports. Ultimately, Virgin Atlantic would like to see the divestiture of Gatwick and Stansted currently owned by BAA to two independent parties.

VIRGIN_ATLANTIC’S_ENVIRONMENTAL_COMMITMENT

28. Aviation is a small but growing contributor to man-made greenhouse gas emissions, but must play its part in achieving global greenhouse gas emissions targets. It is our view that rather than a proliferation of domestic or regional trading schemes (or blunt taxation) leading to environmentally irrational behaviour and competitive distortions, a mandatory global approach to tackling the aviation sector’s CO2 emissions would be the most effective and economically efficient way of reducing the industry’s environmental impact.

29. Failure to reach agreement on aviation’s role in achieving climate change targets should be considered a failure of the UNFCCC process. Virgin Atlantic continues to work with industry colleagues to support the UK Government’s efforts to avoid this. Virgin Atlantic is part of a new aviation industry coalition called the Aviation Global Deal (AGD) Group. The Group’s launch in February 2009 called for a pragmatic, fair and effective policy solution to deal with global emissions from aviation. The group published a communiqué on 12 February 2009 that set out guiding principles that must be included within any policy solution to deal with global aviation emissions.

30. Virgin Atlantic has set itself a challenging target of improving fuel efficiency by 30% between 2007 and 2020. This will be achieved largely through investment in new, more fuel efficient aircraft such as the Boeing 787 Dreamliner (27% more fuel efficient than the aircraft it will replace in our fleet), but also through operational efficiencies and more direct airspace routeings. We believe that the emphasis should be on decoupling economic growth from an automatic growth in CO2 emissions. Virgin Atlantic expects that, despite our fleet continuing to grow year on year and a corresponding increase in the number of passengers carried, our absolute emissions will peak within the next decade. Additional aviation capacity is therefore not incompatible with a move towards a more sustainable aviation industry.

79 Parliamentary answer from Transport Minister Lord Bassam, 4 March 2008 http://www.publications.parliament.uk/pa/ld200708/ldhansrd/text/80304-0002.htm
80 Adding Capacity at Heathrow Airport, Decision XX Jan 09
31. Following on from operating the world’s first ever flight by a commercial jet aircraft using biofuel in February 2008, Virgin Atlantic has been at the forefront of industry efforts to accelerate the development of lower carbon, sustainably produced alternative fuels. In September 2008—together with Boeing, UOP, and several other airlines together representing 15% of global jet fuel consumption—we launched the Sustainable Aviation Fuel Users Group81. This group pledged to develop only fuels which meet stringent sustainability criteria, ie do not cause deforestation, have lower life-cycle carbon footprints than traditional jet fuel, do not conflict with food cultivation, and provide a socio-economic benefit to the communities in which they are produced.

32. Virgin Atlantic anticipates that up to 5% of its fuel will come from sustainable bio-derived sources by 2015, and up to 10% by 2020. Biofuels, when accompanied by continued advances in airframe and engine technologies, and a greater emphasis on airspace efficiencies (through Government-led initiatives such as the Single European Sky), could offer another opportunity for aviation to reduce its carbon intensity.

33. We recognise that aviation’s environmental impacts are not limited to its CO2 emissions, however. Great strides have already been made in reducing NOx emissions and Virgin Atlantic will continue to explore opportunities for reducing fuel burn (and therefore negative impacts on local air quality) during the landing and take-off phases, and whilst the aircraft is on the ground. Through investing in new, substantially quieter aircraft our total noise output is now the same as it was in 2000, although our fleet has grown by over 30% since then. Continued emphasis on low noise and low power arrivals and departure procedures through the Sustainable Aviation group will provide additional opportunities to reduce these environmental impacts. Government policy must recognise the potential technological, procedural and operational trade-offs between NOx, noise and CO2 however.

AVIATION AS A SOURCE OF PUBLIC FINANCES

34. As previously stated, Virgin Atlantic accepts that aviation should meet its environmental costs, but this should not be used as a rationale for unfairly over-burdening the industry with inequitable, disproportionate and poorly designed taxes.

35. In 2008, air passenger duty (APD) was doubled to a total of £2 billion each year, and last November the Government announced further increases to APD that would raise an additional £460m in 2009–10 rising to £720 million by 2011. As a result, aviation will pay £2.5 billion despite the Department for Transport’s own figures stating that aviation’s cost to the environment in the UK is £1.5 billion.

36. With the inclusion of aviation into the EU’s Emissions Trading Scheme (ETS) in 2012—a move Virgin Atlantic supports—without a corresponding decrease in APD, we will see aviation’s “environmental” tax contribution increase to over £3 billion. This is demonstrably unfair and will not only threaten the financial viability of many UK airlines; since some of this additional tax burden will inevitably be passed on to passengers, it will also result in the poorer sections of UK society being priced out of flying.

CONCLUSION

37. Virgin Atlantic’s aspirational vision for the future of UK aviation is of a competitive airline industry using the most modern aircraft with low noise and emission levels operating out of efficient, effectively regulated airports, with the Government’s regulatory interference limited to the essential areas of safety and security.

38. Is this the stuff of dreams? We believe it can be the reality and invite the Committee to make recommendations to the Government that help achieve it.

February 2009

Memorandum from Belfast International Airport Ltd (FOA 20)

INTRODUCTION

Belfast International Airport Ltd (BIAL), as the largest and most important civil and military aviation gateway to Northern Ireland, welcomes the Committee’s invitation for BIAL to make a submission regarding their Inquiry into The Future of Aviation and commends the Committee’s initiative on this strategically critical subject for the continued future development and prosperity of the national economy.

EXECUTIVE SUMMARY

— Aviation is a critical contributor to the UK economy, whilst specifically in Northern Ireland as a region of the UK, unique competitive challenges prevail which must be formally addressed given the existence of the land border with the Republic of Ireland. To this end a more comprehensive policy regarding aviation development’s support for regional economic growth needs to feature prominently in any successor to the 2003 Aviation White Paper and be capable of adoption by the Northern Ireland Executive.

— Whilst there is a clear case for additional airport and runway capacity in various regions of the United Kingdom, all recent capacity studies have determined that adequate capacity is available in Northern Ireland to fulfil economic and social need within the 2030 horizon and beyond. However, there is no clear policy yardstick available in Northern Ireland against which aviation infrastructure proposals should be assessed in relation to economic development criteria. A revised Policy document must deal with this in a comprehensive manner.

— While rail travel may substitute for certain domestic air journeys within the UK mainland, it does not offer a viable alternative to air travel in and out of Northern Ireland.

— Aviation must meet its environmental costs. This can be achieved through taxation or other measures such as land use planning to ensure that aviation infrastructure developments do not place an unfair burden on local communities, or only do so where there is an overwhelming and compelling economic rationale. Given the balance of economic, social and environmental needs central to the existing White Paper, it is imperative that similar considerations should form the basis for any revision thereof.

— Analysis indicates that existing levels of Air Passenger Duty (APD) already meet the costs of the industry’s impact on the environment and the revised proposals for Aviation Duty would be revenue raising rather than cost neutral. A unique challenge facing Northern Ireland is that existing APD levels already place the industry at a significant competitive disadvantage to operations from Dublin Airport (DUB) regardless of recent proposals in the Republic of Ireland to introduce a departure tax scheme. This requires careful consideration within the remit of the inquiry.

— Airports have observed the impacts of the new security measures on passenger behaviour and the resultant economic consequences. A substantial proportion of UK aviation activity depends upon the ability of airports to offer very low aeronautical charges, underpinned by income from commercial spend. As security measures will further intensify over time, the squeeze on commercial margins at airports will inevitably lead to airport charges having to increase, with consequences for average fare levels and affordability. To counteract this in the longer term, research and development of new screening technologies needs to be fast-tracked to produce innovative and commercially effective solutions within the shortest possible timeframe.

1. THE VALUE OF AVIATION TO THE UK ECONOMY, ROLES OF UK AIRPORTS AND COMPETITION FROM ABROAD

1.1 Research indicates that aviation continues to play a vital part in the UK economy, supporting 200,000 direct jobs, 500,000 in the wider supply chain, and contributes in excess of £11.4 billion to UK GDP. Given the UK’s location on the western periphery of Europe our aviation industry’s role is essential in enabling access to and from global destinations and markets for the population, as well as maintaining time-critical import and export channels for the movement of goods and services. Northern Ireland’s more remote geographic location dictates that strong and sustainable air links are even more economically and socially critical for the local community.

1.2 Airports in the London area, led by Heathrow, play a key national and international role as hubs. For this reason the provision of sufficient airport and runway capacity in the South East is critical to the country’s future international competitiveness.

1.3 Key UK regional airports, including Belfast International, are generally further back the development maturity curve compared to the London airports. Those airports located in the UK regions with sufficient scale and growth capacity have an important future role to play in offering the opportunity to absorb and alleviate increasing pressure for international access to and from the South East, by enabling that access directly to their respective regions.

1.4 Airports throughout the UK face competition from abroad in a variety of guises. For instance, London Heathrow, as the UK’s major international hub airport, faces competition from similar hubs throughout Europe and further afield such as Frankfurt, Amsterdam, Paris (CDG), Madrid and Dubai, all of which are seeking to develop their national economies by attracting increased levels of international transfer traffic through their respective airports. On a different level other airports throughout the UK, who do not enjoy designation as home base to the national carrier, must compete vigorously with airports throughout Europe in order to secure additional operators and services into their locality.

1.5 Due to location, and unlike other airports in GB, the competitive challenge from abroad to developing services from Northern Ireland comes from within the same land mass. In this regard the menu of competitive challenges differs significantly from those experienced at similar regional airports on the UK
mainland. Irish Government policy has focussed infrastructural support on their designated primary strategic asset at Dublin Airport (DUB), developing it to the position of eighth busiest airport in Europe with over 23 million annual passengers. This Government policy, the range of airlines with hub operations at DUB, taxation and exchange rate (€/£) differentials and significantly improved surface and public transport access from Northern Ireland to DUB have all contributed towards pulling large numbers of air passengers and wealth out of Northern Ireland. Although recent changes to the Irish Government taxation regime and significant strengthening of the Euro v Sterling have granted some temporary alleviation to the historic imbalance, the broad choice of service available from DUB, particularly to and from long haul destinations, determines that the outflow of indigenous Northern Ireland travellers and associated channelling of inbound tourists and potential business to the island of Ireland continues to be disproportionately routed over DUB.

1.6 Under these prevailing conditions the challenge has been adopted by the Northern Ireland Executive to become and remain competitive, in order to grow our regional economy, seize opportunities for inward investment and tourism growth and develop jobs and wealth within the jurisdiction. The Northern Ireland Programme for Government has been set out with the central objective of creating and sustaining an outward-facing, export-driven economy. There is presently an enormous policy gap, insufficiently addressed by the current Aviation White Paper, as to how aviation development in Northern Ireland can support this objective and it is a matter of considerable urgency to devise an appropriate, visionary and cohesive policy before more ground is needlessly lost to the Republic of Ireland.

1.7 In any subsequent revision of the 2003 Aviation White Paper, the section dealing with Northern Ireland would need to be much more comprehensively considered, and give a significant policy “steer” to the NI Executive on aviation matters. For the foreseeable future, aviation policy is likely to remain a matter that is reserved to Westminster, with no corresponding locus available to the Executive outwith matters relating to the regulation of noise at aerodromes, airport byelaws and suchlike. It is therefore a matter of the utmost importance to ensure that the only policy of reference on the subject is as fulsome and comprehensive as possible in guiding regional aviation development in NI.

2. ADEQUACY OF CURRENT AVIATION INFRASTRUCTURE AND FUTURE DEVELOPMENT, IMPLICATIONS OF FUTURE PASSENGER TRENDS AND POSSIBLE AIRLINE Mergers

2.1 Various recent studies and reports—including the Regional Air Services Co-ordination (RASCO) study and the 2003 DfT Aviation White Paper—have made recommendations regarding future development of airport and runway capacity throughout the UK. While they have indicated that capacity will require upgrading in Scotland, the Midlands, South East and other parts of the country, they have all concluded that Northern Ireland currently has sufficient airport and runway capacity to fulfil its economic and social requirements until well beyond the White Paper plan threshold in 2030.

2.2 In line with the requirement to provide adequate capacity, there is also a central imperative to maintain equilibrium between economic and social needs and prospective environmental disruption. In terms of this the Northern Ireland consumer enjoys the choice of an EU-Designated “city airport” (Belfast City) and an International Airport with many fewer environmental sensitivities, of which the Aviation White Paper states “the scope to develop capacity within Belfast International’s existing boundaries is significant and should be supported”.

2.3 Blessed with this position the challenge for the Northern Ireland authorities is to harness these assets appropriately, deliver suitable supporting surface infrastructure initiatives and help to underpin growing and sustainable air links, encompassing key economic target markets. In so doing the stark international access imbalance compared to DUB can be steadily addressed and holistic social and economic benefit can be created across the entire Northern Ireland region. However, this is currently not as straightforward as it should otherwise be, given the lack of comprehensive policy instruments available to the Northern Ireland Executive referred to in 1.7 above.

2.4 The most striking phenomenon of the past decade in respect of passenger trends is the huge travel freedom created by the development of low cost carriers, supported by airports and other providers in the supply chain. With the onset of economic downturn, shaken consumer confidence, fluctuating fuel prices and increasing aviation industry taxation, it is of considerable concern that a significant downturn in air travel might have a strong ripple effect throughout the entire industry, perhaps leading to a need for fundamental re-assessment of how the industry functions economically.

2.5 In the absence of an interventionist approach by Government or other regulatory bodies, or indeed any form of undertaking by the organisations themselves, it is quite likely that completed and prospective airline and tour operator mergers will curtail consumer choice as competitive tensions between the previously independent operators ease. It is also quite likely that the newly-created economies of scale enjoyed by these merged entities will not lead to this limited pool of operators passing on savings to the end user, leading to substantially inflated prices in general.
3. GROWTH IN USE OF RAIL TRAVEL AS A SUBSTITUTE FOR SHORT-HAUL FLIGHTS

3.1 In Great Britain it is possible that efficient rail travel could be used as an acceptable alternative to certain over-land domestic air journeys, dependent upon various factors relating to time and productivity.

3.2 For Northern Ireland consumers the opportunity to use the train as an alternate means of travel to GB is unlikely to ever exist. Equally, using the train to connect to a flight from DUB is not a practical option due to the Belfast—Dublin track routing; notwithstanding the fact that encouragement of such a feeder channel would unnecessarily facilitate the export of jobs and GDP from the UK into the Republic of Ireland. It is much more likely that, given the significant expenditure which has been invested in upgrading the main Belfast—Dublin road, air passengers and freight vehicles directed south would choose to increase the already extensive number of polluting road journeys being undertaken.

4. COSTS IMPOSED BY AVIATION ON SOCIETY AND THE ENVIRONMENT, IMPLICATIONS OF CLIMATE CHANGE POLICY FOR THE AVIATION INDUSTRY

4.1 As noted previously, maintenance of a central balance in respect of economic, social and environmental needs is paramount to the future identification and implementation of increased airport capacity. To this end it is patently clear that further airport capacity should not be sanctioned in localities where there already exists sufficient capacity to address current and future economic and social need. In terms of Northern Ireland, updating the Aviation White Paper to guide the devolved administration in its approach to key aviation infrastructure decisions would be extremely beneficial.

4.2 With particular regard to climate change policy and the Climate Change Act 2008 the forthcoming EU Emissions Trading Scheme would appear to offer a balanced approach towards how aviation might cover the burden which it places upon the environment. The concept of all airlines inclusively co-joined in buying credits by which to offset the perceived damage of their activity throughout the Community offers a fair solution by which the industry can fulfil its environmental debt to society, so long as the scheme is applied rigorously and universally.

4.3 As an airport, recognising that our business activities have potential environmental consequences, Belfast International adheres to a strict environmental policy covering all aspects of environmental protection. We are strongly committed to reducing our carbon footprint but believe that crude measures, such as tax on departing passengers, will have no environmental benefit and are purely a means of collecting taxes from the travelling public. Instead, understanding where we can directly reduce our environmental impact informs our policy. By managing airspace, particularly aircraft approach and departure tracks, by reducing energy use, controlling emissions and managing buildings, equipment and vehicles with the environment at the forefront of our minds, and by offsetting some of the impact that we cannot reduce by planting trees and encouraging biodiversity, we can have a positive effect on the environmental consequences for the local community without direct taxation of our passengers.

5. IMPACT OF TAXATION ON THE AVIATION SECTOR NATIONALLY AND REGIONALLY AND PROTECTION OF PASSENGERS FROM COLLAPSE OF AIRLINES

5.1 Clearly the spectre of increased taxation on the aviation industry is of commercial concern, especially in light of the detrimental impact on demand created by the credit crunch and economic downturn. Analysis indicates that existing levels of UK Air Passenger Duty (APD) already meet the costs of the industry’s impact on the environment. However, by contrast the proposed UK Aviation Duty would be revenue raising in nature rather than cost neutral and ultimately unduly detrimental to the aviation industry.

5.2 In terms of the unique challenges facing Northern Ireland, existing APD levels already place our industry at significant fiscal disadvantage to competitive services operating from DUB. This competitive disadvantage would be compounded by the advent of Aviation Duty in Northern Ireland and would most likely lead to a marked increase in environmentally polluting north-south road journeys by freight vehicles, due to the additional and currently non-existent tax on freight aircraft movements under the original UK Aviation Duty proposals.

5.3 In terms of schemes to protect consumers from potential airline collapse, it would certainly be worthwhile to investigate merits and options, with the proviso that any action or levy should not create a prohibitive or depressive impact on air travel demand or on the ability of individuals to afford air travel, thus leading to issues of social exclusion.

6. IMPACT ON THE AVIATION SECTOR OF CHANGES IN THE SECURITY ENVIRONMENT

6.1 Although always a paramount consideration in the field of air travel, security requirements were brought into stark focus post 9/11 and further intensified following the introduction of liquid restrictions in August 2006. Clearly the impact of enhanced security measures has been significant and, while universally welcome in promoting feelings of safety and security for the travelling public, the new measures have substantially altered the behaviour profile of passengers passing through airports. It is almost certain that these security measures will not disappear and indeed they are likely to become more stringent over time.
6.2 Over the past two and a half years we, like other UK airports, have observed the impacts of the various new security measures on passenger behaviour—both in terms of propensity to fly and also the changes to dwell-time habits within the passenger terminal. A substantial and rapidly increasing proportion of UK aviation activity depends on the low cost sector, the basic model for which relates directly to the ability of airports to derive a significant proportion of income from commercial spend. This in turn enables airports to offer lower net aeronautical charges to airlines whilst maintaining margin. Successive changes to the security regime have had profound impacts upon airport economics, and as it is anticipated that security measures will further intensify over time, it is likely that the squeeze on commercial margins at airports will be exacerbated and will inevitably lead to airport charges having to increase. This in turn has consequences for average fare levels and affordability.

6.3 Airports will react to the changes in passenger behaviour resulting from the intensified security regime by deploying capital-intensive, structural alterations which will help offset some of the dwell-time issues and maintain a proportion of the commercial income streams. However, in the medium to long term the solution to the issue can only come from the deployment of enhanced security screening technology and techniques that will ensure the increasingly stringent requirements are met within a more efficient process. It should be hoped that current research and development of these new technologies will be fast-tracked and that innovative and effective solutions will become commercially available within the shortest possible timeframe.

CONCLUSION

Belfast International Airport has welcomed the Committee’s invitation to contribute to this Inquiry and believes that it is imperative that any policy instrument that succeeds the current Aviation White Paper has to be comprehensive in nature and considered in tone. Given the importance of aviation to the regional economy, we are concerned at the relatively “light touch” which has been given to Northern Ireland within the current document, and it would be our desire to see this shortcoming rectified in any successor thereto.

We would be happy to make any further contribution to the Inquiry that would be deemed appropriate and wish the Committee well in its deliberations.

February 2009

Memorandum from Freight Transport Association (FOA 21)

SUMMARY OF KEY POINTS

— Air freight is crucial to the UK economy as it facilitates the UK’s international trading position.

— Air freight is a global industry, so measures to address its adverse consequences should be carried out at least at regional (EU) level.

— Action alone by the UK on taxation or nightflights will only disadvantage the UK economy as services would switch to competitor continental airports, without changing the way the aviation industry works.

INTRODUCTION

1. FTA is pleased to respond to the Committee’s inquiry into the future of aviation. We note the desire not to cover ground previously addressed in recent inquiries, including the one on freight itself, but obviously given our area of interest some of the issues raised will be the same. We have in consequence confined our response to the questions raise by the Committee—which do appear to cover the crucial issues in this area.

2. The Freight Transport Association (FTA) is the UK’s second largest trade association and represents over 14,000 companies relying on or providing the transport of freight both domestically and internationally, to or from the UK. Our members include hauliers, freight forwarders, rail and air freight operators, through to customers—suppliers of raw materials, retailers, manufacturers, and wholesalers, covering all modes of transport—road, rail, air and sea. FTA members operate over 200,000 commercial goods vehicles in the UK, approximately half of the UK fleet of goods vehicles, 90% of goods moved by rail and around 70% of goods moved by air and sea.
RESPONSES TO THE SELECT COMMITTEE’S QUESTIONS

Question 1. What is the value of aviation to the UK economy?

3. Air freight is crucial to the UK economy not because it is a major employer and generator of revenue—though it is those things. But because it provides a service which the rest of UK industry relies upon to be competitive in the global market.

4. The volume of freight travelling by air is very small—around 0.5%\(^2\) of the total. However, it has a high value—about 25% of the UK’s trade by value.\(^3\) 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. Air freight also serves industry where urgency is a key factor—pharmaceuticals and biotech industries as well as food products are heavy users of air freight. Reliability and predictability are also key aspects for such industries.

5. One area where air freight is particularly vital is in facilitating trade with the developing world—especially Africa. Air freight allows areas such as this to trade in fresh produce, such as food or flowers with Europe—a key area of the economy for many African nations. For example, the export of fresh fruit and vegetables to the UK alone contributes almost £35 million per year to the economy of Kenya—95% of these products have to be sent by air. The distances involved usually make it impossible to serve these markets by sea freight due to the extra time that would take. Overall, more than one million African rural livelihoods are supported by UK consumption of their fruit and veg.\(^4\)

6. Due to the increased sourcing of goods from abroad use of air freight will increase—this will be key to the UK future economic prosperity, as outlined in the Eddington Report.

7. Growth in air freight is constrained by the availability of capacity on passenger flights. The majority of air freight and parcels (around 70%) is carried in the baggage holds of passenger aircraft rather than on dedicated freight planes.

8. The aviation industry directly contributed £11.4 billion to UK GDP in 2004 and employed 186,000 people—over 520,000 jobs in the UK in total depend on the aviation industry.\(^5\)

What are the roles of the London and regional airports?

9. Heathrow is, and will continue to be, the UK’s most important centre of air freight. Indeed, Heathrow handles about as much freight as all the other airports in the UK put together. Its location, close to the UK economic centre, London and its connection to global passenger flight networks means that it is the only UK airport that can fulfil this role. In total all London-area airports take 75% of the UK’s air freight. This has declined from 82% in 1994, as a result of more use being made of regional airports such as East Midlands, Manchester and Prestwick.\(^6\)

10. Airports such as Stansted and Nottingham East Midlands are key freight airports that give over a much higher part of their operations to freight services. Manchester, Luton, Belfast and Scottish airports such as Edinburgh and Prestwick also offer substantial services and are crucial for those locations. These latter airports are expected to see the greatest percentage growth in freight services in the future—though Heathrow will continue to predominate.

What competition do they face from abroad?

11. Continental Europe’s major freight airports are Amsterdam Schiphol, Paris CDG and Frankfurt International. It should be noted that these, and other substantial freight airports, are located relatively close to London and the South-East of England. If UK air freight or airports are competitively disadvantaged against these airports, one option for operators will be to switch air services to these sites, and then truck the goods into the UK. This would increase costs as well as the carbon footprint of such deliveries. Some airports in this area are already marketing themselves on this basis, anticipating future UK problems.

12. Charles de Gaulle, Leipzig in Germany and Schiphol are growing hubs for express operations. It is therefore vital that the UK Government ensures that the tax regime and the availability of quotas for night flights are conducive to the express industry continuing to use the UK as a hub.

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\(^2\) DfT Focus on Freight, 2006
\(^3\) Ibid
\(^4\) International Institute for Environment and Development
\(^5\) Oxford Economic Forecasting report on economic impacts of aviation
\(^6\) Civil Aviation Authority, DfT Transport Statistics Great Britain
Question 2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed

13. UK business benefits considerably from the UK’s position as a hub for aviation services, through wide availability, high quality and competitive cost.

14. The Transport Committee has previously reported the DfT’s acknowledgement that UK-based companies are now trucking goods to and from continental airports. It is FTA’s understanding, based on feedback form air freight operator members, that this is as a result of pressure on capacity at the principal airports of south east England.87

15. UK industry requires Heathrow to have the ability to grow to meet the needs of the commercial airlines and thereby increasing belly hold capacity for freight. Regional airports should also be given ability to expand to meet demand where this is appropriate, but access for freight only services must be preserved—cargo operations should not be penalised in favour of increased passenger services. For example, expansion of airports such as London Stansted should not be predicated on a reduction in night flights, which are needed for express freight operations. Equally expansion of these regional airports should not be seen as an alternative to expanding Heathrow—the UK’s major international hub airport. Government should not artificially attempt to regulate where freight operates from, as business will simply be lost to continental airports.

16. The environmental impacts of aviation need to be dealt with but restricting UK gateways is not the way to do it. This will only result in air freight business transferring to the Continent, to the detriment of UK competitiveness and no benefit to the flight against climate change.

17. It is vital for maintaining the competitiveness of UK industry that packages can be brought to and from the UK overnight. Express delivery members operate within the current airport noise regimes but to meet commercial demands they would like the opportunity to improve operations through reasonable growth in night flights. The current growth restrictions on air freight operatives could have severe economic consequences given the importance of the industry to the UK economy.

Question 3. To what extent can rail provide an alternative to short-haul flights?

18. It is important for the UK Government to maintain the regional air network because of its speed and direct links to international hubs.

19. Domestic air freight is minimal in the UK—goods are typically moved by road from their UK point of arrival. In freight terms, rail, whilst increasingly flexible, is inherently suited towards larger traffics. Traffic that is air freighted is usually required urgently and so therefore needs to travel direct by one mode to its point of delivery, without further interchange. This is not well suited to rail operations.

20. The suggestion that enhanced rail connections could remove the need for expansion of airports is erroneous as far as freight is concerned. These connections, especially if they are “high speed” and therefore unlikely to be available to freight at all, would not benefit freight operations.

Question 4. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

21. Aviation clearly has a significant impact on society and the environment—locally through issues such as noise, and globally through climate change pollutants.

22. Transport is the hardest industry sector in which to improve environmental performance—as, by definition, units are not fixed but are in motion. Further, within transport, aviation is the single hardest area to improve such performance. The technology does not yet exist to replicate the service in a zero emission fashion, no matter what the cost.

23. Public policy needs to reflect these problems and create a framework whereby the aviation can mitigate its climate change impacts. The aviation industry should be incentivised through planning systems and other regulation to make use of quieter, more fuel efficient aircraft. The industry needs to be able to pay for equivalent improvements in other industry sectors to off set aviation’s climate change impacts.

24. Therefore FTA supports the incorporation of aviation within the EU’s Emissions Trading Scheme and believes that such regulation, preferably on a global basis, is the most effective way of improving net environmental performance, in a way that will cause the least social and economic disruption and not commercially disadvantage the UK.

87 Transport Committee Report on Freight, 2008
25. FTA agrees with the need to ensure that noise management at airports develops in a balanced and coordinated way. In particular, we support the principles behind the EU “Balanced Approach” Directive which aims to ensure that airports and airlines can strike a balance between stricter environmental measures and the need to meet the current and future demand for air transport by avoiding operational restrictions unless all other options have been exhausted.

**Question 5. What is the impact of taxation on the aviation sector nationally and regionally?**

26. Air freight operations pay substantial taxation both directly in corporate/payrole taxes, and indirectly through the impact of air passenger duty on passenger services used. Across the world, international air freight is not directly taxed.

27. FTA supported the Government’s decision in the pre-budget Report (November 2008) not to proceed with a tax on air freight from the UK, as this policy would have introduced a direct commercial disadvantage to UK air freight services, resulting in reduced service, increased cost and in the long run potential business relocations.

28. Indeed, during the consultation over the proposed Aviation Duty, major freight aircraft operators were drawing up alternative schedules to react to the introduction of the tax. These schedules increasingly avoided the UK to use continental hubs instead. We believe that if the tax had been imposed, a similar impact on passenger movements would have been seen, then more mixed-use flights will also make use airports such as CDG, Schiphol, etc.

29. The implications for the UK’s international freight connections were reduced levels of service in the UK and increased costs, delivery times and unreliability for exporters having to use continental airports.

30. Aviation is a global business. For this reason, it should be dealt with on a global or at least regional level (ie the EU). The UK acting alone, on taxation or on restricting airport growth, will only disadvantage this country, and not change the aviation industry.

31. The Committee should be aware that proposals being consulted on by Ofcom to apply spectrum pricing to the maritime and aeronautical sectors would distort market competition in the aviation sector as UK airlines and airports would have additional cost burdens not imposed on continental European competitors. Ofcom have failed to make any case for the need for this new pricing structure on the grounds of “efficiency”. There is also no recognition that airlines use radio spectrum for safety reasons alone rather than for commercial reasons as would be the case in other sectors such as satellite broadcasting.

**Question 6. What is the impact on the aviation sector of changes in the security environment?**

32. The impact on air freight operators of security enhancements subsequent to 9/11 has been, and continues to be, very significant. The security programmes members have in place as Department for Transport (DfT) directed parties, under Aviation Security regulations, are rigorous and require considerable investment both from a staffing and technological perspective. Members are currently in consultation with the DfT on a new Draft Single Cargo Direction for the aviation sector. This Direction is specific to aircraft operators and regulated agents on the security of cargo, courier material and mail under the Aviation Security Act 1982. It has reached “final draft” stage and will have further substantive implications for our members.

33. FTA is keen for members’ investment to be recognised in the DfT and Home Office proposals to introduce the “user pays principle”—where airports will be responsible for their policing costs. The responsibility for the security of cargo facilities already falls to the operator; the majority of policing costs incurred at an airport relate to passenger activities. This differential needs to be reflected in any costs that are passed on.

34. Further, in the Customs arena, there are changes to the Community Customs Code to be implemented in the next two years that will require traders to submit new pre-arrival declarations for goods arriving in the EC from third countries and pre-departure declarations for goods being exported to third countries. The timelines for submitting these new declarations will require UK traders to re-engineer their business processes, amend IT systems, and train up staff in the new procedures. All of these will add significantly to the costs of doing business.

*February 2009*
Memorandum from The Northern Way (FOA 22)

SUMMARY

— This submission is by the Northern Way, the partnership led by North West Development Agency, One North East and Yorkshire Forward established to promote the North’s productivity growth.

— Eight airports in the North cater for scheduled air services—Manchester, Liverpool John Lennon, Leeds Bradford, Humberside, Newcastle, Durham Tees Valley, Robin Hood Doncaster Sheffield and Blackpool.

— The North’s airports and air service links are vital to our future economic success. In 2006 the direct and indirect impact of the North’s airports was £1.3 billion to regional income, 60,000 jobs, and £2.4 billion Gross Value Added.

— The catalytic benefits of international connectivity through the North’s airports most probably greatly outweigh the more easily quantifiable direct and indirect impacts.

— The Northern Way supports the development of aviation infrastructure. Surface access capacity has been identified as the principal future constraint to Manchester Airport’s growth. Other airports in the North also experience constrained surface access. The Northern Way’s transport priorities include enhancing road and rail access to the North’s airports.

— The Northern Way has identified the importance of Heathrow as an international gateway for the North and the importance for business in the North of air links to Heathrow. The withdrawal of BMI’s services to Leeds Bradford and Durham Tees Valley significantly reduces the North’s connectivity to Heathrow.

— The Northern Way has supported the proposed expansion of Heathrow. If the North is to share the benefits that this will bring there needs to be certainty on maintaining direct air links from the North and direct high speed rail access from across the North longer term. Heathrow’s main European competitors benefit today from short haul domestic aviation and fast rail services providing passengers with greater choice.

— The Northern Way continues to support the internalisation of environmental externalities and is in principle supportive of the Emissions Trading Scheme, as long as it coincides with the removal of APD.

— The Northern Way remains concerned that scheduled increases in APD for 2009 and 2010 alongside current market conditions will have a detrimental impact on the economics of key routes to the North of England. In current market conditions a two year “holiday” from APD increases for regional airports should be considered.

The Northern Way

1.1 This submission has been prepared by the Northern Way. The Northern Way is a unique initiative, bringing together the cities and regions of the North of England to work together to improve the sustainable economic development of the North towards the level of more prosperous regions. It is a partnership led by the three northern RDAs (North West Development Agency, One North East and Yorkshire Forward).

The Northern Way Growth Strategy

1.2 The Northern Way Growth Strategy Moving Forward: The Northern Way sets out how the Northern Way seeks to bridge the output gap. The Growth Strategy was developed to build on the North’s three Regional Economic Strategies and Regional Spatial Strategies. It highlights transport as a priority area for transformational change.

1.3 The Growth Strategy identified three transport investment priorities:

— to improve surface access to the North’s airports;
— to improve access to the North’s sea ports; and
— to improve links within and between the North’s City Regions.

The Northern Transport Compact

1.4 The Northern Way Steering Group established the Northern Transport Compact to provide it with advice on transport priorities at the pan-northern level linked to productivity growth. The Compact has led the development of the Northern Way’s Transport Strategic Direction and Short, Medium and Long Term Priorities.89

89 The Strategic Direction for Transport: http://www.thenorthernway.co.uk/document.asp?id = 433
90 Short, Medium and Long Term Transport Priorities http://www.thenorthernway.co.uk/document.asp?id = 447
AIRPORTS AND THE NORTH’S ECONOMY

1.5 The North’s airports are vital for our future economic success. The importance of airports, and aviation, to the economy was highlighted by the Northern Way in our 2004 Growth Strategy. The Eddington Transport Study\(^{91}\) published by the Government in December 2006 came to the same conclusion.

1.6 The North’s airports are major sources of employment and economic activity. By providing access to international markets for goods and for business travellers, the North’s airports facilitate international trade. The North’s airports support inbound tourism and, by offering access to leisure destinations, contribute to the quality of life of those who live in the North. There is evidence that successful city regions benefit from, and create the demand for, regular and frequent air services to international markets. Minimising the costs and time for goods to access international markets provides benefits for importers and exporters.

1.7 The current and future capacity and connectivity of the North’s airports is of clear economic importance as is the capacity, capability and sustainability of their supporting surface access infrastructure.

THE FUTURE OF AVIATION

1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

1.8 Eight airports in the North cater for scheduled air services. These are Manchester, Liverpool John Lennon, Leeds Bradford, Humberside, Newcastle Durham Tees Valley, Robin Hood Doncaster Sheffield and Blackpool.

1.9 Manchester is the most significant airport in the North, catering for more passengers than all the other northern airports combined. It is the only airport in the North with a network of inter-continental scheduled services and that caters for a substantial volume of air freight. It is the largest airport in the UK outside the South East.

1.10 Newcastle Airport is served by legacy and low cost carriers, and has long haul connections. It has direct air services to Heathrow. It plays a particularly important role in serving Tyne & Wear, the city region in the North most distant from Manchester Airport.

1.11 Other airports in the North have particularly benefited from the rapid growth of the low cost carrier market providing direct air links to a range of European destinations that are used by the business and leisure markets.

1.12 The Northern Way has compiled and updated evidence from all the North’s airports and has identified their significant economic impact: in 2006 £1.3 billion regional income, 60,000 jobs and £2.4 billion Gross Value Added (GVA). Direct, indirect and induced benefits are included in these measures. Wider catalytic economic benefits are more difficult to quantify. Anecdotal evidence and studies such as those undertaken by Oxford Economic Forecasting, demonstrate the link between the provision of aviation services and overall productivity, as well as particular business location decisions. It is the Northern Way’s view that the positive externalities—catalytic benefits—from air transport are significant and are most probably significantly greater than the more easily quantified benefits.

1.13 The North’s airports provide connectivity for the North’s businesses in an increasingly global market (for passengers and goods). They support inbound tourism, and contribute to the quality of life in the North by offering access to international leisure destinations. Further growth of the North’s airports will enhance connectivity and lead to direct and indirect benefits to businesses. It also offers the potential to minimise surface access journeys by offering alternatives to travel via the London airports, and Heathrow in particular.

1.14 Nevertheless, the Northern Way also recognises the importance of Heathrow as an international gateway and consequently the importance for business in the North of air links to Heathrow. Heathrow is the principal hub airport in the UK and is subject to international competition for passengers interlining/transferring to long haul destinations.

1.15 In the Northern Way’s response to the Government’s consultation on the expansion of Heathrow\(^{92}\) we compared the short haul and domestic services provided by its competitors (Amsterdam Schiphol, Frankfurt and Paris CDG). The analysis shows that Heathrow’s competitors have maintained good domestic and short haul connections by complementing air services with new fast or high speed rail links which provide passengers with greater choice. Heathrow is in comparison the only major European hub that has a combination of no direct inter-city train services and constrained air feeder services. The situation of only Manchester and Newcastle Airports in the North now having domestic short haul flights to Heathrow, and the Government proposing only limited high speed rail services to Heathrow on the west coast represents a significant limitation on UK productivity growth and particularly the productivity of the Northern regions.

\(^{91}\) The Eddington Transport Study. The Case for Action: Sir Rod Eddington’s Advice to Government, HMT, December 2006
\(^{92}\) Adding Capacity at Heathrow Airport: Consultation Response http://www.thenorthernway.co.uk/document.asp?id = 597
1.16 All the North’s airports face competition from across Europe to attract passengers, airline services and based aircraft. A series of recent separate decisions by government have adversely affected the economics of the North’s airports including:

— Significant increases in security and police costs, determined by the Home Office
— Increases in APD, and prospective further increases in 2009 and 2010, determined by HM Treasury
— Potential Aviation Bandwidth Spectrum charging, determined by OFCOM

1.17 These extra costs imposed on airports in the UK put them at a competitive disadvantage to other European airports many of which do not incur any, or most, of these costs. The Northern Way believes that before their implementation further investigation is needed on how these costs combine to affect market behaviour and the future prospects for the North’s airports.

2. Is the current aviation infrastructure adequate for the needs of the UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

1.18 At the Northern airports sufficient airport runway and terminal capacity is available in the short to medium term, however significant support is required for improving surface access infrastructure. Surface access capacity has been identified as the principal constraint to Manchester Airport growing to meet its airside capacity. Other airports in the North also experience constrained surface access. The Northern airports recognise these constraints and are developing their transport strategies to address these shortcomings.

1.19 The Northern Way’s pan-northern transport priorities include a number of proposals that will improve road access to the North’s airports. Amongst these are:

— A556 (M56 to M6), which will improve road access to Manchester Airport from the south
— M6 Manchester to Birmingham improvements, which will improve road access to Manchester Airport and Liverpool John Lennon Airport from the south
— A1 Newcastle Gateshead Western Bypass, which will improve access to Newcastle Airport from the South.

1.20 The Northern Way has co-financed the recently completed third railway platform at Manchester Airport to promote greater accessibility. The Northern Way is also currently working with the Department for Transport, Network Rail and GMITA/GMPTE to identify a preferred way forward to addressing the capacity and capability constraints of the Manchester Rail Hub, which amongst other things limits rail access to Manchester Airport. Phase 1 of this work is nearing completion and will lead to the adoption of a statement of Conditional Outputs that a Hub solution should address. These will include recognition of the need to support an increase in rail market share at Manchester Airport as the airport’s throughput grows. The Network Rail-led Phase 2 study is already underway. Its recommendations on potential solutions, to be developed further for implementation in rail’s Control Period 5 (2014-19), are anticipated by the end of the summer.

1.21 In addition other airports in the North are working with their local authority partners to develop proposals to improve road and public transport access. The Northern Way supports city region proposals such as those to improve road access to Robin Hood Doncaster Sheffield Airport and Liverpool John Lennon Airport, and public transport access to Leeds Bradford, subject to their city region promoters establishing an evidence-based case and prioritising such investments alongside other city region transport investment proposals.

1.22 Alongside our support for growth of the North’s airports, the Northern Way recognises the importance of Heathrow as an international gateway and consequently the importance for business and productivity in the North of air links to Heathrow.

1.23 On 19 February BMI announced the withdrawal of two key routes to Heathrow from Leeds Bradford and Durham Tees Valley. This is a result of airline consolidation and strategic decisions on BMI’s route network favouring long haul routes, combined with lack of capacity and higher landing charges at Heathrow, as well as higher rates of APD. Fast, direct and reliable links to Heathrow are important to the economies of Yorkshire and the North-East. Losing them impacts detrimentally on the North’s competitive position.

1.24 Across the North, BMI’s announcement leaves only Manchester and Newcastle Airports with Heathrow services. Heathrow is a leading world hub airport servicing business destinations around the world as well as a major entry point for inbound tourism to the UK. Insufficient capacity and the constraints on growth at Heathrow have left the North in a position today of inadequate aviation links to Heathrow. It is critical to the North’s economic prosperity that safeguards are put in place to protect these vital air links from the North to Heathrow.

1.25 The Northern Way has supported the case for Runway 3 at Heathrow. However, for such additional capacity to have a truly national benefit the North must have access to it. As part of the planning permission for Runway 3, slots should be reserved for short haul services to the North’s airports.
1.26 Alongside this there is no clear prospect of high speed rail services direct into Heathrow from both sides of the Pennines for many years to come. An early commitment by Government to deliver such a network would help minimise the harm of increasingly constrained Heathrow access from the North.

To what extent can rail provide an alternative to short haul flights?

1.27 Passengers take short haul flights for two purposes. One is to interline with other air services, the other is for point to point travel. Worsening connectivity with Heathrow will further stimulate interlining via European airports from the North. For rail to provide an alternative for the interlining market, direct connectivity to Heathrow would be required from across the North.

1.28 As the increase in rail mode share between Manchester and London has demonstrated, rail can provide an alternative to short haul flights for the point to point market. However, this case study also shows that there needs to be significant improvements in rail journey times and reliability to do so. If rail is to increase further its market share between Manchester and London (as well as Newcastle and London) a step change in rail journey times would be required.

1.29 We have undertaken work which has demonstrated the importance of north-south rail connections to the Northern economy. This was published in September 2007.93 The report highlights the importance of providing enhanced additional capacity for north-south links to London and key international gateways such as Heathrow (for passengers and for freight). It also identified the additional productivity benefits that quicker north-south and trans-Pennine journeys will bring to the North and which hitherto have not been considered by Government. These benefits amount to over £10bn nationally. However, it is only in the long term that it is possible to envisage a network of high speed rail direct into Heathrow serving both sides of the Pennines.

1.30 It will also remain that for much air traffic from the North of England rail will not provide a realistic alternative to air services, as the time to travel to the Continent from the North will not be competitive. Moreover, for many domestic routes outside the South East of England (eg Newcastle to Cardiff, Manchester to Aberdeen), a high speed rail alternative to air is unlikely to be available.

3. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

1.31 Aviation is the fastest growing contributor from the transport sector to the growth in greenhouse gases and the aviation industry must continue to play its role in achieving a lower carbon using society.

1.32 The Northern Way supports the internalisation of environmental externalities and is in principle supportive of the Emissions Trading Scheme as the most appropriate way forward for airlines.

1.33 For airports, mitigation of environmental impacts needs to be an integral part of any investment proposals. Through regulation and the planning process, Government should encourage timely and appropriate investment in environmental mitigation. Many of the environmental impacts associated with airports (eg the noise or emission standards for different types of aircraft) are most appropriately tackled at an EU-wide or international level. It is for Government to lead on such matters.

1.34 Airports and the wider aviation industry are playing their role in examining ways of reducing their impact in a low carbon economy, while accepting that the demand for air travel remains. In particular the North’s airports are working to promote public transport access.

4. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from collapse of airlines?

1.35 The Northern Way supports the principle that taxes and charges should be used as a mechanism to internalise environmental externalities of transport when this cannot be achieved through market mechanisms. However, we do not welcome double taxation. When the Emissions Trading Scheme is introduced in 2012, APD should be repealed.

1.36 In our response to the Government’s consultation on Aviation Duty, while not in principle opposed to a per plane approach to taxation, the Northern Way expressed concern that Aviation Duty would introduce distortions to the market and adversely affect the rate of growth of the North’s airports. We therefore welcomed the Government’s announcement as part of its Pre Budget Report that it would not progress the replacement of APD with Aviation Duty.

1.37 However, the Northern Way remains concerned about the impact of APD on the cost of air travel from Northern airports and its influence on the development of air services. Given the mix of business and leisure passengers and the traffic volumes, evidence indicates that scheduled routes from Northern airports are more financially marginal than similar routes from London airports and passengers more price sensitive. The planned increases in APD for 2009 and 2010 will continue to increase the total costs of air travel and have the potential to reduce demand and detrimentally impact on the economics of key routes to the North.

93 http://www.thenorthernway.co.uk/document.asp?id = 451
of England. This is at a time when the recession is already putting significant pressure on the economics of regional air services. This merits further research and consideration by the Government. In the meantime, the Northern Way would support a holiday from the scheduled increases in APD for regional airports over the period 2009 to 2012.

5. What is the impact on the aviation sector of changes in the security environment?

1.38 The North’s airports are incurring significantly higher costs associated with changes in the security environment and increased requirements from aviation security checks and processes. This is one of a number of incremental costs being incurred by the North’s airports. In some European countries these additional security costs are not incurred by their airports, as it is a cost covered by the State. As airports compete for air services, and the hosting of aircraft, these additional costs put the North’s airports at a competitive disadvantage.

Data and more detailed analysis are available to support this submission on request.

February 2009

Memorandum from Friends of Richmond Green (FOA 23)

I submit below a response to the above inquiry from Friends of Richmond Green using the headings (in italics) suggested in the inquiry’s terms of reference.

1. Aviation and the Economy

(a) What is the value of aviation to the UK economy?

i. The industry clearly adds value in terms of employment and facilitating freight movement and peoples’ travel for pleasure and business. It also adds to economic growth and therefore the general increase in prosperity of the nation which is of value. All this we support.

ii. Conversely, there are aviation costs that are not in our view reflected in the aviation economics, which as a result stimulate potentially uneconomic demand, add economic barriers to alternative forms of travel (eg rail) and unrealistically lower the cost of capital to the aviation industry. Also, while low prices enable the less well off to travel, much of the subsidy benefits the better off. Finally, aviation decisions, taking the UK economy as a whole, become distorted. The under-pricing specifically relates to the following:

(1) The absence of VAT on aviation fuel is in effect a subsidy born by the rest of the economy which encourages excessive use of an increasingly scarce energy resource,

(2) Aviation tax (APD) based on passenger numbers rather than aircraft numbers leads to inefficient use of capacity (spare seats). Exclusion of transfer passengers from APD is another distortion favouring transfers against point-to-point travel,

(3) Environmental costs (eg from noise, local pollution, GHG climate impact and harm to health) are not included in pricing or are unrealistically low. We realise that in aviation capital decisions attempts are made to recognise these costs and that under the EU ETS carbon costs will be included in operating costs from 2012. The APD is not a substitute for full pricing of environment costs.

(4) The cross-subsidy from airport retail to airport aeronautical operations facilitated by BAA and other airport operators,

iii. The statistics on balance of payments and currency are materially distorted because the benefit of consumption by travellers to the UK is generally taken into account in the Government’s economic calculations but the consumption of UK citizens travelling overseas is omitted.

iv. Recent Impact Assessments by the Government on the expansion of Heathrow fail to properly deal with the risks. While sensitivity analysis has been undertaken as far as we are aware, the decisions taken rely on varying one risk at a time. A co-incidence of risk occurrence is all too often the real world experience so the downside risk is far greater than is modelled and economic value is overstated.

v. We are unfortunately in a constrained environment (pollution, climate change etc) and we believe the markets alone, particularly when distorted as pointed out above, will not satisfy the constraints, so that in addition there needs to be demand and supply control. We support the Government in implementing controls. However, we remain concerned that allowing the UK aviation industry to grow to a point where in 2050 some 60MtCO2e are produced out of a total 159 MtCO2 for the UK as a whole (assuming 80% reduction from 1990) is excessive and high risk and the marginal impact when the planet is then 2 degrees warmer and at much greater risk. This ignores huge pressure on climate from air travel in the developing world. We believe the value of aviation will become increasingly unsustainable over the long-term, given the above assertions, so that the economic value of marginal growth will become increasingly negative. We believe the Government should be much more concerned about allowing expansion of airport capacity in these circumstances.
vi. We believe that in the medium term existing airport capacity should be freed up by concentrating more on alternative rail travel. If by 2016 global emissions reduction trajectories have demonstrably peaked then a more confident path can be adopted for satisfying aviation demand with additional capacity.


(b) What are the roles of London and regional airports?

We believe it important to avoid over-developing London and the southeast and that the UK would be better off economically if the regions were to be developed relative to the south east. The latter is suffering from diseconomies of scale while elsewhere there is a need for economic support. We believe more emphasis should be given to aviation in parts of the UK outside the southeast. We believe that transport between the south east and elsewhere should generally be by rail rather than air, particularly for journeys of less than 4 hours. The concentration of airport capacity around London probably exceeds that anywhere in the world, particularly on the Continent.

(c) What competition do they face from abroad?

We believe competition to UK aviation is overstated and unproven. Destination numbers and growth rates suggest that Continental airports are taking business from Heathrow as a hub airport. But taking the southeast airports a whole and point-to-point business suggests that the UK is well able to compete. The quality of Heathrow has fallen behind but more importantly rail is where the UK has fallen behind in development. The marginal benefit of rail development outweighs that for aviation and that is where scarce capital should be deployed, even should that mean aviation growth taking place elsewhere. In our view travel growth should be met by the most efficient mode and that aviation and rail need to be re-balanced to provide overall the most efficient combination of aviation and rail. Competition should be met on a broad combined front and not through sub-optimisation of separate aviation and rail. Resilience and other quality issues at Heathrow could be materially improved by operations management and by freeing up capacity through rail alternatives. Accordingly, we do not believe the perceived threat to aviation from continental competition should be a reason to expand aviation in the south east.

2. Aviation Development

(a) Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

This is answered in 1(a) above.

(b) What are the implications of future passenger trends and possible mergers in the airline industry?

We believe that future demand trends are significantly overstated given the need to price in the costs of climate change if serious economic disruption is to be avoided in the long run. It is also preferable that the other costs referred to in 1 above are priced into the cost of travel which would further reduce demand growth. These factors and a major switch to rail could mean that aviation need not grow. Such growth in passenger numbers as there might be should be provided for within existing flight numbers and runway capacity and only to the extent technology enables the various pollution and noise constraints to be satisfied. This would be preferable to overall growth for reasons given above while allowing the more efficient operators to grow at the expense of the less efficient.

3. To What Extent can Rail Provide an Alternative to Short-haul Flights?

See 1 above.

4. Environment and Societal Costs of Aviation

(a) What costs does aviation impose on society nationally and regionally?

These have been answered in (1) above. But we add that pollution, noise and health risk associated with aviation and surface access to airports are important determinants for the quality of life and human rights of at least 5 million people affected by Heathrow plus those affected near other UK airports. Equality assessment shows that children, in particular, suffer and experience problems with learning induced by aircraft noise. People generally suffer from noise around airports to a greater extent than reflected by the
Government’s 57 decibel contours, particularly at night. The risk of a major accident over heavy populated areas is ever present. While the cost of a major accident adjusted for probability may be low, should such an accident occur around Heathrow the viability of the airport would be in serious doubt.

(b) What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

We support the advice to the Government by the Committee on Climate Change covering the three carbon budgets over the period 2008-2022: that the 80% target reduction by 2050 should apply to all sectors of the UK economy, including aviation. We understand the reasons for excluding international aviation from the budgets but urge that other strategies to achieve emissions reductions should be developed on account of our concerns raised above. We believe the Government need to cap aviation growth more than is planned, as explained above.

4. Taxation

(a) What is the impact of taxation on the aviation sector nationally and regionally?

See (I) above.

(b) Are passengers adequately protected from the collapse of airlines?

Probably yes. We are more concerned about BAA. With existing debt of around £11bn (or more if acquisition debt is included) and much of it repayable over the next few years, we have serious reservations about BAA managing not only to service its existing operations (even with proceeds from the sale of Gatwick and Stansted) but to be able to finance expansion at Heathrow. A £7bn project developing Heathrow will somehow have to be financed from a cashflow from a runway operating at only half capacity because of noise and other constraints for at least the first five years. We believe the banks and in turn BAA face substantial project risks which call into question the Government’s support for what may turn out to be a white elephant supported by the tax payer.

5. What is the Impact on the Aviation Sector of Changes in the Security Environment?

We believe aviation should pay for the extra costs of security and that this should be reflected in aviation pricing.

February 2009

Memorandum from English Regional Development Agencies (FOA 24)

1. Executive Summary

1.1 Aviation and airports support the competitiveness of regional businesses and provide direct and indirect jobs in the English regions. In 2008, the air transport sector contributed £11.4 billion to GVA across the English Regions and employed around 177,000 people.

1.2 Air intensive industry sectors (those which a high dependence on air connectivity) account for between 31% in the North East, and 53% in the South East, of total regional employment, and between 41% (North East) and 77% (South East) of regional GVA.

1.3 The value of overseas tourism and tourism employment has grown in all of the English Regions between 2000 and 2007 increasing the importance of tourism as an economic sector to regional economies.

1.4 Heathrow offers substantially greater levels of business focused connectivity than any other airport in the UK. The global reach of Heathrow is extended through UK domestic flights to airports across the English Regions.

1.5 Whilst the implications of aviation taxation will vary across the English regions; maintaining existing and developing new air services from regional airports will become more difficult, consequently impacting on regional economies, particularly those further from the South East.

1.6 For some regions the longer term proposition of High Speed Rail offers the potential to act as a substitute for short haul flights and reduce the carbon footprint of individual journeys, particularly where the rail travel times are the same or less than that of the total travel time by air.
2. Introduction

2.1 This evidence is being submitted by Advantage West Midlands on behalf of the eight English Regional Development Agencies (RDAs) outside of London. Our role is to help transform regional economies by connecting need and opportunity to create better places in which to invest, work, learn, visit and live. The RDAs take the lead on developing Regional Economic Strategies, which set the context for the sustainable economic development of the English Regions.

2.2 The RDAs commissioned York Aviation to update previous research to inform this evidence and provide a collective view of the importance of aviation and air connections to supporting economic growth across the English Regions. It is set in the context of the Regional Economic Performance Public Service Agreement which is to “improve the economic performance of all English Regions and reduce the gap in growth rates between regions”.

2.3 The RDAs have identified transport as a top priority because it is a critical ingredient of successful and sustainable economic growth. The provision of high quality transport links aid business efficiency and support productivity. Improvements in transport infrastructure can have a very significant and a relatively swift impact on business performance, and can enable longer-term improvements, through improved enterprise and innovation.

2.4 Airports are key assets and drivers of economic performance. They are an important part of the strategic and integrated transport network. They act as international gateways for business and leisure travellers as well as high value, low volume, freight, and consequently are important interchanges for national and international travel, providing key gateways of opportunity for accessing new and emerging markets.

3. The Value of Aviation to the English Regions

3.1 Air transport, and particularly airports, are also an important part of local and regional labour markets. In 2008, air transport accounted for around 177,000 direct employees across the English regions and contributed around £11.8 billion in GVA. Detailed information is set out in table 3 below.

<table>
<thead>
<tr>
<th>Region</th>
<th>Direct Employ</th>
<th>GVA (£m)</th>
<th>% of Indirect &amp; Direct GVA</th>
<th>Indirect &amp; Induced Employ</th>
<th>Total Employ</th>
<th>% of Total Employ</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>200,000</td>
<td>£12,963</td>
<td>1.0</td>
<td>278,000</td>
<td>479,000</td>
<td>1.7</td>
</tr>
<tr>
<td>East</td>
<td>22,000</td>
<td>£1,089</td>
<td>0.9</td>
<td>16,000</td>
<td>38,000</td>
<td>1.6</td>
</tr>
<tr>
<td>East Midlands</td>
<td>6,000</td>
<td>£290</td>
<td>0.4</td>
<td>5,000</td>
<td>11,000</td>
<td>0.6</td>
</tr>
<tr>
<td>London</td>
<td>74,000</td>
<td>£6,720</td>
<td>2.9</td>
<td>76,000</td>
<td>150,000</td>
<td>3.7</td>
</tr>
<tr>
<td>North East</td>
<td>4,000</td>
<td>£208</td>
<td>0.5</td>
<td>8,000</td>
<td>11,000</td>
<td>1.1</td>
</tr>
<tr>
<td>North West</td>
<td>23,000</td>
<td>£1,043</td>
<td>0.9</td>
<td>23,000</td>
<td>46,000</td>
<td>1.5</td>
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<tr>
<td>South East</td>
<td>33,000</td>
<td>£1,800</td>
<td>1.0</td>
<td>12,000</td>
<td>44,000</td>
<td>1.2</td>
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<tr>
<td>South West</td>
<td>5,000</td>
<td>£249</td>
<td>0.3</td>
<td>4,000</td>
<td>9,000</td>
<td>0.4</td>
</tr>
<tr>
<td>West Midlands</td>
<td>8,000</td>
<td>£332</td>
<td>0.4</td>
<td>3,000</td>
<td>11,000</td>
<td>0.5</td>
</tr>
<tr>
<td>Yorkshire &amp; Humber</td>
<td>3,000</td>
<td>£104</td>
<td>0.1</td>
<td>2,000</td>
<td>5,000</td>
<td>0.2</td>
</tr>
<tr>
<td>English Regions</td>
<td>177,000</td>
<td>£11,835</td>
<td>1.1</td>
<td>149,000</td>
<td>326,000</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: York Aviation

3.1 The English regions are heavily, and increasingly, reliant on sectors that operate in global markets and are therefore sensitive to the availability of air services offering global connectivity. In order to exploit the comparative advantage of regions, it is important to have access to other economies with which to trade, including both traditional and new and emerging markets. Aviation and air connectivity is therefore important to supporting economic activity.

3.2 Our research shows that, in addition to the jobs directly employed in related to regional airports, air transport indirectly contributes significant benefits to regional GVA growth and employment. The value of air transport to the English regions is identified by the extent to which regional GVA and levels of employment are reliant on industry sectors that are sensitive to the presence of air transport links. The industry sectors that are reliant on aviation (ie spend more than 20% of their total transport budget on air travel or spend more than £1,000 per employee) are high value-added service sectors and advanced
engineering and manufacturing sectors. In particular, high value added, knowledge intensive sectors are key to driving regional economies as they support innovation and aid improvements in productivity thus increasing regional competitiveness.

3.3 In all regions these air intensive sectors account for at least 30% of regional employment and in excess of 40% of regional GVA. They account for between 31% in the North East, and 53% in the South East, of total regional employment, and between 41% (North East) and 77% (South East) of regional GVA. Employment has grown in all of these sectors since 2000 as illustrated in Table 1 below.

### Table 1

<table>
<thead>
<tr>
<th>Region</th>
<th>Employment in 2007</th>
<th>% of Regional Employment</th>
<th>Estimated % of Regional GVA</th>
<th>Employment % Growth since 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>832,000</td>
<td>35</td>
<td>49</td>
<td>12</td>
</tr>
<tr>
<td>East Midlands</td>
<td>605,000</td>
<td>32</td>
<td>42</td>
<td>27</td>
</tr>
<tr>
<td>London</td>
<td>2,179,000</td>
<td>53</td>
<td>77</td>
<td>9</td>
</tr>
<tr>
<td>North East</td>
<td>318,000</td>
<td>31</td>
<td>41</td>
<td>24</td>
</tr>
<tr>
<td>North West</td>
<td>1,049,000</td>
<td>35</td>
<td>46</td>
<td>23</td>
</tr>
<tr>
<td>South East</td>
<td>1,484,000</td>
<td>40</td>
<td>54</td>
<td>8</td>
</tr>
<tr>
<td>South West</td>
<td>772,000</td>
<td>35</td>
<td>49</td>
<td>22</td>
</tr>
<tr>
<td>West Midlands</td>
<td>789,000</td>
<td>33</td>
<td>44</td>
<td>23</td>
</tr>
<tr>
<td>Yorkshire &amp; Humber</td>
<td>709,000</td>
<td>32</td>
<td>42</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: NOMIS

3.4 Air services are also essential for supporting and further developing the UK’s tourist market. Table 2 below outlines the number of overseas visitors and corresponding expenditure within each region in 2000 and 2007, highlighting the growing importance of tourism as an economic sector and the increasing importance of overseas visitors to the English regions.

### Table 2

<table>
<thead>
<tr>
<th>Region</th>
<th>2000 Visits (000s)</th>
<th>2000 Spend (£m)</th>
<th>2007 Visits (000s)</th>
<th>2007 Spend (£m)</th>
<th>Growth Visits (000s)</th>
<th>Growth Spend (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>1,690</td>
<td>£654</td>
<td>168</td>
<td>£718</td>
<td>180</td>
<td>+519</td>
</tr>
<tr>
<td>East Midlands</td>
<td>820</td>
<td>£245</td>
<td>123</td>
<td>£374</td>
<td>143</td>
<td>+285</td>
</tr>
<tr>
<td>London</td>
<td>13,150</td>
<td>6,901</td>
<td>310</td>
<td>15,340</td>
<td>338</td>
<td>+2,190</td>
</tr>
<tr>
<td>North East</td>
<td>440</td>
<td>169</td>
<td>71</td>
<td>2,09</td>
<td>256</td>
<td>+85</td>
</tr>
<tr>
<td>North West</td>
<td>1,540</td>
<td>500</td>
<td>220</td>
<td>2,578</td>
<td>982</td>
<td>+1,038</td>
</tr>
<tr>
<td>South East</td>
<td>4,150</td>
<td>1,359</td>
<td>276</td>
<td>4,468</td>
<td>1,578</td>
<td>+318</td>
</tr>
<tr>
<td>South West</td>
<td>2,350</td>
<td>733</td>
<td>171</td>
<td>2,249</td>
<td>840</td>
<td>-101</td>
</tr>
<tr>
<td>West Midlands</td>
<td>1,450</td>
<td>495</td>
<td>152</td>
<td>1,675</td>
<td>522</td>
<td>+225</td>
</tr>
<tr>
<td>Yorkshire &amp; Humber</td>
<td>920</td>
<td>259</td>
<td>159</td>
<td>1,190</td>
<td>344</td>
<td>+270</td>
</tr>
</tbody>
</table>

Source: Visit Britain

3.5 Whilst the impact of the current economic downturn on the aviation industry and the knock on impacts on regional economies are only just beginning to emerge, some effects have started to be felt. The reduction in demand for air services in the UK, and globally, has led to an increase in mergers and bankruptcies in the airline industry. This will inevitably impact on the number of routes and frequency of services from both national and regional airports and consequently erode connections with global markets with associated regional economic disbenefits.

4. The Roles of London and Regional Airports in Supporting Regional Economic Growth

4.1 UK and regional airports play different roles in supporting economic activity across the English Regions. The role an airport plays can be understood in economic development terms by looking at the nature and extent of the connectivity they offer. The extent to which they support business travellers through the number and frequency of air services to key business centres is particularly important. The availability and frequency of such air routes can be seen as a critical factor underpinning geographical competitiveness in a global economy and one of the main criteria for attracting and retaining business and securing inward investment.
4.2 However, in considering the connectivity offered by the UK airports it is important to recognise that all destinations are not of equal value to the business traveller. For instance a service to New York is considerably more likely to enable business activity than a link to Alicante. With this issue in mind, York Aviation has in recent years developed an index of connectivity that considers the “value” of destinations on offer as well as the level of frequency. The index uses a destination city’s position in the GaWC ranking of world class cities to provide a proxy measure of its importance as a business destination. This score is then weighted by the level of frequency on offer. The total score for all destinations at the airport is its value connectivity score. Figure 1 below illustrates the value of connectivity at the major UK airports on this basis.96

Note: Lighter colours indicate the proportion of an airport’s value connectivity score that is provided by long-haul services.

Source: York Aviation97

4.3 As illustrated by Figure 1, Heathrow offers a substantially greater level of business focused connectivity than any other airport in the UK, the majority of which is to long haul destinations with global and world cities. The airport is within the catchment of one of the largest bases of business demand in the world; London, in particular, the City and the associated financial and business services cluster and the high technology corridor around the M4 to the west of London. This has resulted in Heathrow developing a long-haul network that makes it the dominant provider of long-haul connectivity to the English regions in the South and Midlands, as well as an important gateway for the Northern regions.

4.4 The global reach of Heathrow is extended through UK domestic flights to airports across the English Regions. The airport’s share of the long-haul business market for the regions, including passengers that access Heathrow by either surface transport or domestic flights, is; London (84%), the South East (81%), the South West (80%), East of England (73%), the East Midlands (72%), the West Midlands (58%), North East (46%), Yorkshire and Humber (41%), North West (25%).98

4.5 Gatwick, Stansted, Birmingham and Manchester play a pan regional role offering extensive short-haul connections and some long-haul connectivity to major business centres. These services are important for the economies of their core catchment areas. In relation to this pan regional role, it is interesting to note

95 Globalisation of World Cities.
96 Calculation of the value of connectivity is detailed in the annex to the York Aviation “Response to the Transport Select Committee Inquiry in to the Future of Air Transport”.
97 York Aviation “Response to the Transport Select Committee Inquiry in to the Future of Air Transport” section 3.23.
98 York Aviation “Response to the Transport Select Committee Inquiry in to the Future of Air Transport”.

Figure 1: The Value of Connectivity at UK Airports
that Manchester Airport provides 41% of the short haul business journeys from Yorkshire and Humber compared to 22% from Leeds Bradford. Birmingham International Airport supports 22% of East Midlands short haul market compared to 23% from East Midlands Airport.99

4.6 Bristol, Doncaster Sheffield, East Midlands (Passenger), Leeds Bradford, Liverpool, Luton, Newcastle and Southampton all offer short-haul destinations including to core major business centres, providing convenient, rapid connections for regional businesses. They also play a strong role in encouraging inbound tourist traffic through the development of low cost services.

4.7 Blackpool, Bournemouth, Exeter, Humberside, Newquay, Norwich. Plymouth and Durham Tees Valley offer a small core of business focused services to a more local catchment area and services to a range of tourist locations. These services often provide important links for major business centres in their areas and to hub airports supporting the local economy.

4.8 London City Airport whilst a small airport constrained by site limitations offers a range of routes and frequency of services which primarily service the financial and business service cluster at Canary Wharf and the city of London.

5. The Impact of Aviation Taxation on Regional Air Services

5.1 Recent DfT research100 has identified that the doubling of Air Passenger Duty (APD) in 2007 means that aviation tax revenues exceed the industry’s climate change costs; a key requirement set out in the Future of Air Transport White Paper. However, it should be noted that this increase, and further planned increases, are not without a cost to regional economies.

5.2 Increases in ticket prices, as a result of ADP, will impact on passenger demand. At a national level, the impact on UK businesses trading with those overseas is unlikely to be significant as business travellers have a relatively low price elasticity of demand and businesses will bear the additional cost. However, the additional cost will ultimately impact on the profitability of those businesses either making activities in global markets less attractive for UK companies or making the UK a less attractive place to invest and do business for overseas companies, particularly as most other countries have not introduced similar taxes or increases.

5.3 At regional level there are additional considerations regarding the impact on the demand for air travel as the aviation market conditions for regional airports differ. The demand bases of regional airports are generally smaller than those of the London airports and consequently the aircraft load factors and average fares tend to be lower. Therefore the flat rate increase in APD will result in a higher percentage increase in air fares than at London airports which is likely to impact upon ticket price and demand.

5.4 The changes to demand will influence the commercial decisions of airlines in relation to the routes that they provide. Airlines constantly monitor the performance of their route network and adjust it to reflect market activity. A relatively small decline in demand, or the profit margins, of a route can lead to routes being withdrawn or frequencies reduced. As a result airlines will focus on more profitable, less “risky” routes and, as the taxation affects only UK routes, they may consider concentrating on routes that do not include a UK element.

5.5 At national level this could offer some economic benefit as there will be a focus on business routes and an increase in the frequency of these routes as airlines shift their resources to these markets (assuming airlines do not simply move operations overseas). However, there is a danger that it will take longer for emerging market destinations to be developed which could damage the economy in the longer term.

5.6 At regional level any reduction in load factors or profit margins will make services from regional airports vulnerable; for example the recent announcement of the withdrawal of bmi routes from Leeds Bradford and Durham Tees Valley to Heathrow from 28 March.

5.7 The implications of aviation taxation will vary across the English regions; maintaining existing and developing new air services from regional airports will become more difficult, which will impact on regional economies, particularly those further from the South East.

6. Supporting Low Carbon Economies

6.1 The RDAs support sustainable economic growth and welcomed the recommendations in the Eddington Transport Study and Stern Report which recognise the importance of transport in supporting sustainable economic growth and propose the use of policy mechanisms to address environmental impacts on transport activities. The RDAs support the minimisation of carbon emissions from aviation through the Emissions Trading Scheme and sustainable surface access. In addition, the RDAs are actively supporting projects which support innovation and improvements in technology to reduce carbon emissions and noise, including more fuel efficient planes eg The Environmentally Friendly Engine Project.

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99 York Aviation “Response to the Transport Select Committee Inquiry in to the Future of Air Transport”.
7. **The Role of Rail Services as an Alternative to Short Haul Flights**

7.1 Rail offers the potential to act as a substitute for short haul flights and reduce the carbon footprint of individual journeys, particularly where the rail travel times are the same or less than that of the total travel time by air. High Speed Rail (HSR) therefore could have a significant impact on domestic short haul flight demand, but only for the route/s of the high speed line.

7.2 The RDAs are supporting the work being carried out by Greengauge21 to assess the case for high speed rail across the English Regions. This research has assessed the numbers of people currently travelling by air and by conventional rail from Manchester, Leeds, Newcastle, Glasgow and Edinburgh, as set out in the Maps below. This shows that currently the “tipping point” for choosing air travel over conventional rail is at a point between Newcastle and the Scottish Cities.

**Figure. 2: Comparison of Rail and Air demand, single trips including interlining**

*Source: GG21 High Speed Rail Development Programme 2008–09 Systra/MVA Consultancy*
7.3 The research has also reviewed the total journey time against distance travelled for conventional, HSR and domestic air travel, this indicates that the HSR can typically offer shorter journey times for a journey up to 800km and that conventional rail can offer shorter journey times than air for a journey up to 375km as shown in the figure below.

![Figure 3: Competitiveness of HSR at Various Distances](image_url)

Source: GG21 High Speed Rail Development Programme 2008/09 Systra/MVA Consultancy

7.4 Journey times are not the only consideration in choice of travel mode; the fare costs, reliability and location of airports and railway stations will also influence choice of travel mode.

February 2009

Supplementary memorandum from English Regional Development Agencies (FOA 24A)

### Table 1

**AIR INTENSIVE SECTORS OF THE UK ECONOMY IN 2004**

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of Transport Spend</th>
<th>Spend per employee</th>
<th>Sector</th>
<th>% of Transport Spend</th>
<th>Spend per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air transport</td>
<td>92.5</td>
<td>£7,668.59</td>
<td>Research and development</td>
<td>32.8</td>
<td>£131.62</td>
</tr>
<tr>
<td>Banking and finance</td>
<td>68.4</td>
<td>£1,305.50</td>
<td>Ancillary transport services</td>
<td>32.6</td>
<td>£1,172.69</td>
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<tr>
<td>Market research, management consultancy, etc</td>
<td>67.2</td>
<td>£327.18</td>
<td>Other service activities</td>
<td>31.9</td>
<td>£138.71</td>
</tr>
<tr>
<td>Membership organisations</td>
<td>65.3</td>
<td>£121.70</td>
<td>Telecommunications</td>
<td>30.1</td>
<td>£365.94</td>
</tr>
<tr>
<td>Other business services</td>
<td>63.9</td>
<td>£219.26</td>
<td>Other transport equipment</td>
<td>29.7</td>
<td>£944.85</td>
</tr>
<tr>
<td>Owning and dealing in real estate</td>
<td>61.9</td>
<td>£321.20</td>
<td>Oil and gas extraction</td>
<td>28.3</td>
<td>£3,740.47</td>
</tr>
</tbody>
</table>
### EMPLOYMENT CONTRIBUTION OF AIR INTENSIVE SECTORS

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of Transport Spend</th>
<th>Spend per employee</th>
<th>Sector</th>
<th>% of Transport Spend</th>
<th>Spend per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recreational services</td>
<td>55.9</td>
<td>£310.21</td>
<td>Weapons and ammunition</td>
<td>24.1</td>
<td>£214.15</td>
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<tr>
<td>Insurance and pension funds</td>
<td>55.8</td>
<td>£3,592.28</td>
<td>Hotels, catering, pubs etc</td>
<td>23.5</td>
<td>£96.56</td>
</tr>
<tr>
<td>Aircraft and spacecraft</td>
<td>49.0</td>
<td>£698.74</td>
<td>Estate agent activities</td>
<td>23.5</td>
<td>£40.82</td>
</tr>
<tr>
<td>Postal and courier services</td>
<td>47.4</td>
<td>£1,602.51</td>
<td>Iron &amp; steel</td>
<td>20.7</td>
<td>£1,852.17</td>
</tr>
<tr>
<td>Letting of dwellings</td>
<td>44.8</td>
<td>£173.43</td>
<td>Architectural activities and technical consultancy</td>
<td>20.4</td>
<td>£142.06</td>
</tr>
<tr>
<td>Legal activities</td>
<td>42.6</td>
<td>£349.00</td>
<td>Tobacco products</td>
<td>19.0</td>
<td>£1,757.08</td>
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<tr>
<td>Accountancy services</td>
<td>41.2</td>
<td>£343.24</td>
<td>Inorganic chemicals</td>
<td>7.5</td>
<td>£1,692.02</td>
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<tr>
<td>Advertising</td>
<td>40.9</td>
<td>£590.77</td>
<td>Water transport</td>
<td>6.1</td>
<td>£2,571.17</td>
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<tr>
<td>Computer services</td>
<td>40.4</td>
<td>£210.25</td>
<td>Fertilisers</td>
<td>4.2</td>
<td>£1,750.02</td>
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<tr>
<td>Auxiliary financial services</td>
<td>40.2</td>
<td>£216.49</td>
<td>Other mining and quarrying</td>
<td>2.7</td>
<td>£1,030.24</td>
</tr>
</tbody>
</table>

**Source:** York Aviation analysis of UK Input Output Tables 2004.

### Table 2

#### EMPLOYMENT CONTRIBUTION OF AIR INTENSIVE SECTORS

<table>
<thead>
<tr>
<th>Region</th>
<th>Employment in 2007</th>
<th>% of Regional Employment</th>
<th>Estimated % of Regional GVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>832,000</td>
<td>35</td>
<td>49</td>
</tr>
<tr>
<td>East Midlands</td>
<td>605,000</td>
<td>32</td>
<td>42</td>
</tr>
<tr>
<td>London</td>
<td>2,179,000</td>
<td>53</td>
<td>77</td>
</tr>
<tr>
<td>North East</td>
<td>318,000</td>
<td>31</td>
<td>41</td>
</tr>
<tr>
<td>North West</td>
<td>1,049,000</td>
<td>35</td>
<td>46</td>
</tr>
<tr>
<td>South East</td>
<td>1,484,000</td>
<td>40</td>
<td>54</td>
</tr>
<tr>
<td>South West</td>
<td>772,000</td>
<td>35</td>
<td>49</td>
</tr>
<tr>
<td>West Midlands</td>
<td>789,000</td>
<td>33</td>
<td>44</td>
</tr>
<tr>
<td>Yorkshire &amp; the Humber</td>
<td>709,000</td>
<td>32</td>
<td>42</td>
</tr>
</tbody>
</table>

**Source:** NOMIS

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**Memorandum from SBAC (FOA 25)**

### INTRODUCTION

1.1 SBAC is the UK’s national trade association representing companies supplying civil air transport, aerospace defence, security and space markets. SBAC encompasses the British Airports Group and UKspace. Together with its regional partners, SBAC represents over 2,600 companies across the UK supply chain.

1.2 Aerospace is one of the few successful and globally competitive manufacturing sectors of the UK economy, with a turnover of £19.8 billion in 2008. The aviation sector in the same year contributed £15 billion to UK GDP, accounting for 1.1% of the overall economy. This sum is predicted to rise to £19.7 billion in 2010. The aviation industry supports 700,000 jobs.\(^{101}\)

1.3 In addition to providing highly skilled jobs, UK aerospace companies are international leaders in driving forward sustainability goals and the development of new more efficient technology that will be used by airlines throughout the world. In 2005 the UK aviation industry launched the world’s first sector wide Sustainable Aviation strategy. This strategy, which was developed in conjunction with Government and NGO advisors, commits the industry (airlines, airport, aircraft manufacturers and air traffic controllers) to deliver improved sustainability performance against clearly defined targets. The second progress report is due to be published in March.

1.4 For manufacturers, these commitments mean demonstrating continual improvements in the performance of new aircraft entering into service in 2020, by committing to challenging targets set by the Advisory Council on Aeronautics Research in Europe (ACARE). Vision 2020 seeks to reduce CO₂ emissions from aviation by 50%, reduce perceived aircraft noise by 50% and lower NOx emissions by 80% from 2000 levels. To achieve these goals the industry is investing heavily in the development of new technology and specifically, in technologies that lead to reduced fuel burn and CO₂ emissions. These programmes include:

1.4.1 aerodynamics improvements (improved modelling, laminar flow control technology);
1.4.2 weight reduction (advanced materials such as lightweight alloys and composites, new manufacturing methods, more electric aircraft);
1.4.3 new aircraft concepts (from new tailplanes to entirely new, radical aircraft designs such as the “flying wing” or “lifting body”) and
1.4.4 improved and new engine concepts (from more fuel efficient turbofan engines to new open rotor engines, engines will be designed to reduce both CO₂ and NOx emissions).

1.5 SBAC is pleased to have the opportunity to comment on the future of aviation through this inquiry and where appropriate, we have commented on specific questions that relate to SBAC’s activities. Further information can also be found in our briefing papers on these issues at www.sbac.co.uk/enviro.

2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

2.1 Demand for new more efficient aircraft is projected to grow over the next 20 years. SBAC anticipates that global growth will call for 24,000 new passenger and freighter aircraft, this demand will be to accommodate both growth and the replacement of older less efficient equipment, with comfortable and lower cost aircraft. Most importantly, up to 95% of the current world fleet will be either replaced or recycled into other airlines, with 8,135 older, aircraft ceasing passenger service, and over 4,000 aircraft recycled back into passenger service to replace much older models.

2.1 Runway capacity at some UK airports is under severe strain which poses both environmental and operational inefficiencies, which if addressed could result in significant emission reductions. For example, in circumstances such as fog where Low Visibility Procedures are activated and there is a reduction in the rate at which aircraft can land this often results in considerable disruption at some UK airports. Additional capacity would reduce the incidence of delay under such circumstances. In addition, better use of new technology in Air Traffic Management could reduce the need for aircraft stacking.

2.2 The UK aviation industry has made a commitment to improve fuel efficiency by 50% per seat kilometre including up to 10% from Air Traffic Management system efficiencies. The technology called Precision Area Navigation (P-RNAV) and Required Navigation Performance (RNP) has existed for improvements to be implemented for a number of years, but NATS are only just starting to make use of this technology at UK airports. SBAC would welcome the Department for Transport taking a stronger leadership role in implementing innovative technologies that reduce emissions and increase the effectiveness of air passenger movements.

2.3 It has been calculated that intra-EU short haul flights are currently 50 kilometres longer than they should be, more effective Air Traffic Management (ATM) techniques offer a real potential for CO₂ savings. Further inefficiencies stem from the segregation of air space between nations which could be overcome through making more rapid progress in the development of a Single European Sky. This is being developed through the EU backed SESAR (Single European Sky ATM Research) initiative.

Question 4. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

3.1 The UK aerospace industry is in a unique position to contribute to the “greening” of aviation globally due to its strengths in manufacturing engine, wing and systems capability. Realising this potential will require sustained investment in early stage research, skills and training and a supportive environment for aviation.

3.2 SBAC’s members are committed to delivering new technology that reduces the environmental impact of aviation and this requires increased investment levels in early stage collaborative research. The Government and Industry supported National Aerospace Technology Strategy, which has been recently
updated with further technology roadmaps, sets out a clear path of technology development to deliver quieter and more efficient aircraft. Sustaining and increasing government support for investment in early stage research will play a crucial role in the development of new technology and thereby stimulate high-tech manufacturing jobs.

3.3 The UK aviation industry as a whole aims to bring emissions back to 2000 levels by 2050 despite a more than threefold increase in flight numbers during that time. This builds on the 75% cut in aircraft noise achieved over the past 30 years and the 70% increase in fuel efficiency in new aircraft over the last 50 years. How this can be achieved is set out in the Sustainable Aviation CO₂ roadmap, which is also accompanied by a paper on non-CO₂ issues, at www.sustainableaviation.co.uk.

3.4 Good progress is being made towards the internationally agreed targets for the 2020 fuel efficiency, noise and NOx targets defined by the Advisory Council for Aeronautics Research in Europe (ACARE). Several UK manufacturers are contributing to significant developments in our understanding of the potential contribution of lower carbon emissions produced by sustainably produced alternative fuels in the last two years. These improvements will be reflected in the overall performance of the industry when they are incorporated into new aircraft.

Question 6. *What is the impact on the aviation sector of changes in the security environment?*

4.1 The UK faces a serious, sustained and well-documented terrorism threat. As recognised in the UK’s Counter Terrorism Strategy (CONTEST) and the National Security Strategy (NSS), multi-agency cooperation and public/private sector partnership working is necessary to meet this challenge. The aviation sector and the industry suppliers’ community need to continue to be fully integrated in national strategies aimed at mitigating the threat posed by international terrorism.

4.2 The threat posed by terrorism towards the aviation sector is not a new development, even if the threat has evolved significantly. The UK’s National Risk Register (NRR) published in August 2008 identified that there have been a number of attacks by terrorists against the aviation industry over the past 20 years. These include the 1988 Lockerbie attack involving a Pan Am flight and the deliberate use of hijacked planes to attack the World Trade Centre and the Pentagon in September 2001. SBAC agrees with the Government’s analysis of the threat of malicious attacks on the aviation sector: “Despite this ongoing threat, the number of attacks has remained relatively small due in part to the work of the police, security and transport safety authorities and the development of appropriate security measures at airports”.

**Impact on the Aviation Sector of Changes in Security**

4.3 The aviation industry has seen an increase in the amount of regulation designed to improve the security of the sector since September 2001. For example, through regulation 2320/2002 the European Union (EU) has been active in establishing and implementing common security standards at airports across the 27 Member States. At UK level, aviation security has been strengthened by the activity of the Transport Security and Contingencies Directorate (TRANSEC) in the Department for Transport (DfT). Progress can always be achieved but TRANSEC is considered to have made necessary improvements to the security regulatory environment over the past decade.

4.4 In financial terms, European airlines and airports are widely considered to be spending significantly more on additional anti-terrorist security measures following the tragic events of September 11th 2001. There has been a well-documented and ongoing debate as to who should most appropriately bear the costs of new measures arising from more stringent regulation. In this context greater emphasis is now also placed on how aircraft manufacturers and airport security suppliers are able to “design in” security measures that can help avoid costly retro-fitting exercises at a later stage.

**Industry Suppliers’ Role**

4.4 UK industry possesses a broad range of capabilities that can help support Government agencies, private operators of airports and aircraft manufacturers with their roles in delivering aviation security. Industry should be looked upon as a willing partner to those responsible for delivering counter-terrorism measures that are needed to help ensure the security of the aviation sector.

4.5 In meeting the terrorism threat that the aviation sector faces, the provision of state-of-the-art systems, technologies, services and equipment will continue to be critical. SBAC and members of the British Aviation Group (BAG) are widely acknowledged as world leaders in the provision of innovative defence and security systems, equipment and technologies. They provide cutting edge detection technologies and services that are deployed at UK airports and also develop system integration capabilities that support the emergency services and help to protect the UK’s borders.
5.1 The aviation industry in the UK is a successful one, employing many thousands of people across the country. It provides valuable trading and transport links for Britain, as well as bringing people and businesses closer together across the EU and the world.

5.2 Aviation recognises that it has an impact on the environment both locally in terms of noise and air quality and more widely, especially when examining the issues around climate change. However, the UN’s IPCC (Intergovernmental Panel on Climate Change) set out that aviation is responsible for 2% of global man-made CO2 emissions and is predicted to rise to 3% by 2050 on a “do nothing” projection. Because of the industry’s recognition of its environmental impact it has set out to address it. The aviation industry contributes a great deal to the UK economy and is playing a role in reducing its environmental impact.

**February 2009**

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**Memorandum from NetJets Europe (FOA 26)**

NetJets Europe is the largest business jet company in Europe. It flies its owners directly to almost 900 airports in Europe and more than 5,000 world wide. With 160 aircraft, NetJets Europe operates four times as many aircraft as the next largest business aviation company. Its 1,600 strong owner base includes many of Europe’s leading companies and some of the world’s most influential decision-makers.

NetJets Europe is the only dedicated business jet operator to hold the internationally recognised IATA Operational Safety Audit certificate from the International Air Transport Association—the highest safety accreditation in the world.

1. **What is the value of aviation to the UK economy?**

1.1. Business aviation is a hugely important asset to the economy. According to a recently published report from PriceWaterhouseCoopers, business aviation contributes €4.2 billion to the UK economy, and directly supports 50,000 jobs.

1.2. In the wider context, the UK hosts 30% of Europe’s employment in the business aviation sector, 18% of its movements and 16% of its aircraft. This places the UK in the top three countries in Europe in terms of importance in business aviation, alongside Germany and France.

1.3. NetJets Europe alone supports approximately 180 jobs in the UK, with hubs and maintenance bases at Farnborough and RAF Northolt. It has around 1,600 customers, over 150 aircraft and operates an average of 235 flights per day between any two of over 430 destination cities.

1.4. The majority of jobs in the business aviation sector are in high-tech sectors, mainly involving the manufacturing of components and airframes, as well as the maintenance of business jets. The UK has the highest number of manufacturer-affiliated Maintenance, Repair and Overhaul (MROs) not just in Europe, but in the world.

1.5. The south east of England holds a number of important locations for business aviation. Business aviation manufacturer Gulfstream have their only servicing base outside of the USA based at London Luton Airport, servicing over 1,300 aircraft during 2007.

1.6. Whilst the majority of business aviation movements occur in London and the south east of England, the majority of the jobs supported by the sector are located in the UK regions. These include Bombardier in Northern Ireland (component and airframe manufacturing), Hawarden in North Wales (Hawker Beechcraft maintenance) and Rolls Royce in Derby (engine manufacturing).

1.7. The global downturn has inevitably taken its toll on the business aviation industry. Whilst orders for new business aviation aircraft are falling, it must be remembered that the industry has been experiencing continuous growth since 2001. It is also expected that the downturn will only reduce demand to 2006 levels.

1.8. In the midst of the current economic conditions, however, there is still growth. In January, Hawker Beechcraft in Chester opened a new paint facility, showing confidence in the UK’s position in the sector.

1.9. In terms of the customers served by business aviation operators, a common misapprehension is that the majority are leisure travellers. However, the average makeup of Business Aviation customers according to EBAA is as follows: business 60%, Government 20%, leisure 15%, lifestyle 5%. This is markedly different from commercial airlines, where the ratio is broadly 80% leisure to 20% business. So, whilst overall passenger numbers in business aviation are significantly lower than those using commercial airlines, the proportional value to the UK economy of business aviation is very large indeed.

1.10. In terms of infrastructure provisions, the UK hosts 11 airports listed in the top 50 busiest European airports in 2007 as measured by business aviation departures. Whilst many business aviation movements to and from the UK involve the rest of Europe, much business traffic is with North America and the rest of the world. Indeed, the value of business aviation rises when the need arises to travel to areas of the world with irregular or limited air links.
What are the roles of the London and regional airports?

1.11. The majority of business aviation movements occur in the south east of England and London. In 2007, the top four airports used by NetJets Europe were London City, London Luton, Northolt and Farnborough. These comprised 58% of total UK business aviation movements, helping to facilitate trade and investment worth millions of pounds to the London and wider UK economy.

1.12. Access to airports is one of the major reasons that businesses have located in London and the south east of England in the post-war period. Whilst capacity has become constrained at major airports in recent years, smaller airports such as London City have seen their business use grow significantly. 64% of passengers using London City are now travelling on business, driven by the growth of London’s financial services industry. Much of the economic success of the south east can be attributed to the area’s historically good air links.

1.13. Outside of London and the south east of England, business aviation allows businesses to access domestic and international markets unsupported by commercial aviation links. Areas such as North Wales do not have substantial air links at all, with business people forced to travel to Manchester or Birmingham for their nearest airport. However, using a business jet capable of using small airfields will enable business people to fly at short notice to domestic, European and international destinations with ease.

1.14. In recent years, commercial international flights have become increasingly focused around London airports at the expense of the UK regions. Airports such as Manchester have lost a number of their international routes, in particular their British Airways transatlantic flights. Also, major regional airports such as Liverpool have either lost or have no pre-existing air link to Heathrow Airport, the UK’s main hub for international flights. As such, business travellers seeking to reach international destinations face an increasingly stark choice.

1.15. Business aviation operators are able to fly these travellers to any destination in the world at very short notice. In the absence of timely links with London airports, the only option for many is to use business aviation to meet the needs of travellers with specific and tight time schedules.

1.16. With capacity at major airports around the UK, and in particular in London, smaller regional airports and airfields offer more attractive and convenient options for business travellers. Businesses outside of London have seen their access to air links improve in recent years with facilities such as the Marshalls Executive Aviation centre at Cambridge Airport. Airports and airfields serving business aviation customers have no need for extensive terminal facilities or surface transport access, thus increasing the number of locations they are able to operate from, and increasing the scope for more remote areas of the UK to be reached by business travellers.

What competition do they face from abroad?

1.17. Whilst business aviation movements into the UK do face competition from Europe and elsewhere, the inherent “point-to-point” nature of most flights means that flights are dependent on proximity to the final destination more than anything else. This highlights the issue of access to airports around the UK, an issue which we will detail under question 2.

1.18. Aside from competition for airports, the bigger issue for business aviation is the competition for the hosting of business aviation manufacturers and maintenance facilities. Despite the UK’s preeminence in Europe in terms of business aviation jobs, manufacturing and maintenance, it faces very strong competition from Germany and France.

1.19. Business aviation operators are able to move their operations at short notice, based on the favourability of the countries they operate from. Where an unfavourable tax regime arises, then companies are able to move their operations to elsewhere in Europe, with a corresponding impact on the local economy and employment.

1.20. Much of this impact is frequently taken for granted, given the emphasis amongst politicians and the media on commercial aviation. The research undertaken by PriceWaterhouseCoopers indicates that whilst the UK is the most preeminent European location for business aviation, it is in close competition with Germany and France. Both of these countries have been careful to cater for business aviation, such as having airports dedicated exclusively to business aviation close to their business hubs (Le Bourget in Paris).

1.21. The current economic downturn will inevitably have an impact on the number of business aviation movements, not just in the UK but across Europe. However, it would be short-sighted to ignore the continuing contribution which business aviation plays within the UK economy. Times of economic stringency tend to have a greater impact on those travelling for leisure, with business users travelling on essential trips continuing to provide demand. In addition Business Aviation is totally flexible and in demand: flights occur because of need, not because of an airline schedule.

1.22. The large number of multinational companies based in the UK is one of the key drivers in placing the UK at the top of the business aviation tree. By creating an environment whereby business leaders are able to travel domestically, within Europe and internationally, the UK can help to bring about conditions which will help British businesses lay the foundations for economic recovery in the coming months.
1.23. With the inclusion of aviation within the EU’s Emissions Trading Scheme from 2012, the UK is likely to be responsible for the regulation of over 700 operators. This highlights the importance of the UK as the first port of call for many international flights, especially from the US. The UK’s preeminent position is to be welcomed and celebrated, but it could easily be supplanted by neighbouring continental countries such as France and Germany, given the importance of national rules and regulations.

2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

2.1. Aviation policy is currently based around the needs of the commercial airline industry. Whilst the business aviation sector generates billions of pounds for the UK economy and tens of thousands of jobs, little account is taken of the needs of the sector when future policy decisions are made.

2.2. Business aviation is compelled to fit its needs around those of the major commercial airlines at most of the UK’s airports, with only a handful of smaller airfields and RAF bases seeing business aviation movements in the majority (eg Farnborough, Biggin Hill and RAF Northolt).

2.3. For many of these smaller airports and airfields, reliable and predictable patterns of access can often be difficult to obtain. Our sector’s customers rely on our ability to fly at short notice, from places often away from the major aviation hubs. As such, gaining access for our aircraft is the single biggest issue we face on a daily basis.

2.4. At this stage, a comparison with the rest of Europe is pertinent. Most other European countries do not have business aviation users operating alongside commercial airlines. Indeed, at the second-most important business aviation hub outside of London, Paris, a dedicated airport for business aviation (le Bourget) enables businesspeople to come and go with ease, without having to compete for slots with commercial airlines.

2.5. For London, the situation is significantly different. Those airports with substantial business aviation movements are either:
   — located outside of Greater London, thus making transport into the city lengthy (eg Biggin Hill, Luton, Farnborough);
   — face operating restrictions imposed by the Ministry of Defence (eg RAF Northolt); and
   — face local operating restrictions (eg London City).

2.6. Whilst the situation has been manageable thus far, a number of difficulties have arisen at the bases mentioned above which place London’s accessibility to business aviation users in jeopardy.

2.7. Aside from specific geographical factors, the regulation of the UK’s aviation infrastructure is also a cause of great concern for the business aviation sector. At airports with mixed use (commercial and business), business aviation facilities and slots are usually the first to be sacrificed when commercial airlines expand new routes needing new slots.

2.8. For example, business aviation movements account for 25% of traffic at London Luton Airport. However, every slot given over to new routes used by commercial airlines comes at the expense of business aviation, despite the large gap in terms relative economic contribution. Whilst we would not like to see artificial restrictions placed on commercial aviation movements, we do wish for more equal treatment from policymakers which includes the following:
   — A recognition from the Government of the value of the businesspeople using our services to the UK economy, and to London and the south east in particular.
   — Incorporation of the needs of business aviation into the Government’s projections for growth in the aviation industry in the UK, particularly with respect to the delivery of new and improved aviation infrastructure.

2.9. NetJets Europe, along with the rest of the business aviation sector, are keen to see proposals brought forward for a new system of slot allocation across Europe, and we hope the UK will impress this on the new European Commission in the latter part of 2009.

3. To what extent can rail provide an alternative to short-haul flights?

3.1. The UK’s current high-speed rail network provides a valuable service for mass-transit needs. However, an expansion of high-speed rail would do little to cater for needs beyond this core market. Business aviation cannot realistically be viewed as a competitor to most existing rail services, and would not be if a new programme of high-speed rail were implemented in the UK along the lines suggested by the major political parties.

3.2. Many routes flown domestically within the UK for business purposes exist due to the lack of sufficient rail infrastructure and services. Frequently they will have relatively low demand, but serve economically important routes. For example, business people travelling between the south west and north of England have little option but to use business aviation when travelling at short notice, and when time pressures are the biggest factor.
3.3. Within Wales, economically important business aviation routes exist between north and south, where there is no viable rail alternative. Such a route has proved very successful, particularly with Government officials and politicians, although the numbers travelling are not large. For routes such as this, there is no realistic scope for high-speed rail to be developed as an alternative.

3.4. These examples also extend to much business aviation travel between the UK and the rest of Europe. For travel between two large hubs such as London and Paris, or London and Brussels, then high-speed rail is frequently the quickest and most convenient option for business travellers. However, when travel is between smaller towns and cities, then high-speed rail is also not a viable alternative. For business travellers flying to continental Europe from outside of the main metropolitan areas of the UK, business aviation is the quickest and most convenient option, allowing them to access areas served by small regional airports where high-speed rail is either limited or non-existent.

4. What costs does aviation impose on society and the environment?

4.1. Compared with the rest of the aviation sector, business aviation has a proportionally small impact on the environment. In the UK, business aviation accounts for 8% of air traffic movements, but only 1% of aviation emissions.

4.2. Business aviation’s impact on the wider environment is also proportionally smaller than that of the wider aviation industry. The largest business aviation jets are significantly smaller than the average commercial airline aircraft, and thus have a relatively small noise impact at the airports they use.

4.3. However, it is clear that the business sector has an impact on the environment, in particular through greenhouse gas emissions. As a result, NetJets Europe has ensured that it is at the forefront of tackling emissions from its fleet of aircraft. In October 2007 it launched a pioneering carbon offsetting scheme, which is compulsory for all new and renewing NetJets Europe customers. Under the scheme, NetJets Europe purchases offsets from EcoSecurities, a leader in the business of sourcing, developing and trading emission reductions worldwide. In addition NJE is providing funding for studies into low emission fuels and active in developing operational improvements.

4.4. Outside of this scheme, NetJets Europe has been pushing hard for the inclusion of aviation within the European Union’s Emissions Trading Scheme. We are pleased that the UK Government has been supportive of this scheme, which when implemented in 2012 will see business aviation pay for almost 100% of the permits needed by the sector. This is contrast to commercial airlines, who will initially receive 85% of their allowances for free, with that figure falling at later stages.

4.5. However, we do have concerns about the future ways in which the UK Government will cover the costs of aviation emissions (see response to question 5).

5. What is the impact of taxation on the aviation sector nationally and regionally?

5.1. Business aviation is not subject to the current regime of Air Passenger Duty. NetJets Europe are pleased that the Government dropped its plans for Aviation Duty, which would have unfairly targeted business aviation. Following arguments put forward by NetJets Europe, it was agreed that the extra administrative burden placed on the business aviation sector by Aviation Duty would not justify the relatively small increase in tax involved.

5.2. Under the Emissions Cost Assessment (ECA), the Department for Transport have determined that the aviation industry is already paying its way in terms of greenhouse gas emitted and taxation paid. However, the Government is yet to stipulate how the system of aviation taxation would change when aviation is included in the EU’s Emissions Trading Scheme from 2012. As already mentioned, there will be an initial disparity between business aviation and commercial aviation, with the former paying for almost all of its permits, and the latter receiving 85% of its permits for free.

5.3. The Government have made it clear that the cost of the aviation industry’s carbon emissions are being paid under the current system of Air Passenger Duty in line with the ECA. However, the inclusion of aviation within the ETS is intended to also cover the emissions cost of the industry. We call on the Government to set out a clear framework of how the current system of Air Passenger Duty, informed by the Emissions Cost Assessment, will change once the ETS system is fully operational.

6. What is the impact on the aviation sector of changes in the security environment?

6.1. Security considerations for business aviation are understandably different from those of commercial aircraft. However, it is still subject to restrictions imposed on the industry as whole. In recent years, a number of incidents (such as the Glasgow Airport attempted bombing) have seen significant tightening in security for the industry. Access to airports and the transportation of luggage are just two areas which have been subject to restriction from the Government.
6.2. Legitimate measures undertaken to tighten security and protect the public from unnecessary risk are important, and we naturally support in general terms such steps. However, it has become clear in recent years that some measures appear to have disproportionate costs associated with them. In addition, it is important to understand that the risk assessments with business aircraft which do not sell individual seats to the public are significantly lower than for scheduled airline traffic and should be reflected in proportional regulations. We would urge the Government to, in the process of identifying possible solutions to security problems, take into account the cost impact on the industry of implementation. Where business aviation operators use smaller, regional airports and airfields, enacting extra security measures can often represent a huge increase in costs, sometimes putting the economic viability of operations in jeopardy.

6.3. In completely accepting the need for robust security measures at all airports and airfields across the UK, we call on the Government to take greater steps to consider the cost implications of its measures.

February 2009

Memorandum from 2020*Vision Ltd (FOA 27)

SUMMARY

A. In the light of the systemic failure in the financial and banking sectors, this brief report highlights the previous warnings of comprehensive regulatory failure in the air transport sector that the author raised over a decade ago. The national and public risks arising from these failures continue to grow exponentially, through the systemic failure to address them.

B. A brief set of responses is provided to the questions raised by the committee, to provide a general illustration of the “next-level” thinking and understandings which will be necessary to reduce these risks, along with a warning that if Parliament does not attend to these issues, there is no other body with a clear mandate to do so.

A. REGULATORY FAILURE—a WHISTLEBLOWER’S WARNINGS

A.1 During the late 1990s, 2020*Vision Ltd submitted some 2000 pages of evidence to the Heathrow Terminal 5 Inquiry and also some later evidence to the Transport Select Committee Aviation Inquiries.

A.2 That evidence highlighted the trend of increasing mismatch between the government’s support for the development of airport infrastructure and the increasing public concerns relating to risk and harm arising from that approach without adequate independent regulation of the risks involved.

A.3 That evidence also demonstrated that the trend towards the development of UK aviation was based upon a set of false assumptions arising from:

(a) the out-dated historic mandates of the CAA and the relevant government departments to develop civil aviation regardless of the human costs;
(b) the continuing partial presentation of one-sided economic data and faulty assumptions by the airlines, airport operators, CAA and Government;
(c) the conspicuous absence of any adequately funded independent public body to provide the counter-balance to this pressure and to control the increasing risks and harm to the wider public and national interest.

A.4 This is not the place to repeat the detailed evidence presented a decade ago that illustrated these concerns, yet it is notable that the concerns about the adverse trends and incorrect assumptions provided in evidence by the Government and industry at that time are only now beginning to be understood and articulated in Parliament and in Government circles. However, there is still considerable unwillingness to accept the inconvenient truths, principally amongst professionals in key positions who gain their income from the continued development of aviation and who have prominent influence over Parliament and Government.

A.5 Over a decade ago, the director of 2020*Vision Ltd played the role of unpaid voluntary whistleblower to challenge the faulty assumptions that were used to justify the continuing growth of air transport and its associated unregulated risks to the public. As an illustration of this role, when the consortium of local authorities withdrew from the Heathrow T5 Inquiry through lack of funding, the director of 2020*Vision found himself as the only voice challenging the massive development of Heathrow on public safety grounds: despite the increased crash risks to London.

A.6 During that Inquiry the CAA argued that it did not have any responsibility towards public safety; and the then Department of Transport gave evidence that it had reduced the crash risk—simply by changing its method of calculating the risk. The risks from terrorism, though eminently foreseeable before 2001, were excluded from consideration by the inquiry.
A.7 The banking sector has recently provided graphic demonstration of how the market pressures within an industry sector can seriously damage both the industry and the national interest, when inadequate regulatory controls are in place to restrain unbalanced market forces.

A.8 Much the same unsatisfactory situation persists in the UK civil aviation sector, with much the same continuing pressures for expansion and inadequate regulation and counter-balancing forces. The Inspector at the T5 Inquiry demonstrated the unsatisfactory hypocrisy of this situation, by confirming in his report the wide harm that the development would have; and yet by recommending approval of the development anyway.

A.9 Ten years on, the public and national risks have continued to rise with the increased growth of aviation, inexorably and exponentially, as forecast. Development proposals are in hand for yet further growth and further exponential rise in risk. The regulatory checks and balances are absent. The question is not whether catastrophic system failure will occur—but when, and how serious will the consequences be?

A.10 No body amongst Government Departments, the CAA, the airport operators or the airlines have either the unambiguous mandate or responsibility for the management of public safety—in all of its forms, including health risks. This distribution of risk with no clearly designated responsibility is now the classic industry treatment (across all sectors in the UK) for unacceptably large public risks, so that no-one can be held responsible for disasters. That is why the risks continue to be pushed under the carpet.

A.11 Parliament does not need to be reminded that it has the responsibility to attend to these serious matters of oversight. If it does not attend to these matters, it is a certainty that no other body will: there is no other body to do so. An independent body is urgently needed to put in place a proper management system based upon understandings more relevant for the future than the past.

B. RESPONSES TO SPECIFIC QUESTIONS—providing sample illustrations of the “next level” shift in regulatory perception and understanding that is overdue in the management of the air transport sector

1. (a) The value of aviation to the UK economy?

Aviation has consistently been of NEGATIVE value to the UK economy.

B1.1 For many years, the UK aviation industry has only presented economic figures and evidence that support its desire for expansion, highlighting the supposed benefits of income from tourism, from foreign direct investment, and from job creation. Similarly, for many years, the government has faithfully reproduced these figures and arguments, like the industry, closing its eyes to the fact that there is an opposing set of figures, which more than offset these supposed benefits.

B1.2 For many years, the truth has been opposite—that:

(i) The net national income from tourism has been negative.

(ii) The balance of payments in the civil aviation sector has been negative.

(iii) Foreign direct investment has been to the overall disadvantage to the UK, with increasing foreign ownership of UK businesses.

(iv) Employment numbers at Heathrow have declined rather than increased, improving air transport facilitates the export of jobs to low wage economies, rather than the development of jobs within the UK.

(v) British passengers tend to fly with British airlines, and foreign tourists with foreign airlines, so the development of low-cost British airlines merely tends to export British expenditure to foreign countries, in purchases abroad, rather than encouraging it to be spent in the UK economy.

(vi) There are extensive hidden subsidies to the air transport sector, which are public costs, which are omitted from calculations.

(vii) There are now so many ways for passengers to get “free” flights, such as through the airmiles system, that the market is totally distorted.

(viii) Economic regulation still suffers serious deficiencies and distortions.

B1.3 In the UK, we have long had a crazy situation where the government, the CAA and the aviation industry are all fixated upon the development of air transport, and yet there is no body with any counter-balancing responsibility to safeguard the risks to the national economic interest from these single-minded forces for expansion. The banking sector has demonstrated the consequences of such a blinkered approach to the capture of the regulators by industry.

1. (b) The roles of London and regional airports?

B1.4 The digital industry has demonstrated that hubs quickly become overloaded through congestion and that the risks of catastrophic failure increase exponentially with traffic. A distributed, network, approach with negative feedback to keep operations small, ensures a greater systemic operational efficiency and durability. Heathrow has long been the UK’s noxious example of the inefficiencies of the hub approach.
B.1.5 A proper regulatory system is required in UK civil aviation, that manages and reduces demand, keeps airport small, ensures that the full real consequential costs are carried by the industry. In short, like the banking system, the UK aviation system needs redesigning and simplification—in advance of systemic economic breakdown, rather than after it.

1. (c) What competition?

B.1.6 Those in the industry who argue that foreign airports are competitors to UK airports seemingly do not fully appreciate how ludicrous the argument is to the public and passengers. The only arguable instance of competition in the industry is between different airlines flying the same route to the same destinations. In almost all other situations, both airports and airlines are monopoly providers.

B.1.7 In reality, the concept of “competition” is an illusion, (much like the “War on Terror”), which does not survive deeper intellectual analysis, and which is used as a palliative focus to cover up other deficiencies. Certainly, the continuing survival of the idea of competition between UK and foreign airports is laughable: passengers travelling back to England are unlikely to decide en masse to terminate their journeys in, say, Paris instead!

B.1.8 It has previously been shown to be far less risky and damaging to both the UK economy and the environment, to have smaller distributed short haul flights to foreign hubs, rather than to develop our own hubs.

2. (a) Current Infrastructure adequate?

B.2.1 This begs the question—adequate for what?

B.2.2 There are two opposite assumptions in answer to the latter question:

Assumption A. Assume (incorrectly) that there is a need for more capacity to meet future forecast demand, and forecast a high level of demand to be met.

B.2.3 The problem with this argument is that, with more capacity, prices will fall and demand will therefore rise. In practice, demand follows an increase in capacity, not vice-versa. Recent years have shown that increasing system capacity drives down the price and increases the costs to operators. This makes flights apparently cheaper for passengers, but much more difficult for the industry, even more especially when passengers realise that their cheaper flights are frivolously inessential and they decline even the plethora of free flights offered. The invisible factor that increases in this scenario is risk—in all respects.

Assumption B. Realise that demand follows capacity, and reduce capacity to reduce demand and risks.

B.2.4 The industry—and the government—needs to recognise that both the economic and environmental risks would be reduced by more focus on demand management, reducing and capacity and traffic and increasing flight prices. A reduction in infrastructure capacity would encourage people to find other solutions to their needs (such as technology or rail), or to pay a price that more adequately reflects the full and real costs of air transport.

2. (b) The implications of future passenger trends?

B.2.5 Passenger trends are likely to be in long-term decline because of:

(i) A long-term economic downturn.
(ii) A steep reduction in personal and corporate expenditure.
(iii) Increasing difficulties within the industries & a reduction in staff.
(iv) A reduction in capacity through a reduction in aircraft operations.
(v) A greater use of cheaper technological alternatives.
(vi) A requirement for government to increase its tax take.
(vii) An increasing social understanding of the disbenefits of air travel.
(viii) An increase in support for the local economy.

B.2.6 These factors indicate that the further development of Heathrow and other airports is completely the wrong response for both economic and environmental sustainability.

3. Rail as an alternative?

B.3.1 The principal choice is not between the use of air or rail transport, but between whether to fly or not to fly.

B.3.2 With modern technology—especially the availability of high quality video links—travelling is often inessential. With the price of an economy flight to the USA comparable with the price of a 90-minute rail ticket in the UK, it is easy to take a flight frivolously without any actual need whatsoever.
B.3.3 The reality is that for both business and leisure passengers, flying is still much more of an inessential rather than an essential. In both classes of passenger, people tend to fly because they can—and it is available and cheap enough—rather than because it is essential. This is why demand follows capacity.

B.3.4 This would not be a problem if the risks and consequences where not so potentially harmful to the wider economy and population.

4. What costs imposed upon society?

B.4.1 These costs are well known in principle. They are mainly:
(i) Loss of land, buildings and habitats to airport development.
(ii) Pollution from aircraft at ground level.
(iii) Contribution to global warming, especially at high altitudes.
(iv) Noise consequences around airports, affecting health and efficiency.
(v) Crash risk on buildings in the vicinity of airports.
(vi) Surface access effects, through road congestion, parking land take, etc.

B.4.2 Because it is hard to value these costs in financial terms, they tend to be dismissed by both industry and government, who give higher priority to perceived economic factors. Yet they are very real and harmful to those who suffer the consequences.

B.4.3 People who have had the misfortune to live in the vicinity of airports know only too well that airports create a huge nuisance, and adversely affect the quality of everyday life of a very wide area. Increasing the capacity of airports is merely replicating the problems and congestions of motorway building into the airspace above us.

B.4.4 As there is no effective regulator of these risks and costs—other than the government with an erroneous belief in the supposed benefits of airport development—there is little funding to counter the self-promoting arguments of the industry. Put another way, there is no official body with the unequivocal responsibility to protect the people from the adverse consequences of airport operational expansion.

B.4.5 Although the government makes a show of setting controls on some types of operation and development, such as setting noise, air traffic and development limits, these limits are generally meaningless. History has shown that when these limits become a constraint on the industry, they are simply removed or the thresholds raised. In this way, the government has lost all trust as a regulator—because it presents itself as a regulator but it does not act as a regulator: it facilitates and authorises development and removes constraints.

B.4.6 The government has recently lost even more credibility by changing the planning process for airport development, so that the decision for the development of Heathrow Runway 3 is now made by government decree, regardless of the contrary will of the people—and regardless of the harmful consequences of the decision from every possible point of view.

5. (a) The impact of taxation?

B.5.1 The CAA has long argued that taxation of air transport would have little effect upon demand and that the cost of taxation would have to be very high in order to affect demand.

B.5.2 It is surprising, therefore, that the Chancellor has not taken more opportunity to raise much more taxation from air transport. Not only could it become a “cash cow” for him, but, by heavily increasing taxation on the industry, he could start to influence and manage demand. In this way, taxation could be a crucial lever to change the behaviour of both the industry and passengers in a more favourable direction. This would remove the need for more undesirable and inessential airport development and force a reduction in demand and a better use of existing capacity.

5. (b) Passengers protected from collapse of airlines?

B.5.3 There is no doubt that airline failures will become a more pertinent factor in the near future, as they are already becoming.

B.5.4 So long as the ABTA system continues satisfactorily, the main current problem of airline failures lies in airports. When an airline fails, the main immediate hardship for travelling passengers is the difficulty in obtaining information from the airline or airport concerned, about what action should be taken in relation to their journey.

B.5.5 Given that the industry is often aware in advance of potential and impending failures, there is strong justification for a central industry—or government—information handling system to meet the immediate needs of travelling passengers who are affected by a failure. This could be backed up by better legislation on notification reporting and dissemination of information.
B.5.6 The failure of airlines can be seen as a beneficial and necessary step in the reduction of capacity in the industry. If the correct safeguards are in place to protect passengers, public and the national economy, then such change can be managed satisfactorily. However, if actions are not based upon the right understandings, the wrong responses may be put in place, compounding, rather than minimising, the national economic consequences.

6. Impact of changes in the security environment?

   B.6.1 Even those in the security industry now acknowledge that both the government and the industry have over-reacted in their response to their perception of threats from terrorism, to the detriment of other, less obvious but more serious, threats.

   B.6.2 The air transport system still suffers from an unduly stringent security regime on passengers and crew, despite that fact that there continue to be serious flaws, weaknesses and inconsistencies in the security systems, which determined terrorists could easily exploit to circumvent the tedious security checks in airports. As is commonly voiced, the security industry makes a mockery of itself by believing that anyone could bring down an aircraft with a pair of nail clippers or a cheese, yet these items are still frequently confiscated.

   B.6.3 It is significant that other UK transport modes, such as the rail, underground and bus systems, do not have such a high standard of security checks.

   B.6.4 Over the last decade, this Government has been putting its attention—and much public money—into the wrong places and trying to control the wrong risks, across many sectors of its responsibility. It has been blind to the greater systemic risks that it has been ignoring, because it has not understood the need for new beliefs and new ways of thinking. Instead it has tried to use old remedies on old problems, and still listens to the same people who created the problems. The aviation sector is just one glaring example of this failure.

   B.6.5 The principal lesson that urgently needs to be learned in the management of the aviation sector is, in a form of the words attributed to Einstein:

   “Problems cannot be solved by using the same level of understanding that created them”.

   . . . But that assumes that anyone even understands that there are problems!

Example Areas for Further Investigation

A. The decision on Heathrow Runway 3

   (a) A.1 The Government has announced the decision for a third runway—in advance of any inquiry. What possibilities are there for the decision to be overturned if subsequent evidence materialises to demonstrate that this was the wrong decision to have been made on insufficient information?

   (b) A.2 The majority of the land for the third runway has for many years been owned by British Airways, not BAA. What are the potentially adverse implications is this fact, if still true—and how will they be resolved?

   (c) A.3 A new runway would present a golden opportunity for the Government to bring valuable runway slot (and airspace) rights into public ownership. Is this planned—and if not, why not?

B. Capacity v Demand

   B.1 Given the well publicised adverse consequences of airport expansion, why does the Government and the industry persist with the long-out-dated belief that the capacity should continue to be expanded to satisfy some hypothetical forecast of demand, rather than that demand should be managed down for more effective use of existing capacity?

C. Public Safety

   C.1 Ever since the Lockerbie crash, it has been obvious that large numbers of passenger airlines approaching low over London give a plentiful opportunity for terrorist action, and current security arrangements do not close off these risks.

   C.2 In addition, the continuous increase in the density of ever-larger aircraft in the airspace over London has greatly increased both the necessary length of over-flight of London (by each aircraft) and therefore the risk to people and property on the ground from aircraft crashes. Given that many key Government buildings, Parliament and Palaces are directly under the flight paths, why is this situation permitted to develop unremittingly?

   C.3 Many other countries restrict the commercial over-flight of cities and important buildings—for example Paris has long had a ban on flights over the city. Yet many of Britain’s cities are constantly over-flown by an often uncontrolled, and increasing, medley of passenger jets, private aircraft, training flights
helicopters and hot-air balloons. Many of these aircraft cannot communicate with each other and some cannot be seen by air traffic control radar. Common-sense indicates that it is not sensible to continue to generate the increasing risks from these situations. Why is there no permanent ban on the over-flight of London and other important cities, such as Bath?

C.4 The argument is often given that there are not very many accidents. Is it therefore Government policy—much as on the roads—only to reduce the risk when and where a sufficient number of accidents have occurred and the consequences have been serious enough?

C.5 Which person or body has the actual overall responsibility to ensure that an aircraft does not crash on, say, Parliament? What steps are they taking to ensure that it cannot and will not happen?

D. Public Health

D.1 Insufficient research has been carried out on the effect of aircraft on public health, despite there being considerable evidence of serious physical, mental, emotional and social consequences for certain individuals and vulnerable groups. What are all of the negative societal and health consequences for large numbers of people being subjected, for long periods every day and night, to an incessant overflight by large aircraft? Which body has the responsibility to ensure such research is carried out—and to fund it adequately? Why isn’t more being commissioned?

D.2 Why does the Government continue to use a long-discredited measuring methodology for aircraft noise, which employs an exponential multiplier of aircraft number, when the evidence shows that the adverse consequences are directly proportional to aircraft number—with a linear relationship?

D.3 Large powerful engines are known to be strong emitters of very low frequency noise, inaudible at below 25Hz. And it is also known that such noise can create lasting changes in the human body, including organ damage and even death—indeed weapons have been created using this very effect. Yet the official aircraft noise measuring methodology deliberately excludes noise in this region. Why is this the case? What research has been done to prove that this methodology is not harmful?

D.4 Why are there not more effective legal controls over the intrusive noises from helicopters and hot-air balloons?

E. Conclusion

E.1 Is it not time to prise open this can of worms in this sector and ensure that these, and other, matters are being properly addressed and managed for the future?

F. Recommendation

F.1 An independent and publicly funded body urgently needs to be established to safeguard the interest of the public against the powerfully funded interests of the industry; to ensure the establishment of a proper future-proof system of management and regulation of the risks to the public—who currently are obliged to bear the adverse consequences of the unremitting expansion of the sector without any mechanism for input, appeal or legal action against decisions and actions directly harmful to them.

G. Recommended reading

G.1 *Sunday Times* 22 February 2009—Business Section Page 7—“How the Lust for Money Powers the City”—The same sense of extraordinary blinkered denial of public risk exists in the aviation sector.

*February 2009*

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**Memorandum from Strategic Aviation Special Interest Group (FOA 28)**

**SUMMARY**

SASIG is the Strategic Aviation Special Interest Group of the Local Government Association (LGA) with a membership of 51 Local Authorities representing around 14 million people – more than a quarter of the population of England.

SASIG seeks to ensure that any national aviation strategy for the UK is implemented through regional planning guidance and other planning processes so as to reconcile economic, social and environmental issues in a sustainable way.

SASIG appreciates this opportunity to provide input to the Transport Select Committee’s inquiry “The Future of Aviation” and have set out below our responses to the Committee’s questions.
SASIG’S KEY RECOMMENDATIONS

— Aviation must be addressed in the context of its full and diverse interactions – in terms of its contribution to the UK and foreign economies, its social impact and in terms of the impact on local communities;
— Aviation forms part of the national transport infrastructure, and its integration must be achieved within the bounds of a low-carbon economy;
— The value of aviation to the UK economy has yet to be adequately assessed – its income-generating capacity must be evaluated in the context of its climate change, local air quality, noise, surface access, congestion and quality of life impacts.

SASIG’S RESPONSES TO THE COMMITTEE’S QUESTIONS

Qu. 1a What is the value of aviation to the UK economy?

1. There is no disputing that aviation makes a contribution to the UK economy, as do all sectors of the economy. But it is by no means top of the list, despite the publicity it gives itself. However, that value has not yet been accurately or fully assessed. Such an assessment requires consideration of the benefits in the context of the full range of disbenefits. As is so often the case, due to the nature of the disbenefits they do not lend themselves to monetary quantification, and have not yet been fully considered.

2. The Government has been proceeding on the basis of work commissioned by the aviation industry (with a subsidy from Government) from Oxford Economic Forecasting (OEF) to assess the contribution of the aviation industry to the UK economy. OEF’s 1999 study explicitly excluded any assessment of the environmental consequences of the future development of aviation; their 2006 study, updating the earlier study, looked solely at climate change, not the full range of aviation’s environmental costs. To date, no assessment has been made by the Government that incorporates costs and benefits of both economic and environmental factors in order to inform their aviation policy.

3. Elements of constraint in the aviation sector do not necessarily result in a net loss of jobs to the UK economy as a whole, since, in more normal times, jobs would still be created and taken up in other sectors. In addition, even if lower consumer spend were going into the aviation sector available consumer spend would still feed in elsewhere in the UK economy.

4. OEF’s finding regarding the relationship between growth in business passengers and growth in GDP has never been satisfactorily proven. In addition, there is no direct relationship between growth in demand for business travel and any need for new airport capacity if it is accepted that some leisure travel can be squeezed out.

5. It has long been recognised that non-transport factors in a region, such as the availability of skilled labour, have been found to be a more critical factor in regenerating a region than transport infrastructure, and there is no simple link between the provision of transport infrastructure and regeneration. Some links lead to losses in areas with weaker economies by giving improved access to stronger external competitors.

6. The 2006 OEF study calculated that “…tourism spending abroad is now more than twice foreign spending in the UK, with the difference equivalent to around 1.5% of GDP”. Evidence given in January 2008 by hotel chain “Travelodge” to the tourism inquiry run by the House of Commons Culture, Media and Sport Select Committee, claimed an £18bn “tourism deficit” resulting from British holidaymakers utilising cheap air fares, underpinned by the unfair tax advantage from VAT-free international ticket sales. Travelodge calculated inward tourism spending had declined by 16% between 1995 and 2002 while spending by British tourists abroad had climbed by nearly 50%. They estimated a 10% reduction in overseas flights by British holidaymakers over the next decade could create 31,250 UK jobs and generate £1bn for UK regional tourism.

7. OEF considered that “The availability of affordable and frequent flights from the UK to most of the world has brought foreign travel and holidays within reach of the majority of the population.” (pg. 22) Whilst the rise of low-cost airfares may well have increased the travelling capacity of the British public, it does not necessarily follow that it is the UK’s GDP that will benefit from these trips. The Civil Aviation Authority’s (CAA) found that the average passenger salary at low-cost hub Stansted was £45,344 for leisure and £61,585 for business passengers. The Institute for Public Policy Research (ippr) has reported that 75% of

passengers using budget airlines are in the top three socio-economic groups, A-C, and that second-home owners take an average of six return flights a year. In contrast, those in groups D-E account for only 6% of flights.108

8. SASIG concludes: The aviation industry is important to the UK economy but that should not mean so many other Government policies and priorities should be overridden.

Qu. 1b What are the roles of the London and regional airports?

9. The roles of the London and regional airports are to service the local and international travel needs of the country, along with some provision for freight services. National policy tends to focus on the requirements of the London airports rather than fully taking account of regional requirements, and an improved appreciation of the benefits of supporting the entire national system is needed.

10. The current UK aviation infrastructure is a “hub and spoke model” in which London Heathrow is often positioned as the only economically viable location from which to provide “world-class” international connections. However, low-cost airlines in particular have successfully shown that there is a thriving market for point-to-point services from regional airports. Diversifying the availability of key destinations from regional airports would reduce congestion at the London airports. The viability of any route is understandably a complex issue, however, these relationships and reliances must be taken into account.

11. As with other “hub and spoke” systems, disruptions at the hub, such as bad weather or security problems, create knock-on delays throughout the system. The overall operating efficiency of the whole UK network becomes limited by the operations and capacity of the hub airport. In addition, the centralisation of operations leads to more concentrated staffing arrangements, where regional concerns are managed from the central location. This pattern is illustrated by British Airways’ decision to move staff from regional bases in Manchester and Edinburgh back to Heathrow.

12. Regional services are being cut from Heathrow in favour of more lucrative long-haul flights, and it may be necessary to consider slot protection, or the establishment of subsidised route development to areas in need of economic regeneration, in order to ensure a full range of services from the regions.

13. High-speed rail should be used to a greater extent, as discussed in response to question 3.

14. SASIG concludes: Unless urgent action is taken, Heathrow is in danger of fast becoming solely a hub to the world, with too few services to the UK regions.

Qu. 1c What competition do they face from abroad?

15. Heathrow is the only UK airport that seems to face (and fear) competition from abroad. This is basically put down to the number of runways at Paris, Frankfurt and Schiphol, giving less constraint on the number and variety of services/routes. But the aviation industry in the UK has only itself to blame. It has pressed Government to allow it to expand the badly sited Heathrow when the other three airports are situated in environmentally less damaging locations. In particular Charles de Gaulle should never be compared to Heathrow in that it is a new airport, designed where flights are not over the centre of Paris, where good rail and road connections were provided and where economic growth in the surrounding area was being encouraged.

16. SASIG concludes: The UK must review its overall aviation strategy rather than just keep expanding the unsuitably located Heathrow.

Qu. 2a Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

17. The current aviation infrastructure would be improved through provision of high-speed rail to improve connectivity and a better range of services from regional airports. This must be done with adequate control of the associated impacts. There are obviously a number of factors that need to be in place for this to happen, not least the policy and regulatory conditions that provide such services whilst protecting the quality of life for those living around airports. This encompasses local air quality, noise, surface access provision, land use planning and climate change.

18. Delays and inefficiencies at Heathrow must be tackled within the existing infrastructure, embedding measures that protect the quality of life for those living around the airport.

19. SASIG concludes: Existing infrastructure is inadequate but a vision of where we want to be over the next 40 years is the essential first step to take.

Qu. 2b What are the implications of future passenger trends and possible mergers in the airline industry?

20. The main implication is that the unpredictability and volatility of these features add weight to the need for a versatile aviation policy. If a robust, adaptable aviation policy were to be developed it would provide for actions and decisions to be taken appropriate to the changing circumstances as passenger trends rise or fall and the airline industry contracts or expands.

21. The process to date has been that the parties involved have not had sufficient foresight to make robust decisions prior to running up against a block such as minimal runway or terminal capacity and then responding with short-sightedness and simply allowing further capacity in the absence of adequate safeguards.

22. SASIG concludes: A visionary long-term strategy is needed that tells the aviation industry what to provide when demand grows.

Qu. 3 To what extent can rail provide an alternative to short-haul flights?

23. High-speed rail should be provided for domestic and European air connections, essentially substituting those short-haul flights. High-speed rail must receive greater Government support and funding; whilst this commitment continues to be avoided, the Government’s aspirations for an integrated network across the country will continue to be thwarted.

24. On routes in the range of 3-4 hours travel time, city-centre-to-city-centre, rail services provide a viable alternative to short-haul flights. The air and rail network obviously operate differently, with air travel requiring passengers to check-in and undergo security checks whilst these features are absent from the rail system. The total door-to-door travel times by each mode must be accounted for to make a valid comparison.

25. The rail network has suffered from under-development of key routes, reductions in the frequency and capacity of services, overcrowding and above-inflation fare increases. These factors have contributed to rail passenger volumes along some rail routes not having risen as expected, with some passengers preferring to fly.

26. Electrified high-speed rail networks, such as those established in Spain and Japan, offer a lower-carbon alternative to domestic flights, and have attracted substantial patronage—the Madrid-Barcelona line has clearly proved to be an attractive alternative for passengers that would have previously flown that route. This will have had the additional benefit of freeing up slots at the airports for longer distance flights, and there are opportunities for this model to be replicated in the UK.

27. SASIG concludes: There should no, or far fewer, air services to those destinations (including within Europe) where good, under 4-hour,

Qu. 4a What costs does aviation impose on society and the environment?

28. The costs that aviation imposes on society and the environment relate to noise, local air quality, climate change, surface access demand & congestion, heritage, nature & wildlife, land use & land take, and quality of life issues.

29. Aviation policy does not currently reflect a full understanding of the environmental costs of aviation, not least because it is predicated on the economic value of the aviation industry as identified by the OEF studies.

30. A full understanding of these environmental costs has not yet been developed, and there has to date been slow, piecemeal development towards this. Sustainable development of the aviation industry requires more concerted efforts to accurately represent aviation’s environmental costs. This is essential in order for the Government to be able to take decisions that accurately address these costs.

31. Aviation’s societal costs, particularly impacts on quality of life for local residents, are frequently underplayed in contrast to the social and economic benefits of the industry. Government research, particularly regarding the noise impact of aircraft, is incomplete and outdated. For example, the Department for Transport-commissioned “Attitudes to Noise from Aviation Sources in England” (ANASE) study, published in October 2007, was the first report to update the issue since the “United Kingdom Aircraft Noise Index Study” (ANIS) in 1985, and use of the ANASE study for policy development has been sorely lacking since its publication.

110 http://www.guardian.co.uk/politics/2009/jan/21/transport-recession
111 http://www.manchesteronline.co.uk/manchester/flight/flying_commutersBeat_train_delays.html
113 United Kingdom “Aircraft Noise Index Study” (ANIS) (Jan. 1985), main report DR Report 8402, Brooker et al for CAA on behalf of the Department of Transport, and “The Use of Leq as an Aircraft Noise Index”, DORA Report 9023.
32. **Noise impacts**

The ANASE study concluded that public annoyance associated with aircraft noise was higher than found in the ANIS study; a finding related to changes in the nature of aircraft noise—greater numbers of quieter aircraft today, compared to fewer but noisier aircraft previously. This may have implications for how aircraft noise is measured. In 1990, the Government adopted the 57 dBA Leq (16 hours) contour as the onset of significant community annoyance. The ANASE results showed that some people were affected by aircraft noise at relatively low levels, and their annoyance increased as noise levels increased. There was no clearly identifiable threshold at which the increase in annoyance, and its valuation by respondents, was markedly higher, but crucially, more people were annoyed at quieter levels than those in the ANIS study.

33. The Government has done little to update policy using the ANASE study; its consideration by the Aircraft Noise Monitoring Advisory Committee (ANMAC) is not sufficient application of such work. This leaves the thirty-year old ANIS study as the policy basis for an industry in which the number of passenger kilometres flown by UK airlines has increased from 80 billion in 1985 to 287 billion in 2005.\(^\text{113}\) There is an urgent requirement for an update in noise policy, and further work to consolidate the findings of ANASE; for example, the presentation of noise metrics to the public.

34. **Educational costs**

In an educational setting, chronic exposure to aircraft noise was significantly related to poorer reading and mathematics performance (Stansfield et al, 2005).\(^\text{114}\) Pupils who cannot hear their teachers may have their personal and educational development compromised. This retardation may have associated impacts in terms of additional learning support needed from the state, and longer-term impacts on the breadth and depth of skills available in the UK workforce.

35. **Health impacts**

Aviation has local health impacts, stemming primarily from poor air quality and noise; there are associated costs to society of treating these impacts. A four-year EU study\(^\text{115}\) to assess the impacts on cardiovascular health of noise generated by aircraft and road traffic, reported in 2008 that those exposed to aircraft noise—especially at night—were at increased risk of hypertension, and therefore risked developing heart disease, stroke, kidney disease and dementia. In conjunction with associated respiratory illnesses from poor air quality, treating these conditions puts financial strain on health infrastructure and may lead to reduced workplace productivity.

36. **Increased congestion**

The increasing congestion of road networks around major airports due to airport-related traffic comes from not only passengers but the numerous on-airport services (eg cargo/freight; on-board catering; retail outlets; car hire companies; maintenance and operational staff). This congestion results in poorer air quality for the area, wasted time and reduced productivity. Airport-related congestion burdens all local businesses and residents, whether connected with the airport or not. In congested urban conditions, the benefit of reduced traffic congestion is an average of over 45p per car kilometre removed.\(^\text{116}\) The appallingly slow progress of provision of surface access improvements, and the proportionally small component of travellers using public transport to get to airports, is of particular concern. High-quality surface access should precede the use of any new aviation infrastructure, and has yet to be adequately provided for existing aviation infrastructure.

37. SASIG concludes: The costs are much higher and more widespread than currently estimated. Higher standards need to be set.

Qu. 4b *What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?*

38. The inclusion of aviation in the European Emissions Trading Scheme (EU ETS) is one potential avenue for aviation’s environmental impact to be reduced. Unfortunately, the scheme proposed for aviation is predicted to only reduce the growth of carbon emissions from 142% to 135% by 2020\(^\text{117}\), yielding only a marginal reduction in the aviation industry’s CO2 output. The approach by the industry that they will be able to pay for CO2 cuts elsewhere in the global economy indicates that they are approaching the scheme,\(^\text{113}\) http://www.statistics.gov.uk/cci/nugget.asp?id=1104
within the cap of the average 2004-6 emissions, as “business as usual”. Two factors suggesting that this approach will fail are (i) the downturn across the industry, and the consequent reduction in funds available to pay for emissions reductions in other sectors, and (ii) the fact that the sectors already operating in the EU ETS have not yet achieved CO2 reductions, leaving it unclear how they will provide further cuts once aviation is included in the scheme as a net consumer of permits to pollute.

39. The UK’s European Union Select Committee reported in January 2006: “If aviation enters the ETS, technological improvements in the aviation industry will become even more urgent in order to reduce emissions while maintaining growth in air travel and airfreight.”

118 Technological improvements form only one part of the range of measures needing to be pursued in order to address aviation’s environmental impact. The Department of the Environment, Transport and Regions commissioned a study into the potential impact of changes in technology on the development of UK air transport. This study found that whilst improved aerodynamics, material usage, engine efficiencies and combustors could reduce emissions and noise, the 2% reduction per annum that these measures would provide was insufficient to offset the 5% per annum growth in air traffic, leading to net increases in environmental impact, even when taken in conjunction with other operational measures such as improved airspace management.

40. The Climate Change Act 2008 calls for reductions of 80% in the UK’s net carbon emissions by 2050 in order to stabilise warming at 2 degrees. International aviation will be part of the targets for year on year carbon reductions, yet it will not be subject to meeting carbon budgets, as will be the case for other industries.

41. SASIG concludes: Other sectors will have to make deeper cuts to account for the growth in aviation emissions. They may not consider this to be fair. The additional impacts of NOx, contrails, and other gases emitted at altitude have yet to be addressed.

**Qu. 5a What is the impact of taxation on the aviation sector nationally and regionally?**

42. Airlines are relatively insulated from taxation—Avtur and Avgas duties are very low, and other fuel duties are not levied. Unlike other EU states, the UK does not charge VAT on domestic aviation fuel. The UK Air Passenger Duty is passed on to passengers, and makes minimal difference to the cost of long-/mid-haul flight prices. Short-haul flights operated by low-cost airlines frequently add airport taxes and additional charges on top of advertised ticket prices, yet this sector has weathered the current economic climate fairly well.

43. Air Passenger Duty (APD) has been argued to unfairly impact those using regional airports. Because of the current provision, regional passengers may have to pay the duty twice—once when flying to London airports, and then again when connecting to international destinations. Again, the paucity of direct international flights from regional airports may disadvantage their economies.

44. SASIG welcomed the Government’s attempts to more accurately capture the environmental costs of flights and bring freight aircraft within the taxation regime in their proposals for Aviation Duty (AD). The jettisoning of AD represents a leap backwards for the environmental prospects of aviation, with short-haul flights attracting the lowest tax levels despite being the routes most appropriate for rail-substitution, as well as being the least efficient in terms of fuel use and therefore emissions. However, it is possible AD could have reduced the viability of some new routes at regional airports, which generally rely on short-haul flights.

45. The Government has been guilty of double counting the benefits of APD, which is not an environmental but a general tax, and yet was used to demonstrate that the industry was covering its environmental costs as part of the Emissions Cost Assessment (ECA). The Government cannot have it both ways—if APD is to provide any environmental benefit, they must reconsider their stance on the hypothecation of these revenues, and introduce sufficient charges to either curb or mitigate against emissions increases. This will at least make a move towards funding the sums required to address the full range of aviation’s environmental impacts.

46. There is currently no tax levied on airlines for the purchase of new aircraft. Whilst this may be seen to encourage fleet renewal of the kind necessary to improve emissions and noise ratings of aircraft, the overall cost per unit is high enough that any fleet renewal is likely to be too slow to be effective. The Treasury derives no benefit from these arrangements.

47. SASIG concludes: APD should be hypothecated to ensure that aviation benefits are passed back to the wider community.

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120 Climate Change Committee (Dec 2008) Inaugural report – “Building a Low-Carbon Economy—The UK’s Contribution to Tackling Climate Change”.

Qu. 5b Are passengers adequately protected from the collapse of airlines?

48. Passenger protection from the collapse of economically unviable airlines is not within SASIG’s scope.

Qu. 6 What is the impact on the aviation sector of changes in the security environment?

49. Following sustained high terrorist attack threat levels in the UK, and the introduction of more stringent security measures, the aviation sector will have had to provide increased security services, some of which will have been drawn from specialist police forces. This increased cost is essential for staff and customer protection. In some cases, this cost is funded by local ratepayers or via a central grant. In the cases of airports designated under the Civil Aviation Act 1982, this is partially funded by the airport operator. The cost of policing airports, where this is passed on to the taxpayer, should be considered in terms of the burden it may place on local authority resources.

50 SASIG concludes: SASIG welcomes the review of airport policing\textsuperscript{122} and the proposed absorption of many large airports into a regime whereby funding for policing costs can be negotiated locally.

February 2009

Memorandum from British Air Transport Association (FOA 29)

INTRODUCTION

1. The British Air Transport Association (BATA) welcomes the opportunity to submit written evidence to the House of Commons Transport Select Committee Inquiry into the “Future of Aviation”.

2. BATA is the trade body for UK registered airlines. Our 10 members cover all sectors of the airline industry—including freight, charter, low fare and full service. In 2007, the most recent full year for which statistics are available, they represented over 85% of airline output measured in available tonne-kilometres, operated over 70% of the UK commercial airliner fleet and employed over 70,000 people.

3. This submission is BATA’s view and it may not always represent the totality of the views of each of our individual member airlines but outlines our collective position where we are able to arrive at one. We are aware that several of our member airlines will be submitting their own evidence to the inquiry.

SUMMARY

4. In summary:
   - Aviation is vital to the UK and faces increasing competition from overseas.
   - Current aviation infrastructure in the UK is not adequate for the country’s needs.
   - For most journeys, rail is a complementary, not alternative mode to air travel and we strongly support linking our national hub at Heathrow with the national rail network.
   - Aviation does impose costs on the environment. The Government’s own figures demonstrate that APD more than covers these costs.
   - For UK aviation, which is predominately internationally focused, the importance of a global method of tackling climate change is paramount.
   - Government should not take action which will undermine the UK’s ability to compete in an increasingly international industry.

What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

5. Aviation is incredibly important to this country. The United Kingdom is an island trading nation with specific historic, geographic and demographic reasons why it is has a well developed and well respected aviation industry.

6. Research conducted in 2006 by Oxford Economics Forecasting (now Oxford Economics) found that aviation:
   - employed 186,000 people directly and supported a total of 520,000 jobs in the UK in 2004;
   - contributed £11.4 billion to UK GDP, 1.1% of the overall economy in 2004; and
   - facilitates tourism, fosters business links and trade and is responsible for carrying key items of freight and cargo. 55% by value of the UK’s exports of manufactured goods to countries outside

the EU are carried by air. More than 60% of imports by value from outside the EU are carried by air. In 2007, travel by air accounted for 77% of total visits to the UK and spending on visits by air accounted for 86% of the total spending of £16 billion made on visits to the UK.

7. Each airport has its own role, reflecting specific issues such as catchment area, history and business model.

8. Heathrow has a unique role as the UK’s only major international hub airport with 180 destinations, 67 million passengers and over 470,000 movements. It has flights to many destinations not served by other UK airports, including important destinations in the developing economies such as Mumbai, Shanghai, Beijing and Sao Paulo. Other London airports have developed specific functions and markets:

9. UK airports serve an increasingly diverse capital and nation. A third of London’s population and over 7% of the UK population were born overseas. Around six million Britons live overseas in places such as Spain, Australia, South Africa, New Zealand and the USA. These connections with the rest of the world create significant demand for air travel in to and out of the UK to visit friends and relatives.

10. Manchester is the only other UK airport with significant long haul routes available, although these are currently reducing in number.

11. Airports in other UK regions provide predominately short haul flights UK and inter-regional services. Stansted and East Midlands airports are important freight hubs, along with Heathrow.

12. Airports also play a very important economic role in their regions. They are recognised as providing a channel for inward investment, transport links with the outside world, are attractive for employers and businesses and of course a source of employment. In some locations such as Flybe’s Exeter engineering operation they provide high skilled jobs and a genuine economic motor for the locality. Airports and the links they provide in geographically remotest areas such as the Highlands and Islands and Cornwall are vital for local communities.

13. There is no doubt that Heathrow faces constant competition from international hub airport rivals such as Amsterdam Schiphol, Frankfurt, Paris Charles de Gaulle and Madrid who have been increasing their capacity over the last 20 years (see Table 1). Dubai is also a developing global hub, styling its new six runway airport as “Dubai World Central”.

<table>
<thead>
<tr>
<th>Destinations</th>
<th>Passengers (Millions)</th>
<th>Runways</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heathrow</td>
<td>180</td>
<td>67.5</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>265</td>
<td>52.8</td>
</tr>
<tr>
<td>Paris CDG</td>
<td>223</td>
<td>56.9</td>
</tr>
<tr>
<td>Schiphol</td>
<td>260</td>
<td>46.1</td>
</tr>
<tr>
<td>Madrid</td>
<td>166</td>
<td>45.5</td>
</tr>
</tbody>
</table>

*A fourth runway was approved on 16 January 2009.

14. Carriers based overseas are providing direct services from UK regional airports to feed into their own hub airports (such as Cardiff to Amsterdam, Newcastle to Dubai etc), bypassing Heathrow and allowing them to develop and maintain “thin” routes.

Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

15. No. Heathrow, our international hub airport is full, operating at 99% capacity. A third runway, given the go-ahead by the Secretary of State for Transport on 15th January, after much consultation and consideration is a vital development. Improvement of Heathrow is important for individual and business travellers.

16. BATA is disappointed that mixed mode at Heathrow was not given the go ahead by the Secretary of State for Transport. This would have provided short term improved resilience, through more efficient use of the runways, some interim increase in capacity and a reduction in emissions.

17. There has been no new runway built in the South East of England since the end of World War Two. Indeed Manchester is the only significant airport to build a new runway in this time frame. Given the expected growth in demand and in order to maintain adequate services to a wide range of routes in UK and rest of world, BATA believes a further runway in the South East of England is needed in addition to the third runway at Heathrow. In our view Gatwick is a priority for the location of this extra runway. Even with two more runways, air travel demand in the South East will remain constant. We accept government forecasts of growth in the medium to long term.
18. BATA believes that will there is not an immediate shortage of runway capacity at airports in other regions of the UK, we believe that other associated infrastructure will be required over the next twenty years.

19. Increased Air Traffic Management (ATM) capacity is needed in order to manage current and future demand. This should allow for a low level of delays and better environmental performance. NATS is investing to accommodate this, including redesigning air routes and improvements to technology.

20. We fully support greater investment in public transport surface access links to airports. Air Track and Crossrail at Heathrow are notable examples of such schemes.

21. We are not in a position to comment on possible mergers, except to say this trend is likely to continue—as evidenced by the KLM/Air France involvement with Alitalia and Lufthansa’s with Swiss, Brussels, bmi and Austrian. Greater international consolidation is to be expected, a trend compounded by the harsh operating conditions which has seen over 30 airlines globally enter administration or similar arrangements in the last 12 months. Closer to home the UK has also seen consolidation—with BMED being bought by bmi and easyJet absorbing GB Airways, while Flybe took over BA Connect. The charter sector has recently seen mergers between My Travel and Thomas Cook and also First Choice with Thomsonfly (forming Thomson Airways). We have also seen the failure of Silverjet in May, Zoom Airlines in August and XL in September of 2008.

22. International ownership restrictions will need to be relaxed and liberalized if air transport is to develop in a commercially sustainable way.

To what extent can rail provide an alternative to short-haul flights?

23. Rail is complimentary to short haul air travel and we do not believe that it currently offers a credible or practical alternative for all short haul flights.

24. We recognise that on some routes, for instance London to Paris/Brussels, air passenger numbers and flights have reduced since the advent of a high speed rail link between those cities. However, we understand that for rail journeys in excess of several hours, an air option is generally seen as preferable by the public. This attitude to modal transport shift, together with the UK’s geography, limits the possibilities for rail replacing air travel.

25. Over 70% of passengers on Manchester to Heathrow air services are transiting through Heathrow to or from other international destinations and about half of passengers on other domestic routes into Heathrow are also changing flights there. If high speed rail was available direct to Heathrow from Manchester and Leeds some of these transfer passengers would switch to rail. However, there are significant issues that would need to be resolved around transporting luggage, security demands and check-in on such services in order for it compete with air services.

26. Passengers travelling by air often do not wish to go to or from a city centre. If they are travelling from airport catchment area to airport catchment area, flying will be more convenient for them.

What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

27. We accept that as with any powered transport mode and virtually all industrial activity, aviation does have associated costs for society and the environment. These include noise, local air quality, climate change impact, land take for airports and associated infrastructure, surface traffic to airports.

28. In the 2003 Aviation White Paper, the Government published work showing that climate change costs were by far the most significant of these. We agree with the White Paper’s findings that air quality and noise are best addressed by ensuring environmental limits are maintained. However, the industry will continue to mitigate and compensate for these local impacts. UK aviation (including international and domestic flights) accounts for around 6% of UK CO₂ emissions. Emissions from domestic aviation, accounting for about 0.4% of the UK total, fell by over 6% in 2007. International aviation emissions fell by just under 2%.

29. Regarding climate change, the industry recognises its contribution and wants to be part of the solution. Airlines, air traffic management providers and aerospace manufacturers will continue to improve the fuel efficiency of flying and we seek inclusion in the relevant international and global schemes that are designed to control overall CO₂ emissions and seek long term reductions at the lowest economic cost.

30. As part of that process, all sectors of the industry came together in 2004 to create Sustainable Aviation, a long term strategy which sets out the collective approach of UK aviation to tackling the challenge of ensuring a sustainable future for our industry. The initiative published its CO₂ Roadmap at the end of 2008, an assessment of CO₂ emissions from UK aviation, which showed that emissions of CO₂ from our sector can be reduced to 2000 levels by 2050.

31. BATA supports the inclusion of aviation in the EU Emissions Trading Scheme (EU ETS) from 2012 as a useful first step towards a global approach to managing carbon emissions. We believe that international cap and trade systems are the most practical, efficient and logical tools for addressing the challenge of climate change.
32. We accept the inclusion of domestic aviation within the remit of the Climate Change Act 2008, but do have reservations concerning international emissions such as how will the control mechanisms operate and how will international emissions be calculated. Finally we wish to stress that we also acknowledge the recently announced government aspiration that UK aviation emissions should return to 2005 levels by 2050 and will be doing all we can to ensure this objective is achieved.

What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

33. Air Transport in the UK already more than covers its climate change costs through Air Passenger Duty (APD), as confirmed by the Government in its Aviation Emissions Cost Assessment, published in July 2008. APD raises about £2 billion each year and the proposed increases APD rates will increase this by about 35% over the next two years. We note that in the last two years, government has started to refer to the requirement for the industry to also contribute to wider societal costs and support public services. No other form of public transport is required to pay such costs through taxation and we question why aviation should be the exception.

34. Aviation does not pay duty on fuel nor do passengers incur VAT on tickets. VAT is not applied to tickets on other transport modes such as trains or coaches and we fail to see why aviation should be singled out. Likewise, fuel duty is not paid on jet fuel—though duty on train diesel and other public transport modes is only minimal. Indeed rail and bus networks were directly subsidised by the taxpayer to the sum of over £5 billion in 2007–08. The UK cannot unilaterally impose duty on fuel for international flights because of international law barring such action.

35. Aviation pays its own way—airport infrastructure, aircraft and air traffic management are all funded by the industry and indirectly by the passengers we carry. There is no demand on the Exchequer, aside from some minimal funding for Public Service Obligation (PSO) or “life line” routes in Scotland and Wales.

36. APD is virtually unique—certainly in the amount in raises. Only a handful of other countries have or are planning to introduce such a tax (Belgium has recently backtracked on its plans to introduce one—Ireland is planning to do so from March this year, but only at rate of 10 Euros for international flights and the Netherlands has one, though designed to reflect Schiphol’s importance as a hub airport).

37. We would like to bring to the Committee’s attention the proposal from Ofcom to charge a tax on the use of radio frequencies by the aviation sector. We agree with the International Air Transport Association (IATA) that this is “simply a means of generating revenue through a tax that would neither remedy any infrastructure or spectrum problem, nor benefit the UK or international airline community.”

38. We do not propose to respond in detail to the question regarding protection of passengers in the event of airline failure. However, we believe that generally the industry repatriation and rescue response to such failures when they do occur is rapid, effective and efficient.

39. We would suggest that nationally based financial protection schemes are very difficult to implement without detailed consideration being given to the entire range of criteria that may apply, such as on-line booking, varying national credit laws, nationality or residency of passengers, ownership of the carrier etc.

40. We do recognize that more could be done by all parties to provide greater clarification, information and education to the public regarding the legal and compensatory framework that applies to each particular situation.

What is the impact on the aviation sector of changes in the security environment?

41. BATA regularly engages with the relevant agencies and stakeholders on security issues. Given the sensitive nature of this policy area will give only a top-level response to this question.

42. We and our member airlines completely appreciate the need to adopt and enforce a robust and rigorous security regime. Since August 2006 security issues measures on air transport have become a lot more visible and inconvenient for the travelling public and have resulted in a significant increase in industry costs. Hence, the need for proportionate and considered security regulation has never been higher.

43. An increase in the number of regulations, the consistency and degree to which they are enforced and how frequently they are altered all have a significant and usually negative impact on the sector.

44. The imposition of different regulations in different countries also has a detrimental effect upon the passenger experience, causing confusion and incurring costs for the industry. Unilateral imposition of security requirements can have an anti-competitive effect if carriers and airports in other states benefit from not being required to adopt them.

45. The immediate “overnight” introduction of new more rigorous regulations can cause unavoidable problems given possible lack of necessary equipment, not enough staff and even sometimes because of simple confusion and misunderstanding.
46. The introduction of the UK Government’s “e-Borders” scheme and various forms of pre-flight passenger data requirements from other countries continue to add to the regulatory and financial burden on airlines.

47. BATA opposes the planned introduction of National ID Cards for airport airside workers, until clear benefits for the industry can be demonstrated. These would include integrated criminal record checks with other EU national authorities and portability of use at all airport sites, effectively replacing the need for individual airport airside passes.

48. More resources could be committed by government to provide faster service at the Immigration and to expedite clearance of passengers. Agencies should continue to consult and liaise with airports and carriers and work in partnership to ensure safe and secure air travel for the public. General and terrorism related policing costs at airports should be met more by government. The requirement for “gold-plated” regulations should also be questioned and measured with risk assessments and analysis. UK air transport requires a level playing field with the rest of the world and our competitors.

CONCLUSION

49. Aviation is by its very nature an inter-connected and complex global activity. Chauvinistic national approaches to dealing with the industry are becoming more and more redundant and outdated. For the UK to propose new extortionate rates of APD, start to develop a national emissions allocation and budget mechanism for international aviation or for Europe to signal fail to push forward the Single European Sky project and enhance European airspace are all examples of barriers to trade and an efficient air transport network.

50. Policy makers and politicians must recognize that if the UK relinquishes its lead in the sector—through a mixture of taxation, failure to allow investment in infrastructure, overly burdensome environmental legislation and increased red-tape, then there are plenty of other countries, airlines and airports who will be more than happy to step forward and take our place. The UK will have suffered damage to its economy, lost links to the rest of the world, becoming a less attractive country to invest and do business in, while at the same time doing nothing to reduce overall emissions and tackle climate change on a global level. This would surely be a lose/lose scenario.

February 2009

Memorandum from The Tees Valley Joint Strategy Unit (FOA 30)

SUMMARY

— The Tees Valley Joint Strategy Unit is funded by Darlington Borough Council, Hartlepool Borough Council, Middlesbrough Borough Council, Redcar and Cleveland Borough Council and Stockton on Tees Borough Council to develop on their behalf strategic Tees Valley wide policy on economic development, planning, housing, tourism and transport. The Unit also acts as a secretariat to Tees Valley Unlimited, a sub regional partnership with the private sector.

— The Tees Valley economy is based on the largest integrated process industrial complex in the UK based on a world class petrochemicals/energy/biofuels industry, the third largest port in the UK and a world class advanced engineering industry. The petrochemicals industry alone contributes £3.5 billion to the UK economy and 70,000 jobs in the UK depend on it. £4 billion of investment in the complex is expected in the next five years.

— International connectivity is vital to the industry. Most of the major firms in petrochemicals are foreign-owned multi-nationals—SABIC, Dow, Huntsman, Growhow etc. The advanced engineering industry depends on international air links to reach markets. The direct flight from Durham Tees Valley to Heathrow and Amsterdam are vital to both industries to travel to markets and for head offices to reach them.

— The closure of the Durham Tees Valley—Heathrow service will directly impact on the Tees Valley economy. 88,000 people used the service in 2007 of which 24% were business passengers interlinking with other services at Heathrow to reach destinations around the world. The cost to passengers of the withdrawal of the service is £2.3 million/year and to the business community £1.4 million/year.

— The key factors in BMI’s decision to terminate the flight are the charging structures at Heathrow and the recent increases which favour long haul flights at the expense of short haul flights. BAA is unique in that its landing charges are the same regardless of the type of aircraft thereby pricing small aircraft for regional services out of Heathrow. Because of the lack of capacity at Heathrow, airlines can also produce greater profits from long haul flights than regional flights.

— Because Heathrow is the only UK airport with connections to all over the world, it is the only UK airport of importance to the global business traveller. Consequently, the introduction of alternative
The Tees Valley Joint Strategy Unit

1.1 This submission to the Transport Committee's inquiry on the Future of Aviation has been prepared by the Tees Valley Joint Strategy Unit on behalf of the five Tees Valley authorities—Darlington Borough Council, Hartlepool Borough Council, Middlesbrough Borough Council, Redcar and Cleveland Borough Council and Stockton on Tees Borough Council—and Tees Valley Unlimited, a partnership of the Tees Valley authorities and the private sector.

1.2 The Tees Valley Joint Strategy Unit is funded by the Tees Valley authorities to develop strategic Tees Valley wide policy on economic development, planning, housing, tourism and transport and acts as a secretariat to Tees Valley Unlimited, a partnership of the Tees Valley authorities and the private sector concerned with improving the economic performance of the Tees Valley.

The Tees Valley Economy and the Airport

1.3 The economy of the Tees Valley is based on the largest integrated process industrial complex in the UK based on petrochemicals, energy/renewable energy/biofuels, steel making, a port which is the third largest in the UK and a world class advanced engineering industry based on the design, construction and maintenance of petrochemical plants, steel works, power stations and major infrastructures such as bridges. In addition the region has in the Wilton Centre, Europe's largest non-military private sector research centre. The petrochemical industry alone contributes £3.5 billion to the UK economy and 70,000 jobs in the UK depend on it.

1.4 To give an example of the world scale of this industry the Saudi Basic Industries Corporation (SABIC) is constructing the world's largest low density polyethylene plant at Wilton, an investment of £200 million. The Biofuels Corporation operate the world’s largest biodiesel plant at Seal Sands and ENSUS are currently constructing the world's largest bioethanol plant. In addition, there is an expected pipeline of £4 billion in renewable energy plants, biofuel plants and advanced engineering.

1.5 It is important to recognise that the integrated chemical complex formally in the ownership of ICI is now owned by 26 separate multi-national companies such as SABIC, Dow, Huntsman, Apecia, Johnson Matthey, Growhow for whom air connections to these plants are important. For the world class advanced engineering companies such as AMEC, Whessoe, Aker Kvaerner, Cleveland Bridge, K Home Engineering, our links to international markets are vital.

1.6 The region sees Durham Tees Valley Airport as an important asset which can by itself attract development using the airport to drive the economy. Planning permission was given last year for the development of the Skylink International Business Park to provide large units for industry in the logistics area which will use the airport. Peel Holdings propose to invest £110 million in the first phase of a development which will provide 2000 jobs. One NorthEast and the Homes and Communities Agency are providing gap funding for the scheme.

1.7 To a region like the Tees Valley, the proximity of an airport with links to international hubs like Heathrow and Schiphol is absolutely vital to the future growth of an economy which depends on future investment by global industries and which has a global market for its advanced engineering services. The announcement by BMI of the withdrawal from the 28th March 2009 of the Durham Tees Valley to Heathrow service will have a detrimental effect on the Tees Valley economy and therefore the competitiveness of the Tees Valley economy in world markets. The prime reasons for the withdrawal of the route has little to do with the Tees Valley economy but more to do with BAA pricing policy.

1.8 BMI in their press release stated:

"The operational efficiencies of the routes have been severely challenged with changes to charging structures and cost increases implemented by BAA at Heathrow deliberately targeted towards short haul flying. This has led to price increases to bmi that are way over the rate of inflation. All these factors coupled with the introduction of higher Government imposed APD (air passenger duty) charges for air travellers have increasingly marginalised those choosing to fly. This has reduced the competitiveness of air travel against other forms of transport such as Government subsidised rail travel. The fact is that due in the main to BAA's inflation-busting increases and changes to its pricing structures that place a considerable disadvantage on short haul flights, travellers in the North of England are losing their important links to Heathrow. Instead of Heathrow they will now have to rely on European airports such as Amsterdam, Brussels and
Frankfurt to connect to worldwide destinations. BAA, through its tactics, would appear to want to completely cut itself off from the UK regions. This is a strategy that will inevitably have a negative impact upon the economic growth and inward investment in those key areas.”

1.9 In our memorandum we will show the impact the removal of the Heathrow service on the economy of the Tees Valley and the changes in Government policy required to allow regional connectivity to be maintained.

1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

1.10 The Durham Tees Valley to London Heathrow service is operated by BMI. It provides a link between Tees Valley and the airline’s main base at Heathrow, the UK’s only true hub airport. The service is, therefore, both important in providing access to London and in enabling onward connections via Heathrow’s route network to the rest of the world. In 2007 the service was used by 88,000 passengers of which about half were travelling to points beyond Heathrow i.e. interlinking with other services. The route is heavily used by business passengers (60%). 24% of passengers were interlinking with other services at Heathrow for business purposes.

1.11 In April 2008, the Tees Valley Joint Strategy Unit commissioned York Aviation to carry out an economic assessment of the impact of the withdrawal of the Durham Tees Valley—Heathrow service. This study shows:

— Across all passenger segments the withdrawal of the service would have resulted in additional costs to passengers using the service of about £2.3 million in 2007;
— The great majority of these losses would be borne by Tees Valley residents who would incur as a result of closure around £1.5 million of additional time and fare costs in 2007;
— Tees Valley business users would have been particularly disadvantaged as the result of the withdrawal of the service facing additional costs of around £1.4 million per annum; largely because of additional time costs by users currently interlinking at Heathrow and by higher fare costs on point to point travel, primarily relating to the cost of rail fares versus air costs.

In short there is estimated to be an extra additional cost of £1.4 million year to Tees Valley businesses as a result of the loss of the Heathrow flight.

1.12 The key factor in BMI’s decision to terminate the Heathrow flight is charging policy at Heathrow. At most hub airports around the world domestic and short haul services happily co-exist with long haul networks. Landing charges are based on the take off weight of the plane with smaller aircraft having lower landing charges than larger aircraft. At Heathrow landing charges are the same regardless of the size of the aircraft. At Heathrow the airport is operating at capacity. Airlines make more money from long haul flights than short haul flights and therefore are keen to use scarce slots for these flights.

1.13 For BAA a key driver of its financial performance is its ability to maximise ancillary revenues from areas such as retail or catering. Central to achieving this is maximising passenger throughput at the airport. It is, therefore, in the interests of BAA to encourage larger aircraft to operate from the airport at the expense of smaller aircraft, considering that it has extremely limited opportunities to grow the number of aircraft movements.

1.14 The existing charging structure at Heathrow reflects these incentives. In the table below an analysis is set out of the effective per passenger charge that would apply at Heathrow for three different aircraft types. We have included an Embraer RJ145 and an Airbus A319 operating domestic services (domestic services attract a lower per passenger charge). These two aircraft types have been used recently on the MME to LHR route. We have also included an Airbus A330, the main type of aircraft used by bmi for medium and long haul services.

1.15 This analysis demonstrates this effect quite clearly. The smallest aircraft, the RJ145, results in, by some margin, the highest per passenger airport charge, despite the fact that operating a domestic service reduces its per passenger charge rate. With the A319 operating a domestic service, its per passenger airport charge liability is slightly below the charge for an A330 operating an international route. However, this is quickly reversed if both aircraft are assumed to operate international routes. The A319’s per passenger airport charges rose to around £10.42, significantly above the £8.68 for the A330 passengers.

1.16 The differential comes from the unusual structure of the landing fee at Heathrow. Essentially, the landing fee is largely fixed whatever the aircraft type. Only if an aircraft is exceptionally quiet (and usually small) does it gain any reduction in landing fee or conversely if an aircraft is exceptionally noisy does it incur a higher landing fee. Therefore, it is possible to spread the landing fee cost across a much larger number of passengers with a larger aircraft. More normal practice by airport operators is to charge landing fees on the basis of the maximum take-off weight of the aeroplane, thereby making larger aircraft pay more.
1.17 In operating the rise in charges with the cap, BAA will seek to recover the full extent of the increase from airlines and charge up to the cap. BAA will also continue to structure its charges to favour large aircraft. On the basis of the charges proposed by BAA our consultants estimate that the rise in airport charges results in a 6.4% increase in the operating cost for the Durham Tees Valley—Heathrow service compared to 0.8% from Heathrow to the Middle East. Hence the rise in charges has a substantially greater impact on operating margins for short haul services which combined with the substantial incentive for operators at Heathrow to switch slots to long haul services has resulted in the loss of the Heathrow—Durham Tees Valley flight.

1.18 In response to these pressures BMI puts pressure on regional airports to reduce landing charges. Because of the importance of these flights landing charges are reduced to a low level at regional airports. There is now no scope for further reductions. Consequently increases in landing charges at Heathrow make regional airports less profitable.

1.19 Our consultants used a connectively index to identify the loss of connectivity by the loss of the Heathrow service leaving only Amsterdam as the major hub serviced from Durham Tees Valley. The result is that there are no direct links to Australasia from Amsterdam, and reductions in connectively to the Middle East by 45%, Asia (27%) and North America (31%). The reduction in the Middle East connectivity is particularly significant for the petrochemical industry.

1.20 Representations to Government have been made on these issues but the regulators seem unwilling or unable to intervene to safeguard links from Heathrow to regional airports. The result is that despite Heathrow being one of the best connected airports in the world, businesses based in the Tees Valley will no longer be able to feed into Heathrow by air. PSA Target 7 is to improve the economic performance of all English regions and reduce the gap in economic growth rates between regions. How can this be achieved if Government disadvantages peripheral regions with world class industrial sectors if they fail to regulate airports to safeguard links to regional airports? Why cannot the CAA improve a differential pricing structure on BAA based on the take off weight of aircraft in order to protect regional links?

1.21 The Tees Valley authorities have been pressing the Department for Transport to consider a Public Service Obligation. The Department for Transport’s White Paper—The Future of Air Transport—published in December 2003 sets out Government policy on the issue of slots at London airports. Paragraph 4.44 states that:

"In recognising the importance of regional services, the Government is prepared to intervene in well defined circumstances to protect slots at the London airports for such services by imposing Public Service Obligations (PSOs). The imposition of a PSO enables the slots used for that service to be ‘ring-fenced’, so that an airline cannot use them for a service to an alternative destination. The rules for imposing PSOs are set out in European regulations (Regulation 2408/92 and Regulation 95/93). 4.45—The Government will apply PSOs where, in accordance with the existing EU Regulation 2408/92, three criteria are met:
— The route is to a peripheral region, or to a development region, or is a “thin” route; we will consult shortly on the details of this.
— The air service concerned is vital to economic development for the region; and
— A PSO is required to ensure an adequate level of service. We will be consulting regional stakeholders and the aviation industry shortly on an appropriate definition of ‘adequate’ bearing in mind the importance to travellers of services at both peak and off peak times.”

1.22 The Department seems very reluctant to go down the Public Service Obligation route. A critical issue is costs which the Department require to be funded by either a local authority or a regional development agency.
2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

1.23 In the case of the Durham Tees Valley—Heathrow example, it has been suggested that Manchester, Newcastle, Gatwick and Stansted could be used as an alternative. Newcastle Airport is 90 minutes from the Tees Valley and the Heathrow flight is under the same pressures as Durham Tees Valley in the medium term. Newcastle does not offer sufficient connectivity to other European destinations to replace the Heathrow link. Manchester is $2\frac{1}{2}$ to 3 hours drive away from the Tees Valley and its range of destinations has been reduced by the withdrawal of British Airways European services from the airport. Gatwick, Stansted and London City are fine for passengers just travelling to London but business travellers look to interlink and these three airports have little interlinking capacity. It is vitally important that regional flights to Heathrow are safeguarded and that the Third Runway takes place to give capacity for regional services long term to be reinstated to Heathrow.

3. To what extent can rail provide an alternative to short haul flights?

1.24 At the present time the normal journey time from Darlington to Kings Cross is $2\frac{1}{2}$ to 3 hours. To reach Heathrow, it is necessary to use the Piccadilly line or the Circle line to Paddington and the Heathrow Express. Both routes add a further hour to the journey time. This compares to a direct flight of about one hour. If Manchester Airport is used the normal rail journey time is two hours 40 minutes from Middlesbrough and about three hours by car. There is little prospect within the next 10 years of any improvements in these times. Only in the long term could a high speed train service from Heathrow to the north or a new Trans Pennine line from Manchester make any appreciable difference.

5. What is the impact of the taxation on the aviation sector nationally and regionally?

1.25 The Tees Valley authorities accept the principle that taxes and charges should be used as a mechanism to internalise environmental externalities of transport when this cannot be achieved through market mechanisms. The Tees Valley authorities welcome the Emissions Trading Scheme due to be introduced in 2012. However they consider that the Air Passenger Duty should be repealed in 2012 because it would act as a second measure of taxation in addition to Emissions Trading—a sort of double taxation.

1.26 However, the Tees Valley authorities remain concerned about the impact of APD on the cost of air travel from northern airports and how this influences the development of air services from the North. Given the mix of business and leisure passengers and the traffic volumes, evidence indicates that scheduled routes from Northern airports are more finally marginal than similar routes from London airports. The planned increases in APD for 2009 and 2010 will continue to increase the total costs of air travel, having the potential to reduce demand and detrimentally impact the economics of key routes to the North of England, at a time when the recession is already putting significant pressure on the economics of regional air services. This is an area that merits further research and consideration by the Government. In the meantime, the Tees Valley authorities would support a holiday from the scheduled increases in APD for regional airports over the period 2009 to 2012.

6. What is the impact of the aviation sector of charges of the security environment

1.27 The North’s airports are incurring significantly higher costs associated with changes in the security environment and increased requirements from aviation security checks and processes. This is one of a number of incremental costs being incurred by the North’s airports. In some European countries these additional security costs are not incurred by their airports, as it is a cost covered by the State. As airports compete for air services, and the hosting of aircraft, these additional costs put the North’s airports at a competitive disadvantage.

A copy of the report prepared by York Aviation for the Tees Valley Joint Strategy Unit, “Economic Impact Assessment of the Durham Tees Valley to Heathrow Service”, is available on request.

February 2009

Memorandum from the Air Transport Users Council (FOA 31)

INTRODUCTION

The Air Transport Users Council (AUC) is the Civil Aviation Authority’s consumer council, representing the interests of UK air passengers. The AUC’s comments are limited to those areas which have a direct impact on passengers. It is not in a position to provide a detailed response to all questions, particularly concerning the value of aviation to the UK economy.
**Summary**

— London and regional airports all have a vital role in facilitating competition between airlines on a network of domestic and international routes, giving passengers access to a wide range of routes and fares.

— The competition to Heathrow from European hub airports has provided UK passengers with more choice of routes, and potentially lower fares, to a number of destinations. However, a thriving and successful hub airport in Heathrow is essential to provide international connections for passengers from all parts of the UK.

— The current UK aviation infrastructure, particularly in the south-east, is not sufficient to handle the predicted increase in demand.

— Mergers might raise competition concerns; but may conversely give airlines a sounder economic footing and potentially lead to fewer incidents of passengers being stranded abroad or being out of pocket as a result of airline failures.

— Rail travel sometimes provides a valid alternative to air travel. But the case for rail replacing short haul air travel would be stronger if interconnectivity between the two forms of transport were improved; for example, by improving high-speed rail access to Heathrow.

— UK policy should take an international and cross-sectoral perspective on the economics of climate change.

— The economic viability of routes from the regions is potentially jeopardised by increases in the level of taxation because these routes are generally operated by no-frills airlines with lower fares. The planned increases in APD from 2011, however, are likely to hit hardest those passengers on the cheaper long haul fares, such as transatlantic flights.

— Passengers are currently not adequately protected from the financial risk to them of a failure of a scheduled airline. The current economic climate makes the issue of protection against the financial failure of schedule airlines more pressing than in recent years.

— The impact on passengers of changes in the security environment in 2006 was longer queue times at security checkpoints and inconvenience and confusion caused by the restrictions placed on the carrying of liquids in hand luggage. In the longer term, passengers need the industry to continue to maintain high levels of protection with minimal inconvenience to passengers' journeys.

1. **What is the value of aviation to the UK economy? What are the roles of London and regional airports? What competition do they face from abroad?**

   1. London and regional airports all have vital roles in facilitating competition between airlines on a network of domestic and international routes, giving passengers access to a wide range of routes and fares.

   2. The growth in no-frills airlines has fuelled the development of regional airports in recent years, providing passengers with an increasing number of point-to-point short haul routes and cheap fares without the inconvenience of connecting via a hub airport in London or continental Europe. But regional airports continue to have a role in proving feeder traffic to large hub airports for connections to both short and long haul destinations that are not viable from individual regions.

   3. There is not always sufficient demand to make direct services economically viable from regional airports and there are a large number of routes which can only be sustained from London airports, particularly Heathrow. A thriving and successful system of London airports is therefore essential to provide international connections for passengers from all parts of the UK.

   4. Feeder traffic is limited by constraints in capacity at Heathrow and, to a lesser extent, at Gatwick. So passengers from regional airports increasingly seek connections to long haul destinations via European hub airports. Competition from European hub airports has provided UK passengers with more choice of routes, and potentially lower fares, to a number of destinations. But it might have a knock-on effect of causing airlines to cut long haul services from Heathrow and Gatwick which are not economically viable without sufficient feeder traffic from regional airports.

2. **Is the current infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?**

   5. The Department for Transport, in its paper on “UK air passenger demand and CO₂ forecasts”, predicts that the number of passengers using UK airports will double by 2030. The current infrastructure, particularly in the south-east of the UK, is not sufficient to handle the predicted increase in demand. It is therefore in the passenger interest for there to be a coherent strategy to implement the Government’s commitment to increase airport capacity (as stated in its White Paper on the future development of air transport in the UK) so that the development of air transport infrastructure accommodates growing passenger demand, particularly in the south-east.
6. Airlines’ own data suggests that passengers are increasingly prepared to book direct with them and independently of travel agents. In addition, product innovations introduced by airlines suggest passengers are increasingly willing to give up frills and flexibility in return for lower prices, particularly on short haul routes. Recent press reports and anecdotal evidence appear to indicate that business class passengers might similarly be prepared to give up frills and flexibility in return for lower prices. This may cause full service airlines to cut business class cabins from short haul routes, with a consequent reduction in choice for passengers who value premium products.

7. The possibility of consolidation amongst airlines will raise competition concerns of possible market dominance on particular routes, potentially manifest in reduced frequencies and increased fares. In addition, the reduction of frequencies may also have implications for airports. Uncertainties caused by consolidation may affect the timing, scale and configuration of the provision of infrastructure.

8. But mergers between carriers might not necessarily lead to higher fares; they may give airlines more scope to implement costs saving benefits through economies of scale. And newly merged airlines could also provide more effective competition to other “strong” airlines. However, the most significant benefit for passengers might be that mergers would give airlines a sounder economic footing and lead to fewer incidents of passengers being stranded abroad or being out of pocket as a result of airline failures.

3. To what extent can rail provide an alternative to short-haul flights?

9. It will remain true—at least for the foreseeable future—that some journeys are best made by plane, some by car and some by rail. Rail travel is particularly suited to point-to-point travel or for transporting large numbers of people from one place to another, whilst air travel can provide more convenient and cheaper point-to-point connections for smaller numbers of people on certain journeys.

10. Considerations for people when deciding whether to travel by air or rail include cost and journey times. The increase in services by no-frills airlines on UK routes has meant that air travel can often be cheaper than rail. In addition, on longer distances, end-to-end journey times by air are generally shorter. The case for rail replacing short haul air travel would be stronger if interconnectivity between the two forms of transport were improved; for example, by improving high-speed rail access to Heathrow and introducing intermodal ticketing and luggage transfer.

4. What costs does aviation impose on society and the environment? What are the implications of the Climate Change Act 2008—for the aviation industry and infrastructure?

11. Climate change is a global issue that cuts across all sectors of industry and society. UK policy should take an international and cross-sectoral perspective on the economics of climate change. The Climate Change Act is a significant step on the UK’s path to cutting carbon emissions across all sectors.

12. However, the aviation industry is attempting to meet its own environmental challenges. It has a self-interest to do so, not least because of cost advantage of improved fuel efficiency. Individuals also have a personal responsibility to mitigate the impact of their own activity including the impact of their air travel on the environment. The AUC subscribes to the “polluters pays” principle where air passengers pay for the quantifiable costs to the environment of the flights they take. In practice this would be by costs imposed on airlines being passed on to passengers through airfares. But passengers already pay a significant sum in tax to the Treasury through Air Passenger Duty (APD) and they should not be seen as a “cash cow” to be used by the Government to secure tax revenue for general expenditure not related to combating climate change.

5. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

13. No-frills airlines such as Ryanair have argued that Air Passenger Duty (APD) can potentially have a disproportionate impact on passengers flying on routes from regional airports. This is because it is a regressive tax which has a significant impact on routes that are primarily operated by no-frills airlines where fares tend to be generally lower and tax makes up proportionally more of the fare. The economic viability of routes from the regions is therefore potentially jeopardised by increases in the level of taxation.

14. But APD and other taxes can also make up a significant proportion of the cost of the fare on long-haul routes. The planned increases in APD mean that by 2011 it will have increased by around 50% for flights between 2000 and 4000, 90% for flights between 4000 and 6000 miles, and more than 100% for flights over 6000 miles compared to only 20% for flight under 2000 miles. So the increases in APD will likely hit hardest those passengers on the cheaper long haul fares, such as transatlantic flights where tax (not including fees and charges) may often make up nearly half the fare.

15. Passengers are not adequately protected from the financial risk to them of the failure of a scheduled airline. The absence of any all-embracing provision in law to assist passengers in the event of airline insolvency remains a major gap in financial protection for air travel. The current economic climate makes the issue of protection against the financial failure of schedule airlines more pressing than in recent years.
16. But there are reasons to introduce a financial protection scheme which are relevant even in more prosperous times. The increasing trend for consumers to book direct with airlines for independent travel means an increasing number of passengers travel outside the protection provided by the ATOL scheme—the percentage of passengers travelling without ATOL protection has increased by over 30% in the last nine years according to CAA data.

17. Alternative cover is available through provisions in the Consumer Credit Act and personal travel insurance policies. But passengers may not pay for flight tickets with a credit card because they do not own one or because they want to avoid credit card charges. Only a small number of travel insurance policies offer cover against the failure of schedule airlines; and of those that do, some have exclusions for the failure of certain airlines, which tend to be carriers that appear close to bankruptcy and therefore whose passengers would appear to be in most need of cover.

6. What is the impact on the aviation sector of changes in the security environment?

18. The changes in the security environment following the incidents in August 2006 created financial and operational challenges for airports and airlines. The short-term impact on passengers was longer queue times at security checkpoints and inconvenience and confusion caused by the restrictions placed on the carrying of liquids in hand luggage.

19. In the future, passengers need the industry to maintain high levels of protection with as minimal inconvenience as possible to their journeys. It is inevitable that some of the costs of doing this will be passed onto passengers through higher fares. In addition, both the industry and government should ensure clarity as to the rules, though passengers also have a responsibility to inform themselves of the restrictions in place before setting off for the airport.

February 2009

Memorandum from City of Edinburgh Council (FOA 32)

SUMMARY

— The response focuses on the impact of aviation to the city of Edinburgh, and makes several specific references to Edinburgh airport. It also recognises the relevance of other airports particularly London and European “hub” airports to the city. Additionally the response notes that, as a thriving capital city, Edinburgh’s air links also have an impact on its surrounding region and the remainder of Scotland.

— The City of Edinburgh Council urges the Transport Committee to recognise that, as a peripheral city in the UK and Europe with currently few alternatives to air travel to link the city to the south of England and international cities, Edinburgh airport is more important its local and national economy than many other cities’ airports.

— Edinburgh airport brings in significant economic benefits for the city through direct and indirect job provision, supporting existing businesses by providing essential links to key financial and commercial markets around the world, attracting new inward investment, attracting talent and supporting its tourism industry. The airport also causes a degree of economic loss, through facilitating investment and tourism away from the local economy.

— The City of Edinburgh Council believes that the expansion of Edinburgh Airport is currently important to help meet the growing demand for air travel and remaining competitive with other well-connected cities. It also understands that a more efficient use of the airport can help towards meeting these objectives and believes that this should take place before considering any expansion plans.

— The City of Edinburgh Council considers that rail not only can, but should provide an alternative to short-haul flights to contribute towards meeting UK and Scottish Climate Change targets. Investment in a high-speed rail link to London would reduce pressure on Edinburgh airport and may remove the need for the expansion of Edinburgh airport.

— Government legislation and government statutory and non-statutory guidance should ensure that the society and the local environment are not adversely affected by aviation.

— The City of Edinburgh Council recommends that Climate Change Act should include aviation in carbon budgeting. This is due to be included in the Scottish, but not necessarily Westminster legislation.
BACKGROUND INFORMATION ON EDINBURGH AIRPORT

0.1 Edinburgh airport is Scotland’s largest airport. It serves Edinburgh, the East of Scotland, and a much wider catchment area.

0.2 More than 40 airlines fly from the airport to 109 destinations, including:

— Over 60 flights a day to London airports;
— flights to key European hubs which open Edinburgh to further destinations, including London Heathrow, Amsterdam, Paris, Frankfurt and Madrid,
— long-haul flights to New York and Toronto.

0.3 Edinburgh airport is the seventh-largest airport in the UK and the fourth-largest outside London. 9.0 million passengers travel through the airport a year, double that of a decade ago. This figure has doubled in the past decade, and has grown significantly faster than Glasgow which grew by just 26%. Passenger numbers are forecast to continue to grow to around 14 million by 2013, and up to 26 million by 2030.

0.4 Edinburgh airport has been less affected by the economic slowdown than other cities. Passenger numbers fell by 0.1% in the past year, compared with an overall fall of 1.3% in British airports. Most Northern British destinations saw significant reductions in numbers (3.2% fall in Manchester, 3.5% fall in Aberdeen, 6.4% fall in Glasgow, 10.6% fall in Newcastle).

QUESTION ONE

What is the value of aviation to the UK economy?

What are the roles of the London and regional airports?

What competition do they face from abroad?

1.1 Value of Edinburgh Airport to the Economy

1.1.1 Edinburgh airport adds significant value to the local and national economy in the following ways:

— directly: through sustaining jobs and generating wealth at Edinburgh airport itself; and, more importantly
— indirectly through helping businesses and tourists by connecting Edinburgh to the rest of the world.

1.1.2 The most recent of the economic impact of Edinburgh airport was carried out by the Fraser of Allendar Institute in 2002. They estimated it to add £287 million a year to the economy, and to generate £128 million of Scottish income. It is worth noting that in 2002, Edinburgh Airport carried 6.9 million passengers, 30% fewer than it does today.

1.1.3 In addition to these economic benefits, Edinburgh airport also plays a strategically important role. As Scotland’s capital, it is a key gateway to the rest of Scotland, so many of the benefits it generates stretch beyond the local economy.

1.1.4 As a peripherally-located city both in the UK and Europe, Edinburgh airport is particularly important as, unlike in many competitor cities, there are currently few viable alternatives to connect Edinburgh to both the South of England and to international cities.

1.1.5 The importance of connectivity has been identified in numerous economic reports and forecasts, and is one of six key priorities in the Council’s new Economic Development Unit Plan. Within this priority, there is one specific target to “Continue lobbying, research and support for Edinburgh Airport and the West Edinburgh project”.

DIRECT ECONOMIC BENEFITS

1.1.6 BAA has invested over £260 million in its airport in last 10 years. In next 10 years it will invest a further £240 million.

1.1.7 2,500 people work at Edinburgh airport. Additionally, it is estimated that there are 7,500 indirect jobs attributable to Edinburgh airport in areas such as catering, car hire, hotels, shuttle links to city centre etc.
INDIRECT ECONOMIC BENEFITS

Helping the City’s Businesses and Attracting New Inward Investment

1.1.8 Edinburgh airport generates significant wealth for the city, through linking its businesses to key financial and commercial markets around the world and attracting new inward investment. Many businesses also have supply chains that are reliant upon the air freight sector. Consultations with Edinburgh’s businesses have continually identified connectivity as a top priority. 34% of Edinburgh airport’s passengers are business travellers.

1.1.9 The recent expansion of the airport has had a significant impact in challenging the perceptions among business leaders that Edinburgh is on Europe’s periphery, and therefore too cut-off from real decision making. It also ensures Edinburgh maintains its competitiveness with other well-connected cities.

1.1.10 Diversifying the economy into emerging sectors with potential to generate significant added value, such as Science and Technology, is one of the Council’s top priorities. However, as much of the global market for emerging sectors is in areas such as the US and the Far East, long-haul international links are critical to attracting the necessary new investment.

Attracting Talent

1.1.11 The reputation of Edinburgh’s education sector has been a crucial factor in enabling the city to play a full role in the growing international knowledge economy. The 8,000 international students enrolled in Edinburgh’s universities comprise 20% of the universities’ student population. These students add to the academic knowledge base, increase the diversity within universities and provide much needed income. The international connectivity the airport provides helps to ensure that Edinburgh’s universities are able to attract students of the very highest calibre from all over the world. The additional tourism benefits through students attracting their family and friends must also not be underestimated.

Bringing In Tourism Spend

1.1.12 In 2007, 88% (or 1.18 million) of Edinburgh’s overseas tourists arrived in the UK by air. That year, overseas tourists injected £467m into Edinburgh’s economy. This money helped maintain the 31,000 jobs (10.2% of the city’s workforce) in employment in the tourism sector.

1.1.13 In the same year, 12% (or 530,000) of UK visitors to Edinburgh arrived in Edinburgh by plane. A high proportion of these visits were in the fast-growing short stay or weekend break market.

1.1.14 Business tourism in particular generates significant wealth for Edinburgh. The city is regarded as one of the world’s top international conference destinations with an estimated annual market value of £170 million.

1.1.15 The benefits that tourism generates to the local economy also spread to the remainder of Scotland. It is estimated that Edinburgh’s tourism industry generates £1 billion for the Scottish economy and that 48% all overseas visitors to Scotland visit the capital.

Economic Costs of Aviation on the Local Economy

1.1.16 It should also be noted some air links add significantly more value than others. An element money will be lost for the local economy through the provision of air links, as this makes it possible for local businesses to invest or set up in other cities, and encourages local residents to travel and spend money away from the local economy. The Council recognises that links to business destinations and European hubs add significantly more value to the economy than links to tourist destinations. It therefore may be possible for the airport to add more value to the economy, without expanding, if the current range of routes is rethought and altered.

1.1.17 While the Council recognises that aviation currently adds value to the economy and supports its expansion, it should also be noted that with uncertainty over the future price of oil, and potential investment in alternatives to air travel such as rail (as recommended in Section 3), continued support for the expansion of aviation may not be economically sustainable in the long term.

132 BAA Edinburgh
133 Experian Economic Audit, 2006.
134 Edinburgh by Numbers, 2008
135 VisitScotland
136 NOMIS
137 Visit Scotland
139 Visit Scotland
1.2 Value of London Airports to the Local Economy

1.2.1 The key issue for long-distance travel from Edinburgh is access to London and to major business and tourism locations abroad. Currently, air takes a significant share of Edinburgh-London travel. The Council is concerned about the environmental implications of a rapid increase in air travel. It would like to see priority given to direct flights and destinations abroad (which is in any case the fastest-growing segment of the market), particularly to European “hub” airports. For travel to London, rail is the most sustainable mode of transport, and it could potentially capture a much greater share of the market than its current 15%. To achieve this, journey times need to be significantly reduced (see Section 3).

1.2.2 Around one third of flights from Edinburgh airport service London airports.\textsuperscript{140} As a hub airport, London Heathrow provides worldwide connections to Edinburgh and therefore adds much value to the local economy. However, other European hub airports, eg Amsterdam, Frankfurt and Madrid also add value in the same way. The Council would therefore recommend that the proportion of links to European “hub” airports be increased overall. This may mean a reduction in services to Heathrow.

1.2.4 Heathrow’s Terminal 5 provides a seamless service for Scottish passengers wishing to connect with British Airways through Heathrow. With more lucrative long-haul routes putting links to Scotland from Heathrow in danger, a third runway at Heathrow would help ensure links are kept to Edinburgh and Scotland. However, the Council’s view is that investment in a high-speed rail link to London that could substitute a large proportion of the existing flights between the two cities should come before any further air expansion (See Section 3).

1.2.5 The expansion of London City Airport has seen a substantial growth in business traffic from Edinburgh to the city of London. Increasing numbers of business travellers are now opting for London City, as opposed to Heathrow or Gatwick.

1.3 Competition from Abroad

1.3.1 While European hubs such as London Heathrow, Amsterdam, Paris, Frankfurt and Madrid, add value to Edinburgh’s economy through opening up the city to further destinations, competition other airports such as Oslo, Stockholm, Barcelona and Milan has been identified.\textsuperscript{141}

**QUESTION TWO**

*Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?*

2.1 While the costs of air travel in environmental terms are recognised, the potential economic benefits in the short term are considerable. The Government supports the expansion of UK airports as a means of boosting the national economy. Edinburgh Airport has been particularly successful as a business in recent years. While a significant number of improvements have already taken place at the airport, further expansion is currently seen as an essential part of helping to meet the growing demand for air travel and remaining competitive.

2.2 The Edinburgh Airport Masterplan 2006 sets out BAA’s proposals for the growth of the airport in the context of the 2003 Government White Paper (up to 13.7 million passengers per annum by 2013 and 18.1 million passengers per annum by 2020).

2.3 The importance of Edinburgh Airport to the Scottish economy is recognised by the Scottish Government in the West Edinburgh Planning Framework 2008. This provides the land use planning framework to enable the airport to expand in order to meet the forecasts set out in the White Paper. The framework also identifies the need for transport infrastructure to support the growth of the airport.

2.4 The Council is in the process of altering the Rural West Edinburgh Local Plan to bring it in line with the West Edinburgh Planning Framework demonstrating its commitment to helping to deliver the proposed airport expansion. It is also preparing supplementary planning guidance in the form of a strategic design framework and, with other key stakeholders, undertaking a West Edinburgh Transport Appraisal.

2.5 The necessary steps are being undertaken to ensure a robust up to date planning framework to allow the delivery of additional aviation infrastructure at Edinburgh. However, there are other relevant factors which should be recognised by this Inquiry.

2.6 The future expansion of Edinburgh Airport requires partnership working involving a range of stakeholders. A West Edinburgh Development Partnership has been set up involving The City of Edinburgh Council, Scottish Government, Scottish Enterprise, BAA and other key landowners. This group is working together to help deliver the range of development proposals, transport interventions and other infrastructure required to accommodate airport expansion.

\textsuperscript{140} BAA Edinburgh

\textsuperscript{141} BAA Edinburgh
2.7 Changes affecting the airport operator and its expansion proposals therefore have implications beyond the airport itself. For example, in September 2008, BAA issued revised master plan drawings which indicated that it did not intend to expand onto land currently occupied by the neighbouring showground until at least 2020. Based on the harsh economic reality of the costs of funding the relocation of the showground, BAA has had to reconfigure the details and timing of its expansion proposals. The cost of BAA acquiring the land would have had to be passed on to airlines and ultimately passengers, making Edinburgh a less competitive airport. This has had significant implications for the timescales for the proposed relocation of the showground.

2.8 In late 2008, the Competition Commission announced that it was likely to require BAA to sell Edinburgh Airport because of the lack of competition with Glasgow Airport. BAA is fighting this recommendation and a final decision on this matter is due next month. BAA has indicated that its expansion proposals for Edinburgh Airport have not been affected by the Competition Commission’s recommendations. However, a new owner may revise the expansion proposals which would have implications for the wider West Edinburgh area.

**QUESTION THREE**

*To what extent can rail provide an alternative to short-haul flights?*

3.1 The Council’s response assumes that “short-haul flights” are those under two and a half hours (take-off to landing). From Edinburgh, this includes flights to Avignon, Zurich, Prague, and all airports within the British Isles. Journeys from mainland Britain to the island of Ireland, are also excluded as they are believed to be outwith the scope of the question even though possible by rail and ferry.

3.2 The Council considers that rail not only can, but should provide an alternative to short-haul flights, to contribute towards meeting (British and Scottish) Climate Change targets.

3.3 The Council considers that substitution by rail should come before any further air expansion.

3.4 The difference between CO₂ emissions between rail and air travel are illustrated in the figures below, which compare a London-Paris return trip’s emissions by air with rail:142

<table>
<thead>
<tr>
<th>London-Paris return</th>
<th>kg CO₂/passenger trip</th>
<th>kg CO₂/passenger km</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air (average) from Heathrow</td>
<td>122</td>
<td>168</td>
</tr>
<tr>
<td>Eurostar</td>
<td>10.9</td>
<td>11</td>
</tr>
</tbody>
</table>

3.3 The choice between air and rail travel is determined by:

— journey time;
— price; and
— “convenience” (a combination of accessibility and departure/arrival time).

Depending on the balance between these, the en-route experience may come into play (eg comfort and the opportunity to use travel time productively).

3.4 Of these factors, rail offers a better en-route experience. This is inevitable given the space and weight constraints on air travel, which limit passenger space and facilities.

3.5 Rail is generally more “convenient”. Because stations are usually in city centres, they generally provide more direct access to the passenger’s point of origin, final destination, or both.

3.6 The price of rail travel is subject to some debate, but ultimately is a matter of explicit or implicit government policy.

3.7 Within the UK, air currently offers shorter journey times over around 250 miles. Currently it has a marginal share of travel over distances up to 300 miles, beyond which it increases dramatically.

3.8 The evidence indicates that rail journey times under three hours are competitive with air. Recently, four hour rail journeys have become more competitive. Higher speeds, by reducing journey times, allow rail to cater for more “short haul” destinations. This has been demonstrated by the West Coast Main Line (notably London-Manchester/Liverpool) and Eurostar.

3.9 The Council believes that the development of Anglo-Scottish High Speed Rail is crucial for a range of economic, environmental and other objectives. By bringing London comfortably within three hours of Edinburgh and Glasgow, it would encourage significant modal shift from air to rail, and substantial, shift over longer distances.

142 Eurostar statistics
QUESTION FOUR

What costs does aviation impose on society and the environment?

What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

4.1 The Council believes that the use of the word “cost” should be clarified to take account of issues such as loss of biodiversity, loss of land (due to airport expansion), increased air and water pollution associated with increased transport to and from airports as well as from aviation itself, increased waste generated, health implications etc. The financial costs of such losses (social and environmental) are very hard to quantify monetary terms and also in a long term framework, and are therefore largely ignored in current policy.

AIR QUALITY AND NOISE

4.2 These key issues are already well-considered by government legislation and through statutory and non-statutory guidance. Both issues are material Planning matters, and impacts require to be assessed and issues identified and mitigated appropriately.

4.3 Impacts on “air quality” from aviation per se are more global than local—primarily through CO₂ emissions to atmosphere. However, airport and flight expansion will potentially lead to increases in surface emissions from other transport sources (principally road traffic). Local air quality management issues may well result, and the Council would be concerned if expansion did lead to deterioration of air quality to the possible detriment of the health of people living in proximity to the surface transport network serving the airport.

4.4 The Council consults with Environmental Health before any new housing developments are approved by the Planning Committee.

IMPLICATIONS OF CLIMATE CHANGE

4.5 The Council believes that the Carbon footprint and increasing emissions associated with air travel cannot be ignored in terms of the Climate Change agenda. The Council recommends that the Climate Change Act should include aviation in carbon budgeting if the government is serious about addressing climate change and the difficult policy decisions and policy alignment alterations that need to be made.

February 2009

Memorandum from the Civil Aviation Authority (FOA 33)

INTRODUCTION

X.1 The Civil Aviation Authority (CAA) is the UK’s independent specialist aviation regulator. Its main statutory functions are: safety regulation of civil aviation within the UK; determining policy on how UK airspace is utilised to meet the needs of all stakeholders; economic regulation of airports and of en route air traffic services (through the National Air Traffic Services (NATS) Licence); licensing of airlines; and licensing of air travel organisers.

X.2 The CAA also plays a role in providing independent policy advice on aviation issues to Government, which includes: identifying and developing policy on aviation issues; engaging with national and international aviation organisations and regulatory bodies and industry; advising on changes to UK airspace arrangements that might have an effect on the environment; advice to Government on proposed European legislation affecting aviation; and issues relating to consumer policy and the passenger experience. It also collects, analyses and publishes statistical information on airlines and airports. More detail about the roles and responsibilities of each Group in the CAA (working under the governance of the CAA Board) is given at Annex A.

SUMMARY

X.3 The CAA welcomes this inquiry, which covers a wide range of issues of current and future relevance to the aviation industry. It takes place at a time of some turbulence for the industry. The recent decline in both the UK and the wider global economies is already affecting the aviation industry, although the extent of the decline and the timing of any recovery, as with those for the wider economy, cannot be predicted with any certainty at present. However, many of the issues on which the Committee seeks evidence have a long term impact. The CAA has sought to focus its evidence on those areas where it has a specific responsibility.
The CAA would like to highlight the following points from its evidence:

— The importance of focusing on the passenger perspective
— The important, and evolving, debate about addressing the environmental impacts of aviation
— That competition in the aviation industry will in general be the best way to deliver benefits to passengers:
  — Airports:
    — The UK’s regional airports have demonstrated impressive growth and competition with each other, including for airline business
    — In the South East of England there is substantial scope for competition between airports. Competition is preferable to regulation, and where regulation is needed, it should be kept flexible and seek to enable competition
    — Competition from hubs abroad may also deliver benefits to passengers
  — Airlines:
    — Continuing to remove international barriers to competition and liberalisation remains important
    — Some consolidation could enhance competition where this improves effective rivalry
— Current medium and long-term forecasts suggest that over time there will be an increasing shortage of runway capacity in the South East, unless additional capacity is delivered. Additional runway capacity will be brought forward by airport operators when there is a case for that to be done, in a competitive market, within the context of planning arrangements, government policy and the regulatory framework
— There is a need for a future regulatory framework which:
  — enables the application of flexible, proportionate economic regulation, reflecting the degree of rivalry in the market, in order to facilitate the development of competition between airports
  — is clear about the respective roles and responsibilities of different players, in particular of Government and regulator
— The increasing importance of Europe in the regulation of the aviation industry, bringing both opportunities and risks

This response to the Committee’s call for evidence is structured by response to the questions posed by the Committee.

Question 1: What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

“Value” of aviation

1.1 Air transport is a significant contributor to the UK economy and the welfare of UK citizens more generally. The air transport industry provides the only rapid global transportation network, facilitating mobility and making it central to the UK’s place in the modern global economy, particularly in relation to high tech industries and “knowledge sector” industries such as finance. Further, air transport is important for inbound tourism to the UK, a major sector in the UK economy, and, in an increasingly integrated world with enhanced freedoms of movement, also to the overall welfare of UK citizens through, for instance, enabling holidays abroad and visits to friends and relatives.

1.2 A number of studies have endeavoured to examine the value of aviation to the wider UK economy. The CAA has not itself produced such studies; rather we have a number of observations on the approaches that have been taken that may be useful to the Committee. Appendix A outlines two typical approaches to assessing the value of aviation and the CAA’s views on them. It is the CAA’s general view that, whilst there is merit in assessing the costs and benefits of particular expansion projects, especially where environmental costs such as noise and local air quality are not properly “internalised” in the costs that users of aviation bear (see answer to question 4 for a fuller discussion of the environmental impacts of aviation), or where the wider “social” benefits of a particular project are significant, great care must be taken to be clear on what is being valued, over what timescale, and whether the benefits identified can be delivered in practice given that decisions over investment take place in a commercial setting.

1.3 The CAA does look in more detail at different sectors of the aviation industry through the statistics it collects and topical projects, and as part of this may comment on the “value” of these sectors. In the last 20 years, the number of passengers handled at UK airports has grown from 86 million in 1987 to 241 million in 2007. At the London airports, CAA survey data shows that business passengers represented 31% of the 48 million non-connecting passengers in 1987 and 28% of the 108 million non-connecting passengers in 2007. The CAA will be publishing shortly a study on business passengers, which will show, amongst other things,
how regional and secondary airports have contributed significantly to the growth in short haul business passengers, whilst long haul business trips remain concentrated at Heathrow. The CAA also recently published a study of connecting passengers,\textsuperscript{144} which examined the extent to which connecting passengers supported the range and frequency of air services from UK airports with a consequent benefit to UK passengers that are supported by connecting traffic.

London and regional airports

1.4 As background to this question, presented at Annex C are some recent UK traffic trends, produced from statistical information that the CAA collects from airlines and airports. Headline statistics as of the year ending October 2008 are that:

- UK airports served 239 million passengers
- UK regional airports handled 43\% of passengers at UK airports. Annual passengers at UK regional airports exceeded 100 million for the first time in 2007, nearly three times the number in 1990.

1.5 The CAA has undertaken two studies of air services at UK regional airports.\textsuperscript{145} UK regional airports have grown substantially in recent years, and at a faster rate than London airports, though they will face a challenge from the current economic climate.

1.6 The strongest growth at regional airports has been in international scheduled services, where passenger numbers have more than doubled between 2002 and 2008. Much of this growth has come from no-frills carriers, which were able to exploit opportunities for rapid expansion from air transport liberalisation in the EU. These carriers set up bases around the country to offer a growing network of short-haul scheduled services, often at lower prices than would previously have been available, unlocking latent demand from passengers wanting to travel from their local airport.

1.7 Regional airports looking to build up a network of air services have developed a more commercial outlook than before, and are now actively competing both with neighbouring airports and more widely with other airports where airlines might choose to deploy aircraft. This competition between regional airports is generally accepted to be bringing benefits to airport customers.

1.8 Over the last 15 years links between regional airports and London have generally improved, with a wider choice of airports and more frequent services.\textsuperscript{146} Heathrow remains an important connecting point for passengers needing to reach destinations to which there may be no direct service from a regional airport. In the 1990s there was a reduction in the number of services linking UK regional airports with Heathrow, and with congestion creating a scarcity of suitable take-off and landing slots at Heathrow, the future of such services may continue to be challenging.\textsuperscript{147} The number of passengers on domestic routes to Heathrow has been falling since 2005 and—probably because of the greatly improved range of services from regional airports—fewer passengers are using the remaining Heathrow services for connecting.

1.9 The importance of connectivity for the UK regions through developing strong transport links is often emphasised to the CAA by stakeholders. For example, this might take the form of embedding regional airports in local strategies on transport and inbound tourism, and linking the improvements in connectivity and inbound visitor flows to regional economic development, including inward investment.

1.10 The growing profile of regions and their airports has attracted more services, not just to leisure destinations, but also to business centres, including London, and to foreign hubs in Europe, the US and the Middle East, which can provide an alternative to Heathrow for numerous connections to points beyond. Indeed, CAA surveys at UK airports reveal a noticeable change in the journey patterns of passengers who originate from (or whose ultimate destination is) points outside London. The proportion of these passengers that used air, road or rail to get to London in order to catch a flight has fallen, from around 60\% in 2000 to around 50\% in 2005.

1.11 Table 1(a) shows that many UK regional airports have connections to European hubs and that the number of services has been increasing, except to Heathrow. Some services are offered by no-frills carriers, and some by network carriers which will offer a single ticket with through-checked baggage, etc.

\textsuperscript{144} “Connecting Passengers at UK Airports”, CAA, November 2008 available at http://www.caa.co.uk/docs/5/Connecting_Passengers_at_UK_Airports.pdf

\textsuperscript{145} “UK Regional Air Services: A Study by the Civil Aviation Authority”, CAP 754, CAA, February 2005, available at www.caa.co.uk/cap754 and “Air Services at UK Regional Airports: An Update on Developments”, CAP 775, CAA, November 2007, available at www.caa.co.uk/cap775.

\textsuperscript{146} See, for example, Table 3.2 of CAP775 which shows that the number of links between UK regional airports and London airports increased from 34 to 47 between 1990 and 2006, while the total daily frequency increased from 160 to 228.

\textsuperscript{147} For instance, on 20 February 2009 bmi announced that as of 28 March 2009 it would terminate its service from Durham Tees Valley Airport to Heathrow and that from Leeds Bradford Airport to Heathrow.
Table 1(a)

SERVICES BETWEEN UK REGIONAL AIRPORTS AND EUROPEAN HUBS

<table>
<thead>
<tr>
<th>UK regional airports served</th>
<th>1990</th>
<th>2008*</th>
<th>Average round trips per day</th>
<th>1990</th>
<th>2008*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amsterdam</td>
<td>15</td>
<td>17</td>
<td>35</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Paris CDG</td>
<td>9</td>
<td>14</td>
<td>19</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Frankfurt Main</td>
<td>2</td>
<td>5</td>
<td>7</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>London</td>
<td>18</td>
<td>10</td>
<td>118</td>
<td>83</td>
<td></td>
</tr>
<tr>
<td>Heathrow</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*year ending October 2008

Source: CAA airport statistics

1.12 Some real examples of the connecting possibilities to major long-haul destinations are shown in Table 1(b). Although connections via Heathrow are generally the most favourable, which is probably a function of the relatively high frequency of flights on each sector, the table shows that there are other reasonably comparable options, even where a backtrack over Europe is needed (the third example). This demonstrates the level of choice available to regional UK passengers, despite having no direct service to certain points. Passengers can choose these alternatives, for example to take advantage of lower fares that may be available for these routings.

Table 1(b)

EXAMPLES OF CONNECTION OPTIONS BETWEEN UK REGIONAL AIRPORTS AND LONG-HAUL DESTINATIONS

<table>
<thead>
<tr>
<th>Airline via</th>
<th>BA</th>
<th>KLM Amsterdam</th>
<th>Air France Paris</th>
<th>Lufthansa Dusseldorf/ Frankfurt/ Munich</th>
<th>Emirates Dubai</th>
<th>American Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newcastle</td>
<td>15hr55min</td>
<td>15hr45min</td>
<td>17hr45min</td>
<td>16hr20min</td>
<td>16hr35min</td>
<td>–</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>13hr05min</td>
<td>14hr00min</td>
<td>13hr50min</td>
<td>16hr50min</td>
<td>19hr00min</td>
<td>(fr Glasgow) –</td>
</tr>
<tr>
<td>Manchester</td>
<td>13hr15min</td>
<td>14hr45min</td>
<td>14hr10min</td>
<td>15hr55min</td>
<td>–</td>
<td>15hr05min</td>
</tr>
</tbody>
</table>

Source: Worldspan Global Distribution System. Travel 2 February 2009. Shortest journey time for each online connecting option is shown.

Competition from abroad

1.13 Heathrow is the UK’s largest airport and the base for the UK’s only long haul network carriers. Thirty-five per cent of Heathrow’s traffic consists of connecting passengers (and 27% of passengers are connecting between two international services). As noted in a recent study by the CAA, such passengers help to maintain the range and frequency of services offered, to the benefit of all passengers using the airport.

1.14 When compared with other European hub airports, Heathrow has grown much more slowly in the last 25 years, particularly for international traffic, as shown in Table 1(c).

Table 1(c)

PASSENGERS AT EUROPEAN HUB AIRPORTS, 1981–2007

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Heathrow</td>
<td>27.5</td>
<td>23.4</td>
<td>47.6</td>
<td>40.8</td>
<td>63.0</td>
<td>56.3</td>
<td>67.9</td>
<td>62.1</td>
<td>3.5% 3.8%</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>16.9</td>
<td>11.9</td>
<td>31.9</td>
<td>25.3</td>
<td>48.1</td>
<td>40.2</td>
<td>53.9</td>
<td>47.2</td>
<td>4.6% 5.4%</td>
</tr>
<tr>
<td>Paris (CDG)</td>
<td>10.1</td>
<td>8.8</td>
<td>25.7</td>
<td>23.3</td>
<td>48.3</td>
<td>43.2</td>
<td>60.0</td>
<td>54.4</td>
<td>7.1% 7.3%</td>
</tr>
<tr>
<td>Paris (ORY)</td>
<td>15.7</td>
<td>8.5</td>
<td>25.3</td>
<td>10.1</td>
<td>23.1</td>
<td>6.6</td>
<td>26.4</td>
<td>11.1</td>
<td>2.0% 1.8%</td>
</tr>
</tbody>
</table>

148 Excludes London services. The definition of a “route” in this context is more than 500 one-way trips operated in the year.
149 “Connecting passengers at UK airports”, CAA, November 2008 available at http://www.caa.co.uk/docs/5/Connecting_Passengers_at_UK_Airports.pdf
Average Annual 
Airport Growth ‘81–‘07

<table>
<thead>
<tr>
<th></th>
<th>1981 Total</th>
<th>1993 Total</th>
<th>2002 Total</th>
<th>2007 Total</th>
<th>Int’l ‘81–‘07</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDG + ORY</td>
<td>25.8</td>
<td>51.0</td>
<td>71.4</td>
<td>86.4</td>
<td>4.8%</td>
</tr>
<tr>
<td></td>
<td>17.3</td>
<td>33.4</td>
<td>49.8</td>
<td>65.5</td>
<td>5.3%</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>9.4</td>
<td>20.8</td>
<td>40.6</td>
<td>47.8</td>
<td>6.5%</td>
</tr>
<tr>
<td></td>
<td>9.3</td>
<td>20.7</td>
<td>40.5</td>
<td>47.7</td>
<td>6.5%</td>
</tr>
</tbody>
</table>

Source: CAA passenger statistics, ACI yearbook.

1.15 The proportion of connecting passengers at Heathrow is not unusual compared to other European hubs. Table 1(d) indicates that some other hubs have greater proportions of connecting traffic, and that higher proportions of connectors are more common at airports serving a smaller home population. Whilst Heathrow serves fewer destinations directly than the other main European hubs listed, it provides higher average flight frequencies on its routes.

### Table 1(d)

CONNECTING PASSENGERS AT SELECTED EUROPEAN AIRPORTS 2007

<table>
<thead>
<tr>
<th>Airport</th>
<th>Total Passengers (millions)</th>
<th>Connecting Passengers (millions)</th>
<th>Connecting %</th>
<th>LUZ Population 2004 (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heathrow</td>
<td>68</td>
<td>24</td>
<td>35</td>
<td>11.9</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>53</td>
<td>29</td>
<td>54</td>
<td>2.5</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>46</td>
<td>19</td>
<td>42</td>
<td>1.4</td>
</tr>
<tr>
<td>Paris (CDG)</td>
<td>57</td>
<td>18</td>
<td>32</td>
<td>11.1</td>
</tr>
</tbody>
</table>

Source: London First report “Imagine a world class Heathrow”, Urban Audit
Notes: LUZ = Larger Urban Zone (as defined by Urban Audit)

1.16 It is not only hub airports that face competition from abroad. Although in the longer term supply can be expected to follow demand, in the short term, there will only be a fixed number of new services planned by airlines for the next season or two, and airports from across Europe or the world will be competing with each other to attract those services. The strength of this potential for competition is demonstrated in the fact that there were 71 airports in Europe150 that served over five million passengers in 2007 and a further 115 airports that served more than one million passengers.

### Future market structure and regulation

1.17 The CAA responded to the Competition Commission’s (CC) provisional recommendations,151 strongly supporting the recommendation that BAA should be required to sell two of its London airports and one in Scotland. This can be expected to increase significantly competition between airports in the South East and Scotland to the benefit of passengers, airlines and the wider UK economy. The CAA does not believe that there is a sufficient case to specify which of Edinburgh and Glasgow airports should be divested by BAA.

1.18 The CAA also believes that the break-up should be linked with reform of regulation, to enable the application of flexible, proportionate economic regulation, reflecting the degree of rivalry in the market, in order to facilitate, not inhibit, the development of competition between airports. The CAA is in favour of bringing aviation into line with other regulated industries by giving the CAA a statutory duty to put passengers first in our work. It is also important to creating a stable climate for investment that any reformed regulatory framework is clear about the respective roles and responsibilities of different players, in particular of Government and regulator, and that there is transparency about—and accountability for—decisions. The CAA has been promoting these principles in respect of the Government’s current review of the framework of economic regulation of airports. The Government’s promised consultation on its reform proposals is awaited. The outcome of this Government review and the Competition Commission’s final report, are likely to have implications for the future market structure and regulation.

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151 Published on 20 August 2008.
Airline competition

1.19 The airline sector has played a significant role in the internationalisation and globalisation of business, by facilitating the rapid growth in international trade of goods and services and the interconnectedness of countries and people over the last 50 years. A number of steps towards liberalisation have been taken in recent years, which have resulted in the proportion of UK passengers affected by restrictive bilateral falling to only 10% of international departures. Yet, paradoxically, the sector still has some of the most restrictive rules, such as those on foreign ownership and control in many countries.

1.20 Against this background, the CAA has long advocated a liberalised market structure and reliance to the greatest extent possible on competition, rather than regulation, as the best way of delivering efficient aviation services and consumer benefits in the air transport sector. This would best be achieved through the removal of government-imposed restrictions on the commercial behaviour of airlines, putting aviation on the same footing as other industries. The CAA supports the UK Department for Transport’s efforts in this regard. The CAA has also been active in lobbying for such change, notably through the successful liberalisation of air services in the European aviation market, which culminated in the creation of a true single aviation market in the EU in 1993.

1.21 Air services between the EU and countries outside the EU single market are generally governed by a network of bilateral international air services agreements. In many cases these agreements have government-imposed restrictions on the nationality of the carriers that can operate, the number of carriers, the routes operated, frequency/capacity and sometimes pricing. Where these restrictions are in place, EU airlines have much less commercial freedom when flying to countries outside the EU, and passengers have less choice. Transatlantic liberalisation took a significant step forward with the EU-US air transport agreement, which took effect in March 2008 (an agreement between the EU and Canada has also since been initialled). The CAA will continue to work with the Department for Transport, pressing for further progress on these important issues, including supporting a fuller liberalisation of EU-US air services—addressing remaining restrictions such as those on airline ownership and control—in the second phase agreement, to create a true Open Aviation Area.

1.22 The CAA has also been a proponent of the reform of slot allocation at congested airports in Europe. Last year the European Commission acknowledged that the trading of slots between airlines—allowing slots to pass to those airlines that value them the most—is consistent with EU law. This was a significant step forward given the legal uncertainty that previously surrounded slot trading. Secondary trading will also help to alleviate inefficiencies created by the primary, administrative, allocation system, although the CAA’s preference would be for primary allocation also to be reformed, into a system based on auctioning. These are particularly important considerations in the context of ensuring that best use is made of any new capacity at UK airports.

Pan-European approach to aviation

1.23 There is clear potential for pan-European action to improve the efficient working of the aviation market. This has been demonstrated by the liberalisation of air services within the EU and with the US. Safety legislation is gradually being harmonised. More efficient and better performing airspace management is proposed through the Single European Sky II initiative, while the Single European Sky Air Traffic Management Research programme (SESAR), will co-ordinate the development and deployment of new technologies to renew the ATM infrastructure network over the next 15–20 years. However, the CAA remains alive to the risks arising from introducing more regulation (and indeed would advocate deregulation in some areas—see paragraph 1.20 for example) and adopting a one-size-fits-all approach across Europe.

1.24 The UK is relatively unusual in recovering the costs of safety regulation from industry rather than from taxation.

Question 2: Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

Is the current aviation infrastructure adequate? Implications of future passenger trends?

Capacity

2.1 The decision on whether infrastructure is adequate, or in need of developing, is one for an airport operator to make on commercial grounds, within the context of the planning arrangements, government policy and the regulatory framework. In general, the main issues associated with the provision of airport capacity in the UK arise in the South East of England. Outside the South East, there are a relatively large number of competing airports, with a number of examples of airports investing commercially in enhanced (largely terminal) capacity.

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152 A restrictive bilateral is one where there are limits imposed on 3rd/4th freedom traffic.
153 http://www.eurocontrol.int/sesar/public/subsite_homepage/homepage.html
2.2 Current medium and long-term forecasts suggest that over time there will be an increasing shortage of runway capacity in the South East, unless additional capacity is delivered. The picture is somewhat different in respect of terminal capacity, where the opening of Terminal 5 has provided both substantial additional capacity and the opportunity for BAA to raise the quality of terminals across Heathrow. Further improvements in terminal facilities are in prospect with the planned opening of the new Heathrow East terminal in 2013. In addition, airspace could become a constraint on demand in the future (this is dependent on a number of factors which are discussed in more detail in the CAA’s submission to the Transport Committee inquiry into the use of airspace).

2.3 One issue that complicates the assessment of airport capacity is that, in common with other capital-intensive industries, airports will—from time to time—have periods where capacity is relatively scarce. This is a normal feature of competitive markets and provides a stimulus to airport operators to invest. In contrast, there can be artificial shortages of capacity, such as those arising from undue delays in securing planning approval.

2.4 In relation to regional airports, there is little evidence that any aspect of airport development—terminal, runway or airspace—has been unduly constrained. In relation to South East airports, there is some evidence that terminal capacity has been artificially constrained, eg as a result of the undue delays in the Terminal 5 planning inquiry. But the extent to which terminal or runway capacity is currently artificially constrained is more debateable.

2.5 It is clear, however, that several features of the market have the potential to constrain capacity artificially, including common ownership; the planning regime; and economic regulation. Accordingly, to ensure that a framework exists in which the right investment is made at the right airports at the right time, it will be important to ensure that all of these features are addressed to ensure that they do not artificially constrain terminal or runway capacity development in future. The CAA believes that this can best be achieved by:

— requiring BAA to sell two of its three SE airports so as to facilitate competition on price, service and investment between airports;
— reforming the planning regime—in accordance with the Planning Act 2008—so as to enable major airport developments to gain planning permission more quickly and efficiently than in the past;
— leaving, within the framework of the Air Transport White Paper and any future National Policy Statements, as much discretion as possible to airport operators as to location, sequencing and timing of development
— introducing greater clarity and flexibility into the regime for economic regulation of airports. This would mean that where there is competition between airports to develop, the economic regulatory framework would allow the market—operating within appropriate environmental and planning policies—to make investment decisions. Where competition is less strong, the regulatory framework should be such that regulation does not distort market signals, but rather seeks price, service and investment outcomes that mimic, as far as possible, the outcomes that might be expected from a competitive airport market.

2.6 As set out in response to question 4 below, the CAA considers that airports should meet their environmental costs. With suitably designed environmental protection measures, including measures to ensure environmental costs are met; there should be scope both to meet the Government’s sustainability objectives and to ensure appropriate investment in capacity at UK airports, albeit that the nature and level of investment may (rightly) be affected by those environmental measures.

2.7 In 2006 the European Commission published its action plan for airport capacity, efficiency and safety in Europe. The Commission committed itself to establishing an Observatory on airport capacity, where Member States, relevant authorities and stakeholders could exchange and monitor data and information on airport capacity across the EU. The first meeting of the Observatory took place in November 2008, with the UK represented by the Department for Transport. The CAA will continue to work with the Department for Transport to help ensure effective representation for the UK at the Observatory.

Airport-specific plans

2.8 This section details the current treatment, under the Airports Act, of plans at designated airports. As noted in paragraph 1.18, the Government is currently undertaking a review of the framework of economic regulation of airports.

Stansted airport

2.9 Following the Government’s 2003 Air Transport White Paper, which provided support for two additional runways in the South East of England at Stansted and Heathrow, BAA submitted in early 2008 a planning application for a second runway at Stansted (the so called SG2 project). The CAA will co-operate fully with the resulting planning inquiry.

2.10 The CAA is due to issue its economic regulatory decision for Stansted in mid March, which will set price caps and other conditions on the airport for the next five years from 1 April 2009. As part of the review to date, the CAA has not needed to conduct its own assessment of the case for and the timing of a second runway at Stansted, for two principal reasons: the Competition Commission recommended to the CAA that, given the uncertainty surrounding the runway project, all construction costs should be excluded from price cap calculations at this stage; and the CAA’s own proposal is to set price caps also by reference to their impact on the airport market, thereby placing less reliance on the estimated costs of future projects. The CAA will set price controls at Stansted, consistent with its duties, including to encourage investment in time to satisfy anticipated demand. The airport operator will retain the discretion to bring forward investment in a second runway, subject to the planning approval process.

Heathrow airport

2.11 The primary focus of Heathrow’s investment plans for the next five years is on bringing facilities for passengers and airlines across the airport up to a good standard, through redeveloping the central terminal area, eastern apron and completing the final T5 satellite. The CAA has allowed for this £5 billion investment programme in setting airport charges for the five-year period 2008–13.

2.12 As part of the most recent price control review for Heathrow Airport, the CAA also made financial provision in March 2008 for initial expenditure by BAA on developing plans for Heathrow expansion. The CAA allowed for a return on the £639 million which was projected to be incurred by BAA in taking forward plans for a third runway in this period. It also set its regulatory policy on how such expenditure might be treated at the next price control review, and how the CAA might assess, in future, the case for the major investment in the third runway. It set out that the CAA would expect to apply an ex post test to the capital expenditure associated with Heathrow expansion, namely to review whether the expenditure was necessary (by reference to its statutory duties under the Airports Act) at the time it was incurred. This document also set out that, in order to allow the costs of Heathrow expansion to be factored into future airport charges, the CAA would expect to see evidence that the incremental benefits of Heathrow expansion to its users exceed the incremental costs; the costs of the project will be efficiently incurred; and that the impact of the investment will not unreasonably prejudice the development of airport competition in the South East of England.

2.13 The CAA has yet to undertake a regulatory appraisal of Heathrow expansion and the case for including costs thereof, including any that may arise from environmental mitigation measures, in the airport price cap. It would expect to do so as part of the next price control review, if BAA progresses the planning and development project for the third runway to the timetable currently envisaged.

Gatwick airport

2.14 The airport’s investment plans for the next five years are designed to improve passenger service quality, provide some capacity for growth, and maintain airport integrity, through a range of projects including terminal redevelopment and airfield infrastructure. The CAA has allowed for this £0.9 billion investment programme in setting airport charges for the five-year period 2008–13. The CAA has not yet seen or evaluated any proposal for any additional runway at Gatwick.

Regulation/competition/consumer policy

2.15 A further important issue is the extent to which common ownership of airports affects the investment performance of the UK airports. As set out in paragraph 1.17 above, the CAA strongly supports the Competition Commission’s current proposal to end the common ownership of the three largest airports in the South East, and considers that separate ownership of Heathrow, Gatwick and Stansted would improve the investment incentives faced by each airport, encouraging them better to meet the needs of their passengers. In addition, although Heathrow is likely to continue to be subject to economic regulation, increased competition between the South East airports should allow regulation to step back and allow more commercial discipline into investment decisions. This is likely to have a positive impact on investment incentives, and on outcomes for passengers.

2.16 Incentives to invest in capacity and service quality need to be supported by a clear and stable regulatory framework that provides airport operators with confidence that competition will be allowed to work and that airport operators will be permitted to earn appropriate commercial returns on their

155 http://www.caa.co.uk/docs/5/ergdocs/heathrowgatwickdecision_mar08.pdf
investments. To this end the CAA has recommended to the Government’s review of economic regulation that its statutory duties should be reformed to give it a clear primary duty towards the interests of passengers (and other end users) together with more flexible regulatory tools—based around a new licensing regime—to allow regulation to be better tailored to the individual circumstances of each airport.\footnote{The CAA presented its arguments in the following submissions: CAA submission to the Competition Commission on economic regulation of UK airports, February 2008; The CAA’s response to the DfT’s call for evidence, July 2008; and The CAA’s response to the DfT’s September 2008 request for views, October 2008.}

2.17 The CAA has carried out an air passenger survey at the UK’s four largest airports together with a series of industry meetings to determine how air travel is working for passengers. The overall conclusion from the interviews with key industry stakeholders was that the passenger experience at Heathrow, Gatwick and Stansted was generally acceptable when the relevant airport was not subject to any disruption. This was consistent with the CAA’s passenger surveys which found that passengers were generally satisfied or very satisfied with their through airport journey. There was however a lower level of passenger satisfaction over how the industry (including airports and airlines) handled complaints.\footnote{The CAA also considered ACI surveys that benchmark UK airports against their overseas counterparts that ranked the participating UK airports (with the exception of T5) in the bottom half of all participating airports. Although international benchmarking is one of a number of relevant sources of evidence to assess the performance of UK airports, it should be noted that there can be some important differences between UK airports and those overseas that can limit the extent to which international benchmarks provide relevant comparisons.}

2.18 The CAA’s meetings with the airport operator and airlines at Heathrow, Gatwick and Stansted revealed that interfaces between service providers could be improved to increase resilience to the passenger journey during routine operations and particularly during times of disruption. Developing and planning joint scenarios for times of disruption management could clarify roles and responsibilities between the airlines, airport operators, ground handlers and UK Border Agency. This could be expected to mitigate the effects of disruption on passengers, increasing the resilience of the through airport journey.

2.19 The primary responsibility for driving forward improvements in these areas rests with the airport operator, the airlines and various other service providers involved. The CAA is prepared, in the short term, to act as a catalyst to joint planning for disruption management and for improving routine interfaces beginning with Heathrow.

2.20 The CAA has also carried out an internal review of its consumer policy and protection role together with the role of the air passenger representation body (currently undertaken by the Air Transport Users Council). The CAA is the enforcement body for EC regulations on air passenger rights and it is also designated consumer enforcement body under Part 8 of the Enterprise Act. Going forward, the CAA proposes to develop its consumer policy role, working more closely with industry and passengers representative bodies to further the passenger interest.

Runway resilience

2.21 Heathrow’s runways are currently operating at or very near their capacity giving very limited scope to buffer against the normal perturbations in the air traffic network or to cope with or recover from disruptions. This results in total average delays of around 18 minutes per rotation (in-bound and out-bound) over the year, caused by Air Traffic Flow Management delays (3 minutes), stack holding (5 minutes) and ground holding (10 minutes). To some extent, these delays will be anticipated and incorporated into airline schedules, but their high level also increases delay variability and hence unpunctuality even against padded schedules. Heathrow generally operates its two runways in segregated mode, meaning that one runway is used solely for arrivals and the other for departures. Gatwick, as a single runway airport, uses its runway for both arrivals and departures with the advantage that it is able to prioritise arrivals or departures according to demand.

2.22 In 2008, the CAA undertook at the Government’s request a technical and regulatory analysis of the costs and benefits of Heathrow’s current resilience and delay performance, and the options for improvement. The recent decision on Heathrow expansion did not take forward the option of Mixed Mode on existing runways; however, the Secretary of State encouraged the airport operator to work with NATS, the CAA and airlines to improve existing airport and airspace procedures and to develop new ones to deal with delays quickly and efficiently as they develop. The results of the CAA’s work on runway resilience, which are expected to be finalised shortly, could help to inform this process.

Implication of future mergers in the airline industry

2.23 There are recent signs of further consolidation in the airline industry. In Europe, for example, Lufthansa has recently sought to acquire Austrian Airlines, Brussels Airlines and bmi\footnote{bmi itself acquired British Mediterranean in 2007. Other significant acquisitions in the last two years by UK airlines have been easyJet purchasing GB Airways and Flybe purchasing BA Connect.} alongside existing wholly owned Swiss, Air Dolomiti, its German subsidiaries and other part-owned airlines such as Luxair and JetBlue. The Air France-KLM group (in itself one of the most significant cross-border mergers of two large EU airlines) recently acquired VLM and a significant stake in a reformed Alitalia alongside CityJet and JetBlue. The Air France-KLM group (in itself one of the most significant cross-border mergers of two large EU airlines) recently acquired VLM and a significant stake in a reformed Alitalia alongside CityJet and JetBlue. KLM also recently became the sole stakeholder of the Dutch

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airline Martinair. There is a proposed merger between British Airways and Iberia. A three-way joint venture between British Airways, Iberia and American Airlines seeks anti-trust immunity to compete with existing transatlantic joint ventures that form part of the other two large airline alliances Skyteam and Star Alliance. In the US, Delta and Northwest, already alliance partners through Skyteam, are in the process of fully merging their operations. The charter market has seen the merger in 2007 of First Choice with TUI, and of MyTravel with Thomas Cook. There have also been mergers in the low cost market, such as that between the Spanish low cost carriers Vueling and ClickAir in 2008.

2.24 The current economic downturn and last year’s high oil prices have undoubtedly put airlines under increased commercial challenge. Air travel is undertaken for a variety of reasons, but where business attempts to reduce costs and discretionary leisure spending is in decline, airlines’ revenues will be under pressure. This may have led, or lead in future, to greater merger activity. But consolidation is no new phenomenon in the airline industry, and there is a general consensus among the industry and aviation experts that some degree of consolidation is necessary as the industry gradually transitions from the old-style, nationality-based arrangements governed by restrictive bilateral agreements on air services to more global arrangements. The liberalised EU/US agreement is acknowledged to be one factor in the move towards consolidation, as it allows any EU airline to serve the US from any EU country. Consolidation should allow remaining airlines and/or airline alliances to compete more effectively while bringing greater efficiencies, making them more financially sustainable.

2.25 Where the market did not address such inefficiencies, it would ultimately give rise to higher costs for consumers. Consolidation can therefore be a sign of a well-functioning market and ensure that less efficiently run airlines either go out of business or are taken over by more efficiently run competitors. Existing EC and UK merger control legislation provides consumers with a protection against the risk that consolidation could be motivated by a desire to reduce the number of competitors through the creation of dominant airlines and thereby limit the benefits to consumers that a competitive market can bring. It does this by ensuring that mergers do not result in a substantial lessening of competition.

Question 3: To what extent can rail provide an alternative to short-haul flights?

3.1 The CAA’s January 2008 report “Recent Trends in Growth of UK Air Passenger Demand”, suggested that “…some of the decline in domestic air travel demand growth has been caused by the increased competitiveness of other modes, particularly rail. To the extent that this is due to improvements in rail services, then it is likely to represent a longer term shift in the modal split of UK domestic travel. However, to the extent that is has been driven by increased journey times and inconvenience of air travel resulting from the current security measures at airports, then this effect may only be temporary.”

3.2 The CAA also observed that passenger numbers at London airports had declined mainly on those domestic routes that faced rail competition, with the greatest falls on those air routes with high proportions of time-sensitive business passengers and relatively short rail journey times. However, the report also warned that “… it should be borne in mind that any modal shifts between air and rail are small in context of the overall domestic travel market.”

3.3 Figure 3(a) plots annual growth in domestic air traffic against rail journey duration and proportion of business passengers for key city pairs where there is a rail alternative. It shows that many of the air routes with the greatest fall in passenger numbers (encircled in the figure) are those with high proportions of business passengers and where the alternative rail journey takes less than four hours.

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159 In some countries (outside the EU), where Governments continue to support their national flag carriers, costs from inefficient airlines may well also fall on their taxpayers.

160 Merger investigations in the UK are carried out by the OFT and by the European Commission where mergers affect more than one member state of the EU. The CAA does not play a formal role in merger investigations. The CAA will remain, of course, the responsible body for overseeing the compliance and performance of any merged entity against national and European safety requirements. Indeed, the CAA will adopt a policy of “heightened oversight” where a merger or acquisition is taking place to ensure that safety is not compromised.

161 The UK merger regime assesses whether a merger would lead to a substantial lessening of competition. The EC merger regime, whilst different, involves a similar test.

162 Available at http://www.caac.co.uk/docs/589/erg_recent_trends_final_v2.pdf

163 Routes not facing rail competition from London are mainly those that cross the sea, such as to Belfast or the Channel Islands.
Figure 3(a)

YEAR ON YEAR AIR TRAFFIC GROWTH FOR YEAR ENDING SEPTEMBER 2007, JOURNEY DURATION AND PROPORTION OF BUSINESS PASSENGERS FOR SELECTED DOMESTIC ROUTES

![Diagram showing air passenger growth and journey duration for selected domestic routes.]

Proportion of business passengers on air services:
- >75%
- 55%-75%
- <55%

Source: CAA Airport Statistics

3.4 In the same report, the CAA also noted that international air routes from London airports facing competition from rail services164 had seen a decrease in passenger numbers since 1998, whereas similar routes with less competition from rail165 had seen overall increases. In a further publication166 in September 2008, and shown in Figure 3(b) reproduced below, the CAA noted that, since 2005, Eurostar has gained market share on the Paris and Brussels routes from airlines operating from London airports and regional airports in areas with good rail links to North London. However, other regional airports have also gained market share as airlines moved services away from airports serving cities with good rail links. The significant increase in Eurostar passengers in the first half of 2008 due to the increase in capacity on the service appears to have been mainly achieved through stimulation of additional passengers on these routes.

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164 Paris and Brussels.
165 Madrid, Frankfurt, Rome, Amsterdam and Stockholm.
166 Aviation Trends Issue 3 2008 Q2.
Figure 3(b)

YEAR ON YEAR CHANGE IN PASSENGERS TO PARIS AND BRUSSELS BY AIR AND ACROSS THE CHANNEL BY RAIL (EUROSTAR)

Source: CAA airport statistics and Eurostar

Note: all except the Eurostar bars are airport figures.

Question 4: What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

CAA and the environment

4.1 While the aviation sector brings significant benefits to the UK, EU and the global economy, the CAA supports the Government’s objectives for sustainable development and tackling climate change, including the principle that aviation should meet its full environmental costs (as should all sectors of the economy). Ensuring aviation meets its full environmental costs ensures that growth in the industry only occurs where economic and social benefits outweigh related costs.

4.2 The CAA has a number of specific environmental roles in the context of its statutory functions. It provides expert advice on aircraft noise issues, takes account of environmental factors when considering airspace change proposals, and advises Government on issues around the use of economic instruments to tackle climate change (eg in regard to the EU Emissions Trading Scheme). 167

4.3 The Strategic Review of the CAA, carried out by Sir Joseph Pilling, 168 specifically considered environmental issues, and recommended that the CAA be given a general statutory duty in relation to the environment, but that this should not be set out in statute without a clear policy framework from Government—a condition the CAA strongly agrees with. The Pilling Report was published in July 2008. The CAA is already working with the DfT as they take forward these recommendations.

4.4 The announcement made by the Government on 15 January 2009 in regard to the addition of future capacity at Heathrow airport 169 set out that to reinforce commitments on noise and air quality, additional flights will only be allowed when the CAA is satisfied first that the noise and air quality conditions have already been met and second that any additional capacity will not compromise the legal air quality and noise limits set for Heathrow by Government. This will involve a new role for the CAA and the CAA will be working closely with Government and other agencies in implementing this.

167 The CAA website has further information about CAA’s environmental work at: http://www.caa.co.uk/default.aspx?catid=697&pagetype=68
169 http://www.dft.gov.uk/pgr/aviation/heathrowconsultations/heathrowdecision/decisiondocument
Environmental costs

4.5 The CAA has not done independent work on environmental costs, but has contributed to the work led by the Department for Transport to establish an Emissions Costs Assessment (ECA) methodology, against which the first assessment was published in July 2008.\textsuperscript{170} The ECA suggested that, in the central case, the climate change costs of UK aviation (on an all-departing flights basis) were £1.8 billion in 2006.

Climate Change Act

4.6 The Climate Change Act, which received Royal Assent on 26 November 2008, the related advice of the Committee on Climate Change (CCC), provided to Government on 1 December 2008, and the announcement (as part of the Heathrow announcements) of a new UK target for aviation emissions\textsuperscript{171} create a new context for aviation and the environment in future. While international aviation emissions are not part of the legally binding framework within the Act (although they could be in future), their likely trajectory will be taken account of in setting legal limits overall. The CCC has also recommended that an annual report be produced on UK international aviation emissions and progress in the sector, including whether it should in future be included within legally binding carbon budgets. The newly announced Government target will also give further focus to the need to reduce aviation emissions in the medium to long-term.

4.7 The CAA supports the Government’s view that entering the EU Emissions Trading Scheme offers an effective means for aviation to contribute to global climate stabilisation. The CAA is working closely with the Environment Agency (EA) and Government to help implement the scheme, and is expected to have a formal advisory role to the EA, as regulator for the scheme, once the regulatory arrangements are in place. Other economic instruments, such as an NOx instrument at EU level, or Air Passenger Duty domestically, could have a role to play in tackling climate change, though such instruments need to work effectively together, rather than creating conflicting incentives.

4.8 In addition to the use of economic instruments, improving air traffic management (ATM) performance will be an important contributor to achieving emissions reductions in aviation through the use of more efficient routings (underpinned by new technology through the SESAR programme) and better airport operations. CAA has been working closely with Government to negotiate the current Single European Sky II (SES II) package of legislation, within which environmental concerns have been given a new, high priority. In future, the CAA expects to be involved in the development of the UK national performance plan for ATM, within which environment would be a key performance area.

Question 5: What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

Taxation

5.1 The CAA recognises that taxation matters are for Government, though would note that the level of taxation on aviation is likely to have an impact on the future growth trajectory of the industry, and its capacity for investment. CAA would highlight the work of the Department for Transport on the ECA for UK aviation, and considers that the Emissions Cost Assessment can play a useful role in measuring whether aviation’s contribution—whether through tax or trading or a combination of the two—is commensurate with the industry’s environmental costs. CAA responded to the Government’s consultation process on the reform of Air Passenger Duty in April 2008.\textsuperscript{172}

Passenger protection

5.2 Passengers receive financial protection in the event of the collapse of an airline if they have booked the flight as part of package or made the booking with an ATOL holder. In the event that the airline fails the passenger is covered, either receiving a replacement flight from the ATOL holder or a refund or repatriation from the CAA if it is the ATOL holder itself that has failed.

5.3 If the passenger has booked a flight directly with an airline they do not receive any automatic protection, but can choose to make their own arrangements to cover the loss of future bookings or the costs of getting home.

\textsuperscript{170} http://www.dft.gov.uk/pgr/aviation/environmentalissues/aviationemissionscostassess/

\textsuperscript{171} On 15 January, the Government announced it will establish a new target for aviation emissions in 2050 to be below 2005 levels, and the Committee on Climate Change has been asked to advise on the best basis for the development of the target.

\textsuperscript{172} http://www.caa.co.uk/docs/5/20080424/CAAResponseOnAviationDutyFinal.pdf.
5.4 Passengers may choose to purchase the flights using a credit card and take advantage of the Consumer Credit Act protection for sales over £100. They may also choose to purchase scheduled airline failure insurance (SAFI). This is, however, usually sold as part of a wider travel policy and the cover does vary between policies. In some cases, the passenger may only be guaranteed cover for the cost of the lost flight rather than the cost of repatriation.173

5.5 If a passenger is abroad when their airline fails, they will need to make alternative arrangements to get home and pay for these up front. Some airlines offer special fares to affected passengers for replacement flights, although difficulties in communicating these offers to the appropriate audience means that passengers are not always able to access these.

5.6 Following the failure of the XL Leisure Group, which affected both ATOL protected and non-ATOL protected passengers, the CAA agreed with the DIT that the CAA should provide sufficient capacity on repatriation flights to allow non-ATOL protected passengers to purchase flights home. In this instance, this worked well and prevented any passenger being stranded.

5.7 The DIT is currently undertaking a lessons-learned exercise following the XL Leisure Group failure with which the CAA is closely involved. This is expected to include recommendations to improve the level of information available to consumers, including advice available before a booking is made; information included on documentation once a booking has been completed, and improved means of informing passengers in resort of the special fares available and other relevant information following the failure of an airline.

Question 6: What is the impact on the aviation sector of changes in the security environment?

6.1 The UK aviation sector has clearly had to invest considerable additional resources in meeting increasingly stringent security standards imposed by Government in recent years, arising from heightened concerns about terrorism. When such changes have been sudden and severe (as occurred in August 2006), then there has been some turbulence in passenger flows through airports and some increase in passenger queuing at security checks. The increased pressure that this has placed on terminal facilities at some airports, notably Heathrow, Gatwick and Stansted, also highlighted the need for greater resilience in airport facilities and operations.

6.2 The CAA responded in its regulation of BAA’s three London airports by imposing new and/or higher service standards on the airport operator in respect of maximum passenger security queue times, thereby improving the resilience of the operation to further changes in security requirements. It has also put in place mechanisms to enable each airport operator to recover the bulk of any material increase in costs in the future arising from any change in Government security directions.

ANNEX A

ROLES AND RESPONSIBILITIES OF THE CAA

A.1 The Civil Aviation Act 1982 sets out the framework for the CAA’s corporate governance. The CAA is defined as a body corporate, with between six and 16 members, including one Chairman and up to two Deputy Chairmen, appointed by the Secretary of State. The members of the CAA sit as a Board, generally on a monthly basis. The Board is fully accountable for all activities undertaken by the CAA.

A.2 The CAA’s Economic Regulation Group (ERG) regulates the three designated London airports (Heathrow, Gatwick and Stansted), en route air traffic services and some limited aspects of airline operations. ERG also provides economic advice to Government on aviation policy where appropriate. ERG’s aim is to secure the best sustainable outcome for users of air transport services. It seeks to do this through, for example, promoting liberalisation through the removal of Government-imposed restrictions on entry to the airline market, and facilitating the optimal supply of aviation infrastructure. ERG also collects, analyses and publishes statistical information on airlines and airports.

A.3 The Directorate of Airspace Policy (DAP) is responsible for the planning and regulation of all UK airspace, including the navigation and communications infrastructure to support safe and efficient operations. DAP is staffed by civilian and military experts with experience of commercial, business, recreational and military aviation. The power to make decisions regarding the use of UK airspace is vested in the Director of Airspace Policy.

A.4 The Consumer Protection Group (CPG) is responsible for regulating the finances and fitness of travel organisers selling flights and package holidays in the UK; managing the UK’s largest system of consumer protection for travellers, the Air Travel Organisers’ Licensing (ATOL); licensing UK airlines in accordance

173 Insurance providers may, at short notice, withdraw cover for specific airlines, not always for reasons connected with the airline itself. This withdrawal can be interpreted by the public and travel agents as an indication of an airline’s financial stability and can have commercial implications for the airline affected.
with EC Regulations in relation to their finances, ownership and control, and insurance arrangements (in relation to passengers and Third Package liability). It also enforces EC consumer regulations on denied boarding, cancellation and delay and passengers with reduced mobility.

A.5 The CAA Safety Regulation Group (SRG) is a leading partner within the new European framework for aviation safety, which has at its heart the still developing European Aviation Safety Agency (EASA). SRG is responsible for setting certain national safety standards and for overseeing the compliance and performance of the UK aviation community against a blend of national and European safety requirements. The UK has one of the best aviation safety records in the world and it is committed to developing a world-class aviation safety environment, in partnership with industry, by driving continuous improvements in aviation safety in the UK and, in partnership with EASA, across Europe. SRG also provides extensive advice to Government and provides direct support for it in its European negotiations and in meeting its international obligations.

**Annex B**

**APPROACHES TO VALUING AVIATION**

B.1 This Annex outlines two typical approaches to assessing the value of aviation and the CAA’s views on them. The first uses economic theory to model how, given assumptions about the demand for air travel over the long term, an increase in capacity will lead to an increase in aviation activity and what net economic benefits will arise as a result of this increase. The economic benefits assessed under this approach are typically “direct” benefits, such as benefits accruing to passengers from a decrease in fare levels, increase in connectivity, etc; benefits accruing to the Government through an increase in tax revenue; benefits/ disbenefits accruing to producers (ie airports and airlines); and disbenefits arising due to increases in noise, pollution, and other environmental factors.

B.2 The second method attempts to calculate the wider value of aviation more directly by deriving a statistical relationship between aviation activity and economy wide measures, for instance, GDP, employment, etc. If such relationships hold, they can be used to estimate how additional aviation activity will impact on the wider economy.

B.3 Notwithstanding the individual strengths and weaknesses of each of these approaches, it is the CAA’s view that there are significant risks in attempting to put a value on aviation’s contribution to the UK economy overall. In order to achieve such a valuation, one would need to consider what the UK economy would look like without any aviation activity at all, and then assess the individual contribution of aviation from this base case. Clearly this is unrealistic.

B.4 Rather, we feel that this sort of analysis is more appropriate in the context of specific capacity expansion projects, for instance the expansion of runway capacity at a particular airport. In such circumstances, it should be possible to capture (at least the magnitude of) the true economic costs and benefits of an expansion in aviation activity. However, in undertaking such analysis, care must be taken over what is assumed will occur in the absence of the investment in question (ie what is assumed as the base case for the assessment of costs/benefits). The decision over whether to invest in additional capacity must ultimately be made by the airport operator. In such a commercial setting, and where there is competition between airports, investment in additional capacity at other locations will have an impact on the investment in question. Therefore, in undertaking this type of analysis, one must be careful to measure the additional economic benefits against a range of plausible base cases. Further care must be taken in interpreting the results of such analysis: if investment in additional aviation capacity were to be diverted to another sector, it could also lead to benefits to the UK economy—benefits that might be similar to those yielded through the investment in aviation.

B.5 It is the CAA’s view therefore that, whilst there is merit in assessing the costs and benefits of particular expansion projects, especially where environmental costs such as noise and local air quality are not properly “internalised” in the costs that users of aviation bear (see answer to question 4 for a fuller discussion of the environmental impacts of aviation), or where the wider “social” benefits of a particular project are significant, great care must be taken to be clear on what is being valued, over what timescale, and whether the benefits identified can be delivered in practice given that decisions over investment take place in a commercial setting.

**Annex C**

**UK TRAFFIC TRENDS**

C.1 As background to question 2, presented below are some recent UK traffic trends, produced from statistical information that the CAA collects from airlines and airports.

C.2 Figure C(1) shows passenger data by quarter over the last ten years, and illustrates the recent drop off in passenger growth rates. The dark blue line shows the number of terminal passengers at UK airports in each quarter (on the right axis). The bright blue line shows the same, but for the rolling annual average number of terminal passengers at UK airports in each quarter. The pink bars show the percentage growth
on the previous year’s number in the same quarter (on the left axis). The year-on-year drop in passenger numbers seen in the second quarter of 2008 increased to –2% in the third quarter, from -0.4% in quarter 2. This is the fastest fall in passengers since quarter 4 2001 (ie immediately following September 11th).

**Figure C(1)**

TERMINAL PASSENGERS AT UK AIRPORTS 1998–2008

Source: CAA airport statistics

**C.3** Figure C(2) uses more detailed passenger data for the last three years to illustrate the relative proportions of scheduled and charter passengers at both London and regional airports. It can be seen that charter traffic now makes up a relatively small proportion of UK traffic, and the decline in charter traffic has been made up for by increases in scheduled passengers. The most recent data (to quarter 3 2008) shows a fall in charter traffic and scheduled passengers stable at London airports and increasing slightly in the regions.

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174 Terminal passengers are those that board or alight from aircraft at an airport
175 For the purposes of this submission, “UK regional airport” excludes the five London airports (Heathrow, Gatwick, Stansted, Luton and London City), Southend, and the Channel Islands, but includes the Isle of Man.
Air Services at UK Regional Airports

C.4 The CAA has undertaken two studies of air services at UK regional airports. UK regional airports have shown sustained, substantial growth in recent years, in particular in short-haul international services. UK regional airports continue to grow at a faster rate than London airports (see Table C.1).

Table C.1
UK Regional Airports Share of Total Passengers at UK Airports
Source: CAA airport statistics
February 2009

Supplementary memorandum from the Civil Aviation Authority (FOA 33a)

Impacts of the First Year of the EU-US ATA Stage I Agreement

Executive summary

The EU-US ATA Stage I agreement took effect on 31 March 2008. A Commission press release on the eve of this date stated that “This marks the start of a new era in transatlantic aviation. This Agreement will bring more competition and cheaper flights to the US […] [it] is the most ambitious air services deal ever negotiated”. Whilst EU-US ATA Stage I was undoubtedly a major step forward, the agreement, which in summary removed all restrictions on capacity, routes, airlines, and prices, left the significant issue of ownership and control to be resolved during the second stage of negotiations.

176 “UK Regional Air Services: A Study by the Civil Aviation Authority”, CAP 754, CAA, February 2005, available at www.caa.co.uk/cap754 and “Air Services at UK Regional Airports: An Update on Developments”, CAP 775, CAA, November 2007, available at www.caa.co.uk/cap775.
Taking the restriction on capacity first, it is well known that the Bermuda II agreement limited the number of flights that airlines of each side could operate each season on each route. Our analysis has revealed, however, that it is unlikely that the allowed capacity was in practice constrained overly by Bermuda II around the time that EU-US ATA Stage I came into force. This slightly counter-intuitive result is based on two observations. First, broadly speaking, the Bermuda II agreement contained a number of provisions intended to allow supply to match demand—albeit most likely in a sub-optimal way. In summary, under Bermuda II there was always a carrier from one side or the other that could, in principle, have either entered the market or, if serving the route already, expanded its service, to meet any additional market demand. Second, a number of routes experienced a decline from around 2004–05 in terms of the frequency supplied by the operating airline(s). Although such declines were relatively small, they typically took place at the same time as the airlines in question were growing their allowed frequency under the Bermuda II agreement. This led to a certain amount of unutilised headroom being created prior to the implementation of EU-US ATA Stage I. The existence of this headroom around the time that the Bermuda II agreement was removed meant that, other things being equal, the implementation of EU-US ATA Stage I was unlikely to lead to an immediate increase in capacity in the transatlantic market.

This is not to say, of course, that individual airlines of either side were free to take advantage of any such headroom. Access to airport slots, in particular at Heathrow, might have constrained an airline’s ability to quickly add additional frequencies to its service or to enter a new route. Operational factors, such as the availability of aircraft and crew, might also have caused difficulties in taking advantage of any headroom at short notice. However, evidence of incremental increases in operated capacity on the route London-Chicago suggests that such difficulties could be overcome. This view is supported further by evidence of entry on the routes London-Chicago, London-Boston and London-New York.

The issue of high fares, in particular business fares, was one of the drivers for liberalisation of the EU-US market. Clearly, the issue of fares is related closely to that of capacity: additional capacity should, in principle, lead to a decrease in price. However, as the Bermuda II restrictions did not in practice constrain overly the allowed capacity in the US transatlantic market, the impact on fares resulting from the removal of Bermuda II might be expected to be correspondingly lessened. However, the Bermuda II arrangements restricted not only capacity but also which airlines could offer it and from which airports. Although a less tangible restriction than that on capacity, the removal of this restriction on the composition of competition, most notably in relation to the ability of Continental Airlines, Delta Airlines, Northwest Airlines and US Airways to serve Heathrow, could be expected to facilitate greater competition in the US transatlantic market and, as a result, reduce fares.

In relation to the removal of the restrictions on routes contained in Bermuda II, it should be stressed that, even under Bermuda II, the US transatlantic market was already reasonably well served: over thirty gateways in the US could be served directly from London, with 15 of these served from Heathrow. Further, the CAA has not seen evidence that any gateways were excluded around the time that EU-US ATA Stage I was implemented. As with capacity, therefore, the implementation of EU-US ATA Stage I was not certain to lead to an immediate increase in the number of routes served.

Given these factors, it is clear that the impacts of EU-US ATA Stage I in its first year would be difficult to identify in practice. This is compounded by another important factor: our success or otherwise in identifying the (potentially small) impacts of EU-US ATA Stage I was contingent on there being a stable industry background against which to identify the specific impacts of EU-US ATA Stage I (as distinct from the impacts of other competing factors which drive capacity, demand and fares). Unfortunately, the rapid rise (and then fall) of oil prices and the global recession have made the last eighteen months a particularly turbulent period for the industry.

Notwithstanding these difficulties, the one area where EU-US ATA Stage I has had a clear and unambiguous impact is in relation to the strategy of those US carriers that did not have access to Heathrow to switch the majority of their operations from Gatwick to Heathrow, and the similar shift to Heathrow by British Airways and American Airlines of services previously confined explicitly to Gatwick. In summary, US carriers moved 12 daily flights on eight routes between the UK and the US from Gatwick to Heathrow. In a similar pattern, UK carriers (BA in each case) moved four daily flights on three routes between the UK and the US from Gatwick to Heathrow. Heathrow now handles three quarters of the

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178 As well as the restriction on frequency, the Bermuda II agreement included restrictions on designation (ie which airlines could operate) and allowed gateways. Whilst these restrictions together would have almost certainly limited the proper functioning of the transatlantic market, this does not appear to have manifested itself as a constraint on capacity.

179 Each season the airlines of each side could increase their allowed frequencies by one flight per week on each route (referred to as “creep”).

180 The cost of airport slots at Heathrow, whilst considerable, is not necessarily a barrier to entry in itself. Rather, it is the lack of a fully liquid market for slots that is more likely to constrain airlines in building services at Heathrow.

181 This would be less of an issue for an airline with a large slot portfolio, which could be rearranged if required.

182 Although there was some pressure pre-9/11 for Salt Lake City and San Jose to be included as allowed gateways in Bermuda II.

183 In principle, it should not be necessary to have to rely on industry stability in order to make a successful analysis. However, the short time-series of data available to us (ie one year of EU-US ATA Stage I) has meant that, in this case, greater industry stability was required.


185 In summary, services between Gatwick and Atlanta (BA), Dallas (BA and AA), Houston (BA) and Raleigh/Durham (AA) could not be switched to Heathrow under Bermuda II.
transatlantic passengers at UK airports compared with two thirds before EU-US ATA Stage I. Of the US carriers, only Delta (Atlanta and Cincinnati\(^{186}\); daily service) and US Airways (Charlotte and Philadelphia\(^{187}\); daily service) maintain services between Gatwick and the US.

This switch to Heathrow can be expected to bring benefits to UK-US transatlantic passengers in a number of areas:

— Meeting customers’ demands—put simply, Heathrow is the UK’s main business airport and its only major international hub; the switch to Heathrow puts transatlantic capacity where it is of the highest value to customers;

— Resilience—the airline corollary to the previous statement is that transatlantic routes from Heathrow are at less risk of being withdrawn than similar services from Gatwick—a particularly relevant point given the continuing global economic recession. Humphreys and Morrell\(^{188}\) explain the commercial attractiveness to airlines of making the switch to Heathrow: “It is the combination of catchment area and connectivity that makes Heathrow so attractive relative to Gatwick. The result is seen not so much in higher average seat factors, but in higher average yields […] Airlines that have transferred services from Gatwick to Heathrow have experienced a significant increase in profitability (or reduced losses)”.

— Flexibility—as has been pointed out previously, oil price movements and the global recession have made the last eighteen months a particularly difficult period for the industry. However, once economic conditions improve and airlines to start to return capacity to the market, the removal of the Bermuda II restrictions on Heathrow will allow the transatlantic market to develop more naturally in terms of capacity, routes, airlines, and fares, reflecting better the underlying conditions of supply and demand.

Although customers are already realising benefits associated with the first year of EU-US ATA Stage I, and can be expected to realise further benefits as economic recovery takes place, significant constraints, in particular in relation to ownership and control in the US, remain in the transatlantic market. Experience of EU liberalisation, in particular in relation to the success of “no-frills” carriers, suggests that it takes changes to the structure of competition, for instance those that might follow any liberalisation of ownership and control rules in the US, to yield the most benefit to consumers over the longer term.

Memorandum from ABTA (FOA 34)

INTRODUCTION

1. The leading travel trade association in the UK, ABTA was founded in 1950 and currently has some 1,120 travel agent members and 790 tour operator members with some 6,000 offices. Our members range from small, specialist tour operators and independent travel agencies through to publicly listed companies and household names; from call centres to internet booking services to high street shops. Members are part of groups themselves owning airlines. Members provide 90% of the overseas package holidays in the UK as well as selling millions of independent travel arrangements.

2. ABTA welcomes the Committee’s enquiry into the future of aviation and is pleased to have the opportunity to respond. ABTA has appeared before the Committee on a number of occasions, the last being Passengers Experience of Air Travel in March 2007.

SUMMARY

3. ABTA believes that:

— The UK is reliant upon aviation as an integral part of its overall transport infrastructure.

— Heathrow and Gatwick have important roles as hub airports with large international networks. The regional airports offer direct services to European destinations.

— The main continental airports have more runway capacity than the London airports and the ability to recover quickly after any disruption.

— ABTA has long supported the provision of a third runway at Heathrow and a second runway at Gatwick.

— It is anticipated that passenger demand will fall in the short term but will pick up again. Costs will rise.

— There will inevitably be mergers in the airline industry as airlines seek to pool resources.

\(^{186}\) Delta’s Cincinnati service is to be suspended from September 2009.

\(^{187}\) US Airways Philadelphia service is to be suspended from September 2009.

— Rail can provide an alternative to air for up to three hours’ journey in each direction. ABTA supports a high speed rail link to the north of England but in addition to and not as a substitute for a third runway at Heathrow.

— Many people could not afford to take a holiday abroad a few years ago but can now do so.

— ABTA has long accepted that aviation should pay for its environmental impact which it more than does through Air Passenger Duty (APD).

— APD is an unwelcome tax which does nothing to incentivise airlines to use quieter, more fuel efficient aircraft and is not hypothecated either to the environment or to the aviation industry.

— A comprehensive financial protection scheme for all air passengers is long overdue.

— ABTA believes that there should be consistent global security standards which are reviewed on a regular basis to reflect risk.

1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

4. As an island nation, the UK is reliant upon aviation as an integral part of its overall transport infrastructure. Many parts of the UK are dependent upon aviation as a lifeline not just for communication purposes but economically (eg the Scottish Highlands and Islands). UK plc benefits from the excellent air connections with cities worldwide making the UK an easily accessible country in which to set up businesses. Tourism is one of the real success stories of the British economy, bringing an estimated 32 million tourists to the UK in 2008, and has been credited with generating one in five new jobs over the last 10 years.

5. Heathrow plays a significant role as the UK’s major hub airport. Gatwick has a similar, albeit smaller, role. Hub airports are important because their high proportion of transfer passengers make viable long-haul air routes that could not otherwise be operated profitably. Although some opponents claim transfer passengers offer little benefit to the UK economy, they are critical to supporting an international route network that provides the UK’s only direct air links to major world cities. However, both Heathrow and Gatwick are also the local airport for many people.

6. The regional airports offer direct services (no frills and charter flights) to European cities and holiday destinations. This is more convenient for a passenger and saves them having to travel long distances to another UK airport. However, these flights must attract sufficient passengers in order to mount a viable service.

7. Heathrow’s main competitors have increased their capacity in recent years: Amsterdam-Schipol has five runways, Paris-Charles de Gaulle has four, Frankfurt has three (with a fourth due to open in 2011) and Madrid has four. All have at least 20% unused capacity so they can recover quickly after any disruption, such as the poor weather conditions recently experienced.

2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

8. Investment in strategic infrastructure projects is a fundamental element of the UK’s long-term economy recovery package. The existing UK airports need to be developed to their optimum. ABTA has long supported the provision of a third runway at Heathrow and a second runway at Gatwick and feels that this is all the more important with BAA’s sale of Gatwick allowing it to compete more freely with Heathrow. It is hoped that Gatwick’s new owners will be able to invest properly in its infrastructure.

9. It is anticipated that passenger demand will fall in the short term and costs will rise because of the weaker sterling despite a collapse in the price of oil. However, these are felt to be short term blips in the expectation of the economy picking up again. It is important that projects are undertaken now to provide for future growth when it is needed rather than postponing into future years. As an example, the UN World Tourism Organisation has reviewed their forecasts for the next 10 years, and believe that there is no reason to adjust downwards their long term forecasts of total tourism flows, whilst accepting that there will be a short term downward movement.

10. There will inevitably be mergers in the airline industry as airlines seek to pool resources. If this means a move away from the high costs traditionally associated with legacy airlines, this has to be to passengers’ benefit. It is very much survival of the fittest and it is better to see an airline merged with another one to provide a continuous service than to see it cease trading and cause misery to passengers (see point 5 below).

11. Many people could not afford to take a holiday abroad a few years ago can now do so – some 57 million do. Families will go without a new car, etc, in order to be able to enjoy their annual overseas holiday. Flying is no longer the preserve of the upper and middle classes. The dramatic growth in leisure air travel is due mainly to the enterprise of UK airlines and tour operators making it affordable and convenient for ordinary people to enjoy a holiday in the sun, visit friends and relatives, or experience the social benefits of other cultures.
12. ABTA believes that the UK requires adequate aviation infrastructure to enable all those who wish to travel by air to be able to do so in reasonable conditions at a reasonable price. Infrastructure policy must recognise the changed nature of our lives. The Air Transport White Paper sought to do just that and the Government should be commended for grasping this nettle. The alternative is that constrained capacity helps push up the cost of flying, pricing out low and middle income families who have only recently been able to afford to fly.

3. To what extent can rail provide an alternative to short-haul flights?

13. The UK comprehensively missed the move to high speed rail when France and then Germany began to build their network of high speed trains linking their major cities. The only high speed rail link the UK has is Eurostar from London to Brussels and Paris; the number of air services from London to these cities has decreased by about 25%. Eurostar links were originally expected to the Midlands and North of England; these have not happened with passengers continuing to fly to Brussels and Paris from Birmingham, Manchester and Newcastle.

14. A high speed rail link will bring the Continent closer but because of the UK’s geography will never replace some routes, eg Edinburgh to Amsterdam – currently an hour’s flight or a minimum of nine hours by train. Parts of the UK will always have to be accessed by air eg Northern Ireland.

15. Passengers are prepared to take the train if it offers a direct journey without having to change at an intermediate station and if the price is comparable to the air journey between the two points. The rail companies have just increased their prices by a minimum of 6%. The airlines maintain their low prices. Experience has shown that businessmen are prepared to take a rail journey of up to three hours in each direction so that they can travel there and back in a day; over this duration, they will fly.

16. Whilst routes into London might become high-speed, cross country journeys are a different matter and are rarely joined up, equally the case in France.

17. ABTA supports a high speed rail link to the north of England but in addition to and not as a substitute for a third runway at Heathrow. ABTA supports a Heathrow Hub as proposed by the Government in January as part of an integrated transport system as enjoyed by many Continental airports (eg Frankfurt and Amsterdam). Until such time as there is a rail link directly into Heathrow, ABTA believes that passengers connecting to international, and particularly intercontinental flights, will continue to fly from their local airport to London. It should be borne in mind that some 50% of all domestic air travel is connecting on to international flights.

4. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

18. ABTA has long accepted that aviation should pay for its environmental impact which it more than does through Air Passenger Duty (APD). But this should be done fairly, ensuring that the industry does not pay more than once for the same impact. Inevitably any cost is passed on to the end user, the passenger. ABTA supports the introduction of the EU Emissions Trading Scheme (ETS) as a replacement for APD. The ETS is a more appropriate solution recognizing airlines’ investment in more efficient aircraft.

19. Alongside the considerable economic and social benefits there are costs in terms of noise, air quality and climate change.

20. ABTA agrees that all efforts must be made to reduce and mitigate noise and air quality impacts as far as possible. Airlines have invested enormously in quieter, more fuel efficient and less polluting aircraft in recent years. Advance orders for new aircraft from Airbus, Boeing and other manufacturers are healthy and are for aircraft that will offer better performance than those aircraft operated today. The industry has set itself a target of reducing the noise footprint of new aircraft by a further 50% by 2020 and reducing NOx (which affects local air quality) by a further 70%.

21. In relation to climate change, according to the International Panel on Climate Change, aviation currently accounts for 2% of global CO₂, considerably less than many other industries, and they predict this will grow to 3% by 2050.

22. ABTA believes that the only effective approach to dealing with aviation’s contribution to climate change is a combination of new technology and international agreements. Aviation should be included within an international climate change framework to ensure a balanced approach across the world.

23. The UK aviation industry has had in place a strategy to reduce its environmental impact since 2004 and produces periodic updates on progress. The inclusion of aviation within the UK’s climate change strategy (as part of the Climate Change Act 2008) is therefore welcome.

24. Notwithstanding the climate impacts of flying, we believe that the increase in access to flying and travel has had a beneficial impact on society in general, broadening horizons and dispelling ignorance.
5. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

25. APD is an unwelcome tax which does nothing to incentivise airlines to use quieter, more fuel efficient aircraft and is not hypothecated either to the environment or to the aviation industry. Passengers are being taxed increasing amounts to fly from the UK and, frequently, because of the UK’s position as an island nation, have no option but to fly. Passengers who live in parts of the UK without direct flights to all destinations, must either fly through a third country (thereby losing revenue to UK airlines and indirectly to the Exchequer) or through a hub airport. If they cannot travel on connecting flights, they must pay APD on both domestic sectors in addition to the international departure from the UK. Passengers are increasingly taking a mix of scheduled, charter and no-frills airlines who do not offer connecting flights.

26. Passengers traveling 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 traveling 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.

27. Optional protection through an insurance policy (insofar as such insurance is available at all) might permit a passenger to obtain a refund of their ticket, but it does not provide an immediate solution to repatriation. Voluntary agreements between airlines, whilst helpful, do not always work in experience. There might not be another airline on the route. Other airlines might operate the route but be full or only prepared to provide seats on a space available basis; there is no real incentive to them to cooperate unless they have unsold seats and expect to get some money for them.

28. The Transport Committee has previously expressed concern at the large number of leisure passengers not protected by ATOL. The competitive disadvantages of tour operators remain and are becoming more significant as the proportion of holidaymakers carried by scheduled and no-frills carriers increases. Whilst competition is healthy, it should be on the basis of a level playing field. Competitive pressures, particularly the cost of the Air Passenger Charge possibly increasing, are likely to encourage tour operators to consider unbundling their holiday products, further accelerating the decline of comprehensive consumer protection.

29. As the Transport Committee is well aware, ABTA has consistently lobbied both in the UK and Europe for the protection of all airline passengers. The Committee’s own report of July 2004 expressed arguments for adopting a comprehensive system of passenger protection for all flights originating in the UK. The failure of EUJet in September 2005 demonstrated how passengers were left exposed. At the time of their failure, approximately 12,000 passengers were overseas and 100,000 had forward bookings. EUJet operated from Manston in Kent and it was not convenient for many passengers returning to the UK to take up offers from other airlines to repatriate them at a low cost as they flew to other airports; further at this peak time of year, airlines had little capacity and thus few cheap flights were available. Passengers who had paid less than £100 for their flights would not be able to claim on their credit card under the Consumer Credit Act, and this would only cover the cost of the original ticket and not the repatriation on another airline. Passengers also lost pre-paid bookings for accommodation and car hire as they were unable to travel.

30. The European Commission is understood to be commissioning a further study into protection of passengers in the event of airline failure but it is unlikely there would be legislation at EU level for a number of years.

31. A comprehensive financial protection scheme for all air passengers is long overdue.

6. What is the impact on the aviation sector of changes in the security environment?

32. Following the August 2006 terrorist threats, the Department for Transport introduced stringent restrictions on hand baggage carried on board airlines. Whilst ABTA has no argument with this, particularly now that the airports have better resourced the security checkpoints (the cause of many passenger complaints in the last two years), we are concerned at the lack of standardization existing, not only globally and across Europe, but at different UK airports. Depending on where the passenger is traveling, different rules exist which can be confusing. We firmly believe that there should be consistent global security standards which are reviewed on a regular basis to reflect risk.

February 2009

Memorandum from International Air Transport Association (FOA 35)

1. IATA is a trade association representing some 230 airlines comprising 93% of scheduled international air traffic and it appreciates the opportunity to provide feedback on the questions posed by the Committee.

2. In summary, IATA suggests that:
   — Efficient air links to island nations are nothing short of critical and the United Kingdom is no exception.
— Current UK aviation infrastructure is already inadequate and falling progressively further behind what is needed.
— Air transport does impose a cost on the environment. So government should help it mitigate that cost, not by imposing taxes that generate no environmental benefit, but by supporting research and development into new technologies, ensuring efficient infrastructure and implementing positive economic instruments.
— Security measures must be consistent and globally harmonised.

Question 1: What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

3. The United Kingdom is a trading nation and therefore unable to rely on a large domestic market like the economy of the United States. Aviation is key to supporting this trade, carrying 30% of exports by value.
4. Major UK businesses are globalised and operate global supply chains. Aviation is vital to enable business travel and the just-in-time supply of components. In short, aviation is vital to the competitiveness of these businesses.
5. London and regions like the M4 corridor are globally important hubs for finance, electronics and business services. A competitive hub airport, like Heathrow, that facilitates air links to sufficient destinations on a frequent enough basis, is key to keeping these sources of economic growth in the UK and preventing them migrating to other hub airports that boast greater capacity.
6. A Study conducted by Oxford Economics on behalf of the Air Transport Action Group (ATAG) updated in April 2008 concluded that aviation contributes hugely to both employment and the global economy. Specifically, the air transport industry generates 31.9 million jobs globally, including 5.5 million jobs directly. Its global economic impact is estimated at US$ 3.557 billion (2007) equivalent to 7.5% of world GDP. In addition 25% of all companies’ sales are dependent on air transport and 70% of businesses report that serving a bigger market is a key benefit of air transport. The UK government needs to do whatever is necessary to maintain its share of this global pie.

Question 2: Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

7. Given the already prevalent delays and excess demand for slots at London airports and the Department for Transport’s own forecasts for future travel demand, infrastructure is clearly inadequate.
8. Quality of service levels at Heathrow, the UK’s primary hub airport, are rated extremely low. This is damaging the UK’s position as an attractive destination for tourists and foreign direct investment.
9. Consolidation (ie mergers and alliances) in the airline industry may lead to more global airlines. Such airlines could easily be tempted to [a] relocate their main hubs away from the UK if infrastructure is inadequate and [b] develop secondary hubs with available capacity and service levels outside the UK in conjunction with their partners.

Question 3: To what extent can rail provide an alternative to short-haul flights?

Question 4: What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

10. IATA is forecasting a 4.5% fall in CO2 emissions from aviation for 2009. Actual emissions are forecast to fall from 671 million tonnes of CO2 in 2008 (673 million tonnes in 2007) to 641 million tonnes in 2009. Part of this drop is due to the 2.5% cut in capacity but the rest is due to efficiency gains. To put this in context the global total of manmade CO2 emissions is over 34 billion tonnes of CO2. Aviation represents around 2% of this total. Aviation is a global industry and climate change is a global problem. We therefore urge governments to look for global solutions to tackle aviation emissions.
11. The air transport industry acknowledges the UK Government’s ambition for UK aviation’s emissions to be below 2005 levels by 2050 as part of the overall UK target for an 80% reduction in emissions. The IATA target of achieving carbon neutral growth and its vision to build a zero emissions commercial aircraft by 2057 is consistent with the efforts to achieve that goal.
12. IATA is convinced that technological advances (and in particular the future use of sustainable 2nd generation biofuels) can reduce aviation emissions below 2005 levels while allowing further growth and without inhibiting the benefits generated by air travel. However, this will require substantial research and development support to bring aviation biofuels to commercial scale, as well as speedy certification by bodies such as the Aviation Fuels Committee in the UK.
13. More importantly, infrastructure investment is urgently required to eliminate the unnecessary emissions generated by the delays resulting from inefficient infrastructure. For example in the field of Air Traffic Management (ATM), the SESAR (Single European Sky ATM Research) project has quantified the environmental improvements from new concepts of operation, new procedures and technologies. These amount to 17 million tons of fuel savings and 50 million tons of CO₂ up to 2020. Fuel savings for airlines amount to EUR 8 billion at a fuel price of USD 0.54 per kg.¹⁸⁹

14. With regard to the Climate Act and other legislation designed to reduce emissions around the world, governments must recognise that aviation is a global industry and that global solutions are required to tackle aviation emissions, considering that a large proportion of emissions are released over international waters. We urge the UK Government to work through ICAO and its Group on International Aviation and Climate Change, of which the UK Government is a member, to agree a global solution.

**Question 5:** What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

15. Through taxes and charges, airlines and their passengers fully cover the cost of their infrastructure. The same cannot be said for rail operators and their passengers. Air travel is not “under taxed”.

16. In terms of so-called environmental taxes, such instruments seriously inhibit the ability of airlines to invest in cleaner technologies, thus doing more harm than good to the environment. In addition, such taxes do little to restrain demand for air travel since incomes/GDP dominate the drivers of demand for travel.

17. Current revenues from the UK Air Passenger Duty more than cover the environmental costs of aviation according to the UK Government. When the revenue from APD rises from the current GBP2.46 billion per year to GBP2.6 billion from November 2009, this will be even more the case. None of the revenue from APD is fed back into environmental measures, but instead goes straight into government coffers. When the aviation industry starts paying for its emissions under the EU’s Emissions Trading Scheme in 2012, the Government should discontinue APD, as this would constitute double counting.

18. UK OFCOM’s attempts to impose Administered Incentive Pricing (AIP) on the radio spectrum used by air transport is another example of a damaging and misguided tax. This proposal is simply a means of generating revenue through a tax that would neither remedy any infrastructure or spectrum problem, nor benefit the UK or the international airline community.

19. Indeed OFCOM’s proposal could result in the 130 IATA members flying through UK airspace having to pay over 60 million GBP per year. This additional economic burden would reach beyond the airlines themselves to the industries in the UK that rely on air transport. In addition, such a proposal could open the door to repercussions from other countries whose airlines may be adversely affected simply because they fly through UK airspace.

**Question 6:** What is the impact on the aviation sector of changes in the security environment?

20. The effectiveness and efficiency of the aviation security environment is often limited by lack of an holistic approach, which results in inconsistent measures. Many systems are developed under political and public pressure as a response to an actual or perceived threat. As growth in air travel returns, and in order to strengthen the resilience of the air transport sector against the threat of terrorism, airline and airport processes in the security arena must be determined by proactive risk management, balancing vulnerability, threat and risk. The regulatory environment of recent years has been permeated by a fear-based mentality that erodes trust and focuses on unilateral measures. The result is [a] an inability to respond dynamically to a changing threat environment and [b] burgeoning costs caused by duplicative and redundant requirements.

*February 2009*

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Memorandum from Essex County Council (FOA 36)

Essex County Council’s response is centred on Stansted and the effect the proposed expansion of this airport will have on, in particular, the county of Essex and its neighbours. Our response is primarily in respect of the following three questions put by the committee.

1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?
2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?
3. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

Our main arguments and conclusions are:

— The economic benefits of Stansted, for the local area and for the wider economy, have been overestimated.

— A central argument is that the economic impact of aviation is highly dependent upon its location and the function and nature of the airport. The contribution to the UK and foreign economies, and the impact both positive and negative on local communities cannot be said to be the same or even similar for each airport.

— In this context, insufficient attention has been given to the special nature of Stansted—both now and as forecast. It is important to understand how its characteristics differ from Heathrow (and to a lesser extent) Gatwick.

— Without the long haul and short haul services to suit the international business traveller, and without the catchment area of such travellers (when compared to Heathrow), Stansted will not achieve the employment growth and the local and wider economic benefits that are being claimed.

— At the same time the estimated costs undervalue the real costs to local people.

— Aviation forms part of the national transport infrastructure, and its role in terms of integration must be achieved within the bounds of a low-carbon economy.

— The value of aviation to the UK economy has yet to be adequately assessed—its economic impact must be evaluated in the context of its climate change, local air quality, noise, surface access, congestion and quality of life impacts.

1. Introduction

Essex County Council has considered the impact of the development of Stansted Airport for more than 30 years; in the first instance, prior to the original Eyre Inquiry in 1981–1983, and subsequently with the many expansion proposals since that date.

ECC is currently involved in opposing the development of a second runway proposed by BAA. It is working jointly with Hertfordshire CC, Uttlesford and East Herts Districts.

2. Background Policy Context in Relation to Stansted Airport

2.1 BAA’s planning applications for the development of a second runway and associated facilities at Stansted in March 2008 have been made in unprecedented circumstances, in which the future structure and ownership of the London area airports system is extremely uncertain; and the continued strong growth of the air transport industry is being seriously threatened by the national and global economic climate (GDP growth), the fluctuating price of oil and concern over the industry’s impact on climate change.

2.2 It is a very different scenario to that at the time the ATWP was published and the Air Transport Progress Report (ATPR) was issued. Events have demonstrated how uncertain forecasts can be. During the Stansted G1 inquiry in 2007, BAA anticipated that 25 mppa would be reached in 2008. Passenger throughput has actually decreased to 23 mppa. The existing runway now has a permitted capacity for an increment of 12 mppa with potential for a further 5-10 mppa, giving a presently unused capacity of 17-22 mppa.

3. Question 1—What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

3.1 Our submission relates primarily to our knowledge of Stansted. Essex CC and its partner Councils will present evidence at the forthcoming Inquiry for a second runway at Stansted, challenging the underlying assumptions put forward by BAA that there are substantial national, regional and local benefits of a second runway at Stansted. The Councils note that the G1 Inspector considers that the economic impacts of specific airport developments are not “settled” by the ATWP and that it is necessary to examine the specific economic benefits claimed for any proposal.

3.2 BAA states that aviation “makes a significant contribution to the UK economy through the employment it generates and facilitates, and in particular through the other economic activities which it supports, such as trade, tourism and inward investment” (BAA SoC 7.3.2). The Councils contend that Stansted by its nature as a basically short haul, low cost airline airport can make only a limited contribution to such economic benefits.

3.3 The nature of Stansted now and as forecast in terms of services and type of passenger has been dealt with above as has the limited role additional employment generated by Stansted development can play in realising the economic goals of the Regional Plan. The Economic Impact Report (EIR) produced by BAA does not address the specific nature of Stansted in making its estimate of economic benefits.
“Business cluster effect”

3.4 Stansted is dominated by leisure and UK origin patronage. Much of the analysis of the wider economic benefits accruing from air travel focuses on aviation’s role as an enabler of wider growth. However, this analysis in the UK takes Heathrow and Gatwick as its model, failing to recognise the differences between these airports and Stansted. Stansted serves a predominately leisure market, offering short-haul point-to-point services. It does not have the “enabler” and “catalytic” effects which Heathrow and Gatwick display. There is no evidence to support the fact that there is a difference between a single and two runway airport in delivering these claimed benefits.

3.5 This means that Stansted expansion will not have the ability to attract a broad range of high-technology, knowledge-based and financial services companies into the area, and will not aid the setting up of business parks and expansion of other commercial operations in the surrounding area. These sorts of companies establish themselves near airports which offer a wide range of intercontinental passenger services, which are not present at Stansted and show no signs of being established there.

3.6 No evidence has been provided of any significant existing airport related businesses locating in the local area as a result of the huge expansion of Stansted in the last 10 years. The EIR offers no reason why this might change with a second runway and there is no justification for anticipating a new runway would act as a greater catalyst for regeneration in nearby towns such as Harlow than will the significant available capacity on the existing runway.

3.7 ECC also challenges the extent of additional passengers which BAA asserts that G2 will allow. Because business travellers are less price sensitive than leisure travellers, constrained demand at Stansted should mean business travellers price out leisure travellers. This effect means G2 would not facilitate the level of additional business passengers above the base case which BAA uses as the basis for calculating its “wider economic benefits”. As such, the claimed wider economic benefits for G2 do not materialise.

Airport Employment and the Local Labour Market

3.8 BAA forecast the second runway will generate an additional 15,700 jobs in the region 2015 to 2030, 9,800 on the airport (Table G.2 EIR). The productivity rates used to calculate the on airport employment have only recently been made available to the Councils but, whatever their accuracy, the headline figure will over-estimate the real growth.

3.9 BAA compares a 68 mppa G2 airport with a 35 mppa base case at 2030. In the real world if G2 does not go ahead it is likely that capacity on the existing runway would be increased, potentially to 45 mppa, with a corresponding increase in the base airport employment.

3.10 BAA also includes the induced employment as additional. These are the service workers who provide the services to other workers and residents and who will largely already be serving the existing population. The additional induced employment from people changing jobs to work at Stansted will be very small.

3.11 An element of the demand for new on airport employees may be met by migrant workers, particularly from the EU. Councils have requested information from BAA on the present situation and the degree of seasonality in the employment figures. This could affect the degree the airport could provide for any potential local labour surplus.

3.12 It is noted that at the regional level the additional jobs at G2 are not additional to forecast regional employment. G2 may change the distribution of jobs but it does not affect the forecast total.

3.13 The local labour market around Stansted is particularly tight compared to the national average (mid 2008). National unemployment stands at 5.3%. The claimant count unemployment in the assessment area is 1.6% and total unemployment is 4.3%. This rate effectively represents full employment as there will always be some frictional unemployment and, while it may be expected to rise in the short term, the area is expected to continue to be generally buoyant. This has a number of implications.

3.14 BAA’s analysis which counts the employment offered by Stansted expansion as a net benefit of G2 in fact over represents the benefits of the project. In the absence of structural unemployment, if the aviation sector were to offer less employment, people would find jobs in other sectors. Not accounting for this overstates G2’s importance.

3.15 The negative effects on businesses that will lose employees to G2 should also be considered. Excess demand for labour could cause labour shortages and the displacement of local businesses. In addition a large proportion (37% of the on-airport workforce) is projected to be in the lower occupational categories. The beneficial impact of these occupational types in the assessment area is limited.

3.16 The employment provided to the construction industry is also claimed as a benefit. Any real benefit would depend on the state of the industry in the region and London generally. It is difficult to see a second runway at Stansted being constructed in a period of economic recession where the construction industry is in need of new projects.

3.17 In conclusion therefore the Councils contend that the local and regional benefits from employment growth at Stansted are significantly less than have been claimed. The implications for regional policy have been dealt with above and the claimed economic benefits for the wider economy are dealt with below.
3.18. BAA’s estimates of economic benefits, the direct user benefits and the wider economic benefits, are contained in the Economic Impact Report. More generally, the Councils contend that the cost-benefit analysis in the EIR is highly selective in what it includes and excludes, biasing the analysis towards G2. There are also a range of technical flaws with the cost-benefit analysis as undertaken in the EIR.

3.19 The estimates of benefits in the EIR are based on comparing a 68 mppa Stansted at 2030 (and on to 2075) with a 35 mppa Stansted. This is an unrealistic comparison even for such theoretical estimates.

3.20 Direct user benefits have been estimated based on the DfT 2007 calculation (UK Air Passenger Demand and CO2 forecasts). The BAA estimate based on 33 mppa additional passengers 2030—2075 is £8.9 billion NPV which is less than half the DfT’s figure based on 47 mppa additional passengers. If a more realistic base of 45 mppa rather than 35 mppa is used giving 23 mppa additional passengers the estimated benefits will fall further. In addition additional airport capacity provided elsewhere before 2075 will reduce the calculated levels of user benefit.

3.21 The Councils question the level of estimated direct user benefits and the treatment of the five categories of benefit. They will also question the estimates of costs, both the level estimated and the comparison between what can be viewed as the theoretical benefits the availability of more frequent flights to low cost destinations) and the real costs in terms of noise and traffic congestion.

3.22 The estimated Wider Economic Benefits are the most significant element in the quantified cost benefit analysis. The calculation is based on the number of additional business travellers that G2 is assumed to create (2030 extended to 2075) and a simple formula of the output business air travellers create. The Councils contend this is over simplistic and greatly over-estimates the contribution Stansted could make.

3.23 No consideration is given to the type of business passengers and the destinations served at Stansted, the assumption being that the mix would not be significantly different to that across the UK as a whole. This is unsatisfactory as is the use of a formula derived in 2005 from historical data for estimating over a period to 2075.

3.24 The importance of international tourism is explained in the EIR but there is no assessment of the net costs and benefits in terms of a comparison of UK expenditure abroad and foreign expenditure here. It is understood that this issue is being pursued by SSE as part of its legal challenge to the G1 decision.

4. Question 2—Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

4.1 In this section we examine forecasts and the existing infrastructure at Stansted. The aviation case for the second runway proposal is inadequately developed (there are a number of deficiencies in the forecasting approach) and is based on outdated BAA forecasts. BAA’s forecasts are not derived directly from the application of regression analysis techniques as for example are the forecasts of the DfT.

4.2 The Councils disagree that the forecasts are sufficiently robust to underpin the need for the development of a second runway.

i. The forecasts underlying the Air Transport White Paper were produced in 2000 and though the 2006 Progress Report produced similar numbers, these were before the recent volatility in oil prices and the material downturn in the global economy.

ii. There is now clear doubt as to whether the present forecasts of the Government or BAA will be realised in the timescale suggested. Demand at Stansted is largely for low cost leisure flights and this demand is particularly susceptible to rising prices, adverse changes in the value of Sterling on foreign exchanges and economic downturn.

iii. The G1 permitted available capacity at Stansted of 35 million passengers per annum is likely to last well beyond the original forecast date of 2014—15 without the need for new runway capacity and if the DfT low forecasts materialise then 40m would only materialise by 2030. BAA themselves identified that capacity on the existing runway could rise to 40mppa by 2030 but it must be recognised that a single runway could have capacity to accommodate 45mppa (as at Gatwick). This then makes the financial case for a second runway harder to justify with the risk that even if BAA (or a successor owner) were to be granted permission, construction would not take place extending the inevitable blight for local communities.

iv. The Department for Transport recently produced new aviation forecasts identify a significant reduction in previously forecast demand, but it is not known whether they fully reflect the current financial and economic turmoil, the likelihood of a severe and prolonged world recession and the ability of oil prices to fluctuate wildly; the original forecasts were based on oil price assumptions substantially lower than the 2008 peak at US $145. The uncertainty in confidence in world financial and property markets, alongside an increasing concern within the broad population of the consequences of climate change, could well initiate a fundamental shift in demand for business and leisure travel. The low cost airline companies flying from Stansted have queried both BAA’s forecasts and the financial implications of a new runway.
v. In addition to the overall scale of the forecasts ECC question the assumption by BAA of a substantial increase in transfer passengers at Stansted beyond the current (2007–08) level of 8.5% to the 16.6% assumed by BAA at 2030. The level of transfer passengers has significant impacts on the surface access forecasts but the BAA assumption at present lacks transparency.

4.3 The new DIT forecasts for 2030 indicate that for Stansted demand could between 40m and 55m in the low to medium forecasts. In its submissions to the Competition Commission, BAA itself considers that Heathrow and Stansted were poor substitutes for each other, so that provision of airport capacity at Stansted will not release the same economic benefits as are associated with the expansion of Heathrow.

4.4 The existing capacity and likely lack of demand at Stansted make it difficult to produce a financial case for a new runway. The statements from the Competition Commission requiring BAA to divest itself of the Airport together with Gatwick do not make the situation clearer. While a new owner may have the resources to fund a new runway it will face an even higher investment risk being faced with a new runway at Heathrow and potentially one at Gatwick. The potential for a second runway at Gatwick was recognised to a limited extent in the 2003 Air Transport White Paper and has very recently been raised as a potential option for additional runway capacity by the Competition Commission.

4.5 The Competition Commission’s report “BAA Airports Market Investigation—Provisional Decision on Remedies” dated 17 December 2008 also calls for BAA to divest Stansted as well as Gatwick. If this recommendation is accepted this would most likely introduce a further significant delay as the new owner of Stansted seeks to review the case for, and possibly the design of, the G2 proposals.

4.6 It is Essex CC view therefore that there is no aviation case for a second runway at Stansted at the present time and forecasts indicate that there is considerable uncertainty that by 2030 there will be any need even in aviation terms. It is our view that if the G2 project to be permitted the new runway would not be constructed in the short to medium term and that there is no case for the grant of planning permission now or for the compulsory acquisition of land. In the light of this it should not be permitted at this time. To do in the face of such uncertainties would give rise to excessive blight for many years to come.

5. Question 4—What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

5.1 The costs that aviation imposes on society and the environment relate to noise, local air quality, climate change, surface access demand & congestion, heritage, nature & wildlife, land use & land take, and quality of life issues.

5.2 Aviation policy does not currently reflect a full understanding of the environmental costs of aviation, not least because it is predicated on the economic value of the aviation industry as identified by the OEF studies—the 1999 study having explicitly excluded any assessment of the environmental consequences of the future development of aviation, and the 2006 only touching upon the issue of climate change, not the full range of aviation’s environmental impacts.

5.3 A full understanding of these environmental costs has not yet been developed, and there has to date been slow, piecemeal development towards this. Sustainable development of the aviation industry requires more concerted efforts to accurately represent aviation’s environmental costs. This is essential in order for the Government to be able to take decisions that accurately address these costs.

5.4 By their very nature, BAA’s proposals for a Stansted second runway (G2) would have a much greater impact on the environment and local community than did those arising from G1. This includes a three-fold increase in passenger throughput, with associated effects on noise, air quality and congestion, and the wide ranging impacts of a new runway on the environment and affected communities. It is therefore highly important in the G2 context to be able to test whether the benefits (such as the economic benefits) assumed by ATWP are likely to be realized and whether they outweigh the environmental and community impacts that will occur as a result of development.

5.5 The Government and the aviation industry appear to assume that other sectors will bear the brunt of carbon reduction. In BAA’s case with the second runway proposal at Stansted, carbon costs are estimated and then excluded because it is assumed that the aviation industry will in future have to pay for its emissions with the reduction in carbon being in other sectors of the European economy. While it is the Government’s intention that the carbon costs of the aviation industry should be internationalised, it remains unclear how the full social cost of carbon is to be internalised (which includes the radiative forcing effect from aviation carbon emissions). The use of grandfathering would also prevent the full internalisation of carbon costs, as well as damaging competition in the industry by discouraging new entrants. Progress is being made to include aviation in the EU Emissions Trading Scheme but this could still mean net increases at the national level (even if not at the EU level) and it does not include the radiative forcing effects.

5.6 The Climate Change Act 2008 calls for reductions of 80% in the UK’s net carbon emissions by 2050 in order to stabilise warming at two degrees. International aviation will be part of the targets for year on year carbon reductions, yet it will not be subject to meeting carbon budgets, as will be the case for other industries. This means other sectors will have to make deeper cuts to account for the growth in aviation emissions. The additional impacts of NOx, contrails, and other gases emitted at altitude have yet to be addressed.
6. CONCLUSION

6.1 Essex CC is of the view that the economic benefits of Stansted, for the local area and for the wider economy, have been over-estimated.

6.2 Insufficient attention has been given to the nature of Stansted, both now and as forecast; it does not share the characteristics of Heathrow—nor indeed Gatwick. Without the long haul and short haul services to suit the international business traveller, and without the catchment area of such travellers Stansted will not achieve the employment growth and the local and wider economic benefits that are being claimed. At the same time the estimated costs under value the real costs to local people.

6.3 Economic benefits have to be weighed against other impacts—ECC argues that considering the development of Stansted, the weight that can be put on those benefits is necessarily limited.

6.4 It is essential that all costs and benefits that are capable of valuation should be so treated in order that a fully informed view can be taken by decision makers. Both BAA in its G2 assessment and Government in the ATWP have both taken a partial and incomplete approach to what is included.

6.5 A low cost carrier airport by its very nature does not face competition from other hub airports. There is very little inter-lining at a low cost carrier airport. It essentially depends on demand being generated by low price. As long as the airline users are making sufficient returns on their investment they will use the facility.

6.6 The two main users of Stansted (Ryanair and Easyjet) oppose the BAA plan for a second runway at Stansted.

February 2009

Memorandum from the Association of Independent Tour Operators (FOA 37)

As requested, we present some initial views as to the Future of Aviation in the UK. We are the Association of Independent Tour Operators (AITO), a grouping of approximately 140 of the UK’s best specialist and largely independently owned tour operators.

Since its inception in 1976, AITO has been the nursing ground for some of the most innovative ideas in tour operation and its specialist members have introduced many of the trends which are now seen as mainstream. Collectively, AITO members carry approximately 1.2 million passengers a year and employ in the region of 6,000 people.

We are tour operators and not experts on aviation. However, we are responsible for the generation of considerable annual carryings from all of the UK’s airports and use both charter and scheduled carriers. In fact, without some of our members taking high risk commitments on charter flights, these aircraft probably would not fly.

We will answer your questions in turn and where we do not feel qualified to comment we will point this out. Please bear in mind that the replies may not specifically deal with the nitty-gritty of operating an airline.

1: What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

We are not in a position to quantify the value of aviation to the UK economy. However, our members carry over one million passenger a year and aviation provides for their livelihoods and the many jobs in the UK as well as many more in overseas destinations where our members operate and generate revenue and employment in the local economies.

Over the last 10 years there has been an increasing trend for UK flyers to want to use their local airports. Using a local airport is more convenient, considerably cheaper and the main London airports of Heathrow, Gatwick, Stansted and Luton have become, in the eyes of many consumers, increasingly crowded and subject to delays.

The escalating use of regional airports by tour operators has generated local jobs and has shifted capacity from the main UK airports, thus enabling the number of flights to and from the UK to increase substantially. Convenience is paramount for the consumer. Such is the strength of feeling as to flying from one’s local airport that destinations which are not represented from that particular airport are not visited by those using the airport’s facilities.

For example, if Heraklion in Crete is not served from Bristol Airport, then 90% of the clientele would choose an alternative destination served by that airport rather than holiday in Eastern Crete.

We do not believe that the regional airport faces any competition from airports abroad. We also feel that the threat of those travelling from regional airports to use European hubs instead of Heathrow is generally exaggerated and, anyway, this normally applies to long haul traffic only.
London is served by four airports and generally the Association’s members feel that the capacity is adequate and that concentration should be on improving the service and facilities of the airports rather than expanding their capacity. It is not true to say that the reason why fewer destinations are served from Heathrow is because there is inadequate runway capacity. The truth is that tour operators have seen the local demand from regional airports and have shifted capacity away from Heathrow to the local airports where they are able to generate increased revenues. Our Association did not comment on the third runway debate as, from the members polled, only 39% were in favour.

2: Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

We do not represent airlines and are not in a position to comment from the airline point of view on the current aviation infrastructure. However, we believe that the current infrastructure is adequate. Over the last ten years we have seen the rapid development of regional airports and we are now in a situation where any additional regional airports would simply take existing business from other near-by airports. We do not therefore feel that more airports are required as the regional airports are adequately serving local communities. Four London airports, provided they are used efficiently, have sufficient capacity for the capital.

We are worried that the growth in the no-frills sector has been fuelled by direct subsidies to these airlines by local airports and that once these direct subsidies, for example in the form of lower airport taxes and marketing help, are removed, the service from that airport tends to be withdrawn.

The no frills carriers have not brought stability to the airline industry but, in the same way as the banking sector has been opportunist and has depended on a perpetual boom in the world’s economy, the no-frills carriers too are optimistically dependent on the continuing growth in the demand for aviation.

The danger is that when the growth stops, as it seems to be currently, they will be unable to deliver the very low prices and will therefore lose business and perhaps fail.

It is therefore quite likely that there will be continued mergers within the airline industry and here, we must issue a note of warning. Already, in the tour operating sector, the four leading players have merged into two. This gives these two organisations a greater control over the holiday industry and has also meant that they are able to restrict charter/scheduled airline capacity as there are now only two in-house airlines rather than four. This therefore stifles competition and access to their charter flights by third party charterers.

As the power of dominant airlines grows through mergers, so will consumer choice be reduced. We believe that future passenger trends will be subject to Government intervention throughout the world in order to reduce carbon emissions. This is dealt with in more detail under question 4.

3: To what extent can rail provide an alternative to short-haul flights?

We have seen an increased use of the rail network as the operating companies have introduced better rolling stock and have increased efficiency. There is no doubt that rail can provide an alternative to short haul flights. In fact, rail can provide a very viable alternative for flying from, say, the north of England to the south of France. The problem of course will be cost and the capital expenditure required in order to expand the rail network.

In order for rail to provide a viable alternative it must necessarily be cheaper. It is very difficult to see how this can be achieved so long as demand outstrips supply and additional track is not provided.

4: What cost does aviation impose on society and the environment? What are the implications of climate change policy — in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

The aviation lobby always goes to great pains to point out that CO2 emission from aircraft worldwide represent only 2% of the total. They fail to point out that CO2 emissions in the UK from aviation represent over 6% of the total. We believe in the science relating to global warming and feel that every effort should be made to curb CO2 emissions.

Emissions trading cannot be the only answer. The solution must be approached from many angles, including possible future restrictions on flying and higher taxation. There is much talk as to the increased efficiency of aircraft that are currently being developed. However, how many airlines will be able to afford these new aircraft and how much more expensive is flying likely to become seeing the upward trend in oil prices? It is very easy to argue that the new technologies that are currently being developed will mean that many more people can travel by air but at a lower environmental cost. Certainly, this is not likely to happen in next 50 years and increased efficiency and convenience leads to increased use so that any benefits from the new technology could be wiped out by an increased use of the facility.
Sooner or later, Governments will have to bite the bullet. As global warming gathers pace over the next 10-15 years, so there must be a possibility that air travel will be subject to quotas. For example, there could be a limit on the number of daily flights from London to Paris. This would mean that if one could not book on one of these flights, then one would simply not be able to fly to Paris on that day. There will, most definitely, have to be an adjustment in the way we manage our lives if we are to save the planet in view of the rapidly increasing population which is probably the major factor in the increased depletion of the world’s resources.

5: What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

We are obviously worried about the current level of taxation which, very often, now exceeds the cost of the flight itself. There is much argument as to how effective taxation is in reducing demand but it is certainly quite evident that, as a result of increased taxation and the increase in the price of fuel, the frequency of flying has been curbed. If the tax is high enough, then demand definitely reduces. There are, of course, regional anomalies as those who are unable to fly direct to a destination have to connect via another UK airport and are therefore subject to two sets of airport taxes and duty.

Passengers are most definitely inadequately protected from the collapse of airlines. Government legislation has lagged too far behind the reality of the market. Today’s airlines are not Government owned and are therefore very likely to fail. However, it seems to us that the very powerful airline lobby, lead by British Airways, has been successfully able to prevent the implementation of a £1 levy on all outbound flights which, at a stroke, would have created an enormous fund in order to cover both airline and tour operator collapses. As airlines have seen their revenues fall from the sale of a flight seat alone, so they have resorted to offering other services in order to augment their margins. However, as they are not subject to the ATOL system in the UK, so they have been able to offer quasi-package holidays using accommodation offered on a linked website, owned by separate legal entities, without any of the financial burdens carried by traditional tour operators. The market is heavily distorted.

There is a very urgent need for the levelling of the playing field and the provision of adequate consumer financial protection from airline collapses.

6: What is the impact on the aviation sector of changes in the security environment?

We do not believe that there will be a long term detrimental impact on the aviation sector as a result of increased security at airports. Airports are beginning to use more sophisticated scanners and have become more efficient in the throughput of passengers. It is only a matter of time before the rail and cruise industries are also subject to the same security requirements.

February 2009

Memorandum from Prospect (FOA 38)

Prospect welcomes the opportunity to provide evidence as part of the Transport Select Committee inquiry into the future of aviation. Prospect is a professional trade union with over four thousand members working in the aviation sector. The majority of our members working in aviation are employed as either Air Traffic Controllers, Engineers or System Specialists and Scientists. The majority of our members work for NATS or the CAA, though our membership in other airports and aviation related functions continues to grow.

1. Our members continue to make a fundamental contribution to the success of UK aviation. The UK has some of the most congested and complex airspace in the world. Despite this, the UK has achieved a formidable record on safety, delays have been kept at an historic low and very significant achievements have been made in terms of addressing issues related to complexity and capacity growth. It is a tribute to our members, for example, that they operate so effectively at what are recognised as the busiest dual and single runway operations in the world.

2. Over the past five years traffic volumes have increased by around 22%—with over half a million more flights. Whilst over more recent months flight volumes have been reduced, Prospect believes that continued growth will be the longer-term trend. Prospect believes in a managed approach towards growth and recognises the need for that growth to be economically and environmentally sustainable. Against that backdrop, Prospect believes that the provision of high quality air traffic control and air traffic management has a significant contribution to make.

3. Prospect is concerned however that high quality air traffic control and management in terms of capacity and safety standards are in danger of being “taken for granted” particularly as the industry more generally faces significant economic and commercial challenges. Prospect is also concerned that due to the way in which ATC functions are uniquely structured in the UK that it makes them more vulnerable to economic fluctuation and potential unfair competition from abroad which, in turn may undermine long term service delivery and the investment needed to meet future environmental and capacity challenges.
4. ATC and ATM functions both “en route” and at airports represent a fundamental part of the UK transport infrastructure. Prospect believes in this area that safety must be seen by all stakeholders as absolutely paramount. As part of this we believe that if stakeholders “will the ends” that they must also “will the means”. We are concerned that, for example, the views of the airlines with regard to ATM provision are unduly coloured by short term commercial imperatives and that this can be seen as part of the recent round of consultation by the ERG on CP3 arrangements.

5. In reality, ATM provision requires long-term investment in staffing and equipment. There is a worldwide shortage in skilled ATM workers and an emerging international market for their skills. Lead in times for training and developing technology are relatively long. The nature of service provision is such that it is not possible to decommission capacity and expect to deploy it again at short notice. Experience has consistently shown that short term reductions and cuts in air traffic infrastructure, staffing and investment, in the face of reduced flight volumes, has led to longer term damage to the ATM systems ability to cope with and respond effectively to longer term trends in traffic growth and the economic upturn when it comes.

6. As part of supporting a more robust approach towards service delivery, Prospect has advocated a policy of integrated “gate to gate service delivery”. We see this policy as being more in accordance with the policies advocated in terms of “Single European Sky” and the desire to reduce fragmentation within the ATM environment.

7. Despite this, ATC provision within the UK is very different from the rest of Europe. Whilst the rest of Europe operates on what could be more broadly described as a “cost recovery” model – focused on joined up service delivery; the UK model is subject to stringent economic regulation of the “en route” service and on a competitive basis for airport contracts. The UK is unique amongst our European ANSPs in terms of taking this approach. Indeed, the UK approach is one which has not only been rejected by our counterparts in Europe but also in the US and elsewhere.

8. Despite being given the assurance that NATS, the backbone of UK ATM provision, was to be operated on the basis of “not for commercial gain” at the time of PPP we are concerned at the far more commercial approach being taken across the business. Shareholder return is becoming an increasing imperative across both NSL and NERL.

9. We are further concerned that despite the assurances given by the Airline Group at the time of the PPP, that they “were in this for the next thirty years” and that they had “no exit strategy”, elements of the Airline Group intend to sell their share in NATS at the earliest opportunity, after the completion of the New Prestwick Centre. Prospect is deeply concerned as to the potential uncertainty and instability that this could bring. There should be an examination of the post PPP structure of NATS and its regulation to consider if the current structure is appropriate and most effective.

10. Prospect believes that over the longer-term flight volumes and passenger numbers for the UK will continue to grow. This is going to provide real challenges in the ATM environment. Prospect supports a sustainable approach to aviation growth and believes that ATM can make a significant contribution by working with airlines to reduce fuel burn and CO2 emissions through a range of initiatives. Initiatives include optimising trajectories, Continuous Decent Approach and using new tools which specify arrival at entry points to reduce airborne holding times. The system as a whole is constrained by runway capacity which does not give sufficient flexibility to recover quickly when delays build up, eg from weather related disruption. Such an approach will however require an integrated operational and management structure (to include airport and en route air traffic control) with increased investment in systems, skills and infrastructure. Prospect is concerned that an overly stringent approach to economic regulation or that the impact of competition may be to encourage fragmentation which would lead to such potential gains not being realised.

February 2009

Memorandum from Heathrow Associates (FOA 39)

THE IMPACT OF TAXATION ON THE AVIATION SECTOR

INTRODUCTION

1. In Press Notice 03 of 19 December 2008 (2008–09 Session), the House of Commons Transport Committee announced that it will conduct a strategic inquiry into the future of aviation. Interested parties are invited to submit responses to six questions in a memorandum of no more than 3,000 words. In view of the word limit, Heathrow Associates has decided to concentrate on responding to the question about the impact of taxation on the aviation sector nationally and regionally, an issue that has attracted little attention in the current debate about expanding capacity at UK airports.
Summary

2. The main points from the memorandum are:
   — Air passenger duty is the only aviation-specific tax, but it is unclear whether it is charged for general revenue or for environmental purposes.
   — The airlines pay significantly less in air passenger duty than the value of their exemptions from VAT and fuel duty.
   — Low levels of taxation have been a contributory factor in the growth in leisure traffic, which: (a) has benefited mainly the better off; and (b) is the main cause of congestion at UK airports.
   — It is not clear whether aviation can continue to be under-taxed, particularly in view of the expected increase in the general tax burden to pay for the excesses in the financial sector and the resulting economic down turn.
   — The exemption of transfer passengers from air passenger duty may limit the expansion of services at regional airports and may be contrary to EC rules on State aid.

Taxation Specific to Aviation—Air Passenger Duty (APD)

3. The only tax that is specific to aviation is air passenger duty (APD), introduced in 1994 and charged per passenger. In 2007 the present Government announced that it would replace APD with a new aviation duty (AD), chargeable per aircraft movement rather than per passenger. But, following public consultation, the Government recently announced that AD would not be introduced; and that APD would continue, albeit with modifications. It is therefore an opportune moment to re-examine the rationale for APD; how much it collects; and its impact on aviation nationally and regionally.

Rationale for APD

4. The last Conservative Government justified the introduction of APD as broadening the tax base to include a sector of the economy that was under-taxed compared with other sectors, due to aviation’s zero rating for VAT and exemption from fuel tax. The present Labour Government re-branded APD from a general revenue tax to a tax for recovering the costs of aviation’s damage to the environment. This re-branding preceded the inclusion of aviation in the EC emissions trading scheme. It is not clear whether the emissions trading scheme will result in a reduction or repeal of APD. The environmental focus and the difficulties in quantifying the cost of aviation’s environmental damage have also eclipsed discussion about whether aviation should pay a contribution—and how much—towards general revenue, in addition to its environmental costs. Clarification is needed.

Amount Collected in APD

5. When first introduced, APD was expected to raise £330 million per year. In the last tax year (2007–08), APD raised nearly £2 billion, a six-fold increase compared with the two-fold increase over the same period in passenger numbers at UK airports (122 million in 1994, 241 million in 2007). That is to say, the revenue has risen faster than the number of passengers.

6. The aviation sector opposed the introduction of APD and subsequent increases in rates of APD. But is the amount collected excessive? Since the original rationale for APD was in effect as a surrogate tax for the VAT and fuel duty from which aviation is exempt, it is necessary to consider the extent to which APD fills the revenue hole created by the tax exemptions. Unfortunately the Treasury has never published any such estimates, so recourse must be had to a cruder analogy, if only for illustrative purposes.

7. In the last tax year (2007–08) British Airways—the largest of the many airlines that use UK airports, but accounting for less than 50% of all passengers—raised £9 billion from air ticket sales and spent £2 billion on aircraft fuel. If BA had been charged standard rates of VAT and fuel duty it would have paid £1.6 billion VAT on ticket sales and £6 billion duties on fuel purchase, a total tax bill of £7.6 billion. But APD raised only £2 billion from all the airlines using UK airports in 2007–08. Even allowing for the crudity of this comparison, it can be seen that present rates of APD are not excessive compared with the value of the VAT and fuel duty exemptions; quite the contrary. Moreover, the size of the exemptions is linked to growth in aviation: more passengers means more income from ticket sales and more fuel consumption, with a corresponding increase in the value of unpaid VAT and fuel duty. That is to say, the value of the exemptions must be higher now (241 million passengers in 2007) than when APD was first introduced (122 million passengers in 1994).

190 Next, I propose to broaden the tax base . . . First, air travel is under-taxed compared to other sectors of the economy. It benefits not only from a zero rate of VAT; in addition, the fuel used in international air travel, and nearly all domestic flights, is entirely free of tax. Kenneth Clark MP, Chancellor of the Exchequer (Hansard, 30 November 1993, Column 934).
191 The numbers for 2008 have not been published at the time of the submission of this memorandum.
**IMPACT OF APD ON AVIATION**

8. If one sector of the economy does not pay its fair share of general revenue taxes, other sectors have to make up the deficit. Therefore, on grounds of equity and in order to minimise economic distortions, sectors should be exempt from proportionate taxation only if there is some over-riding policy justification.

9. It is difficult to square the favourable tax treatment of aviation with the sector’s image as a key dynamo of the UK economy. But two direct consequences follow: the burden on other taxpayers is higher than it would be—and the prices for air passengers are lower than they would be—if aviation were to pay its fair share of tax. Bearing in mind that leisure passengers account for more than two thirds of all passengers at UK airports and are more influenced by price considerations than business passengers, it must be the case that the favourable tax treatment has been a major contributor to increased passenger numbers at UK airports and the resulting congestion.

10. At a time when the Treasury is facing a major fiscal deficit due to the economic crisis, is it fair or desirable that aviation should continue to be under-taxed? Other forms of public transport are not charged the equivalent of APD, but there are sound policy reasons for not doing so: the majority of passengers by bus or train are travelling much shorter distances than the typical air journey, with competition from the car, not the air fleet. For longer journeys, wherever train is a viable alternative to air (ie short haul flights), tax discrimination to encourage the use of train can be justified on transport and environmental management grounds.

**APD WINNERS AND LOSERS**

11. The main direct beneficiaries from the low level of APD are the airlines (to whom the tax is charged), with air passengers and freight as the main indirect beneficiaries (ie air fares and freight charges are lower than they would be with higher levels of APD). It is claimed that aviation attracts overseas investment and overseas tourists, as well as allowing UK residents to seek employment overseas, and that these benefits must also be taken into account. But over many years the UK has exported more investment and tourist spending than it has imported. The benefits and disbenefits of more cross border trade from more air traffic therefore cancel each other out. The jury is still out on the net benefits of mass cross-border work forces.

12. The main direct loser from the low level of APD is the Treasury, which must either increase the burden on other taxpayers or cut back on public expenditure. The main indirect losers are the general taxpayer or people and projects that depend on State funding (eg pensioners, a new hospital). Although many taxpayers are also air passengers, the evidence indicates that those on higher incomes account for significantly more leisure flying than those on lower incomes. That is to say, to the extent that the general taxpayer is subsidising leisure flying, it is disproportionately for the benefit of the better off.

**APD EXEMPTION FOR TRANSFER PASSENGERS**

13. When APD was first introduced, it included an exemption for transfer passengers which is still in place. The original rationale was to protect UK hub airports (and—by implication—the airlines that use them). More recently, the Government has argued that it would be unfair to charge the airlines twice for transfer passengers (ie for the flight to the hub and for the connecting flight from the hub). But, regardless of the rationale, the effect of the exemption is to discriminate in favour of airlines and airports that seek to maximise traffic at a particular hub against actual and potential competing services at an alternative hub or direct to the ultimate destination (ie without transferring at a hub).

14. Thus, the exemption may restrict the growth of more direct services at regional UK airports in favour of continued dependency on hub airports. For example, for flying a first class passenger from Edinburgh to New York, an airline would be charged £80 in APD for a direct flight, but only £20 for a transfer flight (ie for the flight from Edinburgh to the hub, but not for the connecting flight from the hub to New York). That is to say, airlines face a £60 APD “penalty” for providing direct services. To the extent that it discriminates against airlines and airports in other Member States, the exemption may also be contrary to EC rules on State aid.

*February 2009*

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192 Business passengers are less price sensitive because a business air journey is a small component of a much larger financial package.

193 Transfer passengers are also a cause of congestion at, in particular, Heathrow—see paragraphs 13 and 14 in the memorandum.

194 The size of the tourist deficit also has adverse revenue implications to the extent that many of the goods and services that tourists spend their money on attract VAT. The most recent tourist deficit is £20 billion, implying a VAT deficit of £3.4 billion.

195 To protect the position of the United Kingdom’s international hub airports, there will be an exemption for transfer and transit passengers. Sir John Cope MP, Paymaster General, (Hansard, 1 December 1993, Column 1132–1133).

196 Business passengers are less price sensitive because a business air journey is a small component of a much larger financial package.

197 To protect the position of the United Kingdom’s international hub airports, there will be an exemption for transfer and transit passengers. Sir John Cope MP, Paymaster General, (Hansard, 1 December 1993, Column 1132–1133).
Memorandum from the Institution of Civil Engineers (FOA 40)

The Institution of Civil Engineers (ICE) is a UK-based international organisation with over 75,000 members ranging from professional civil engineers to students. It is an educational and qualifying body and has charitable status under UK law. Founded in 1818, the ICE has become recognised worldwide for its excellence as a centre of learning, as a qualifying body and as a public voice for the profession.

Summary

— ICE acknowledges the large potential benefits from investing in airport infrastructure, provided they adequately address environmental challenges.

— Any expansion of UK airports must be considered as part of a wider integrated national transport strategy rather than as single infrastructure projects.

— ICE wants to see significant improvement to surface access to UK airports, with improved rail links and bus services.

— ICE recommends a strategy of investment in rail infrastructure to allow and encourage the diversion of short-haul (domestic and proximate continental) routes to surface transport, decongesting busy airports for medium and long-haul flights.

— ICE supports the integration of smaller regional airports within an integrated national transport strategy.

— The aviation sector must reflect and bear the full costs of its climate emissions, and play its full part in the development of a low-carbon economy.

1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

1.1 Aviation is a major industry, becoming one of the fastest growing sectors in the world economy. In an increasingly globalised world, the UK’s international links will be ever more important to the functioning and eventual growth of our economy. Indeed, for intercontinental and longer-haul journeys within Europe, aviation represents the only practicable means by which these journeys can be made. Aviation is therefore vital to our economy. Apart from one-off shocks and any restructuring of the industry, the demand for reliable, affordable and fast air travel is sure to continue in the long-term.

1.2 There has been a particularly rapid growth in traffic at most UK airports, but this has not always been matched by increases in capacity—although there have been some important investments, most notably the construction of Heathrow Terminal 5. As a result ICE believes that there are likely to be large benefits from investing in strategically placed airport infrastructure and equally associated surface transport links, provided they adequately address environmental challenges.

1.3 Until the Eddington Report in 2006\(^{199}\) there had not been a development of a clear strategic thinking to underpin future policy development. However, a rather muddled and contrary approach to transport policy has followed, reflecting an increasingly complex and constrained travel environment where we want the impossible: to maximise these benefits associated with mobility whilst minimising the negative impacts. While the Eddington report provided the basis for an integrated strategic approach to future transport policy, we believe the Government still urgently needs to direct an investment and expenditure programme to deliver that strategy.\(^{200}\)

London and regional airports

1.4 All UK airports function as the local airport for their region, offering mostly short-haul routes to domestic and European destinations for business and leisure purposes. Manchester, Birmingham and Gatwick airports, for example, offer a greater range of longer-haul services, as befitting the enhanced status of the cities they serve. Only Heathrow functions as a hub airport. In 2007, the airport handled over 67 million passengers, of which 34.1% (over 23 million) were transfer passengers.\(^{201}\)

1.5 Much of Heathrow’s hub function entails international passengers landing at the airport, and then continuing their journeys to other UK regions on domestic flights. While there is a strong level of service to Scottish airports, services to Northern Ireland and English regions are patchy at best—neither regular nor frequent. There are no connecting services to Wales or to destinations closer than Manchester.


\(^{201}\) Civil Aviation Authority (2007). *UK CAA Survey 2007*. 
1.6 ICE believes that this aviation ‘hub and spoke’ model does not adequately service the whole of the UK, since most population centres are within 300km of London. With little connectivity either by air or rail (Heathrow has poor surface access by rail, with all routes channelled through central London), much of hinterland UK is denied effective public transport access to its national hub airport.

1.7 Future capacity increases are being planned for airports, such as Heathrow Runway 3, but these investments will be concentrated in the Greater South East causing us concern about the regional balance and the added pressures that will be placed on the feeder inland transport routes in the region. Moreover, as demonstrated by the Heathrow expansion plans, these investments will inevitably involve long planning times. ICE, therefore, supports the integration of smaller regional airports within an integrated national transport strategy.

Competition from abroad

1.8 ICE believes that much of the debate surrounding expansion, particularly of Heathrow, centres on the proposition that its local continental competitors, ie Paris Charles de Gaulle and Amsterdam Schiphol airports, have the capacity and land space to develop bigger and more attractive national, hub airports offering a greater range of destinations than Heathrow. Capacity constraints at Heathrow may force international carriers to abandon Heathrow, the UK’s international connectivity would decrease, thus imperilling national prosperity. Given the inevitable negative environmental impacts of current plans to expand Heathrow, ICE recommends an alternative strategy of investment in rail infrastructure to allow and encourage the diversion of short-haul routes to surface transport, decongesting Heathrow for medium and long-haul flights.

2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

2.1 The UK needs the highest quality airports and air networks in order to compete effectively in the global economy.

2.2 A number of the UK’s major airports in particular are already running at near capacity. Journey times are increasing as aircraft become stacked up in queues both on the ground and in the air. Addressing capacity concerns at our busiest airports is essential but should not be delivered without sufficient regard for the inevitable negative environmental impact. We are concerned that additional infrastructure to meet growing demand is only a finite resource, and will only be met by further demands for airport expansion in the future.

2.3 Access to many of our major airports is also in need of urgent attention. Most journeys to and from airports are by road, with limited access by other means. Access to London’s five airports by public transport account for just over a third of all passenger journeys to and from the airports—Gatwick (35.1%); Heathrow (38.4%), City (41.8%), Luton (30.1% and Stansted (39.6%). Access to regional airports by public transport is even less, with no more than 20% of passengers accessing airports by public transport.

2.4 The inadequacy of rail access to Heathrow—comprising Heathrow Express or the Piccadilly Line which only connect to Central London—has serious adverse consequence with intense road congestion in west London, and on the M25 and M4 corridors. Only 22.5% of passengers access the airport by rail. Access to the strategic rail network is poor, and the forthcoming Crossrail project will only offer limited improvements. Current proposals for enhancements to Heathrow rail access (variously comprising Heathrow Express, Airtrack, Crossrail and Heathrow Hub) are at best fragmented. ICE believes that a more integrated network-oriented planning strategy is required, capable of efficient delivery of incoming airline passengers both to local suburban destinations and to the national rail network.

2.5 ICE wants to see significant improvement to surface access, with improved rail links and bus services in particular. The presumption should be in favour of public transport; redressing the current imbalance of overuse of the private car and underuse of public transport.

2.6 Most importantly, ICE would also like to see aviation included within a national transport strategy that unequivocally demonstrates how the Government intends to meet growing demand whilst reducing the impact of aviation on the environment.

2.7 ICE is disappointed that airports are still seen as separate regional entities rather than part of a UK-wide integrated transport network. We strongly believe that any expansion of UK airports should be considered as part of a wider integrated transport strategy rather than as a single infrastructure project.

203 Ibid.
204 Ibid.
2.8 ICE welcomes the Government’s intention to produce a series of national infrastructure policy statements (NPS) on transport, including one on aviation. These documents are an important step in the delivery of transport change. They must collectively enable an integrated approach towards transport infrastructure planning, and avoid the “silo” mentality that has blighted the development of UK transport in the past. The transport NPSs will establish the national case for transport infrastructure development and should speed up the delivery of major infrastructure projects.

2.9 The transport NPSs will create a valuable platform for national debate and political discussion of the UK’s strategic transport direction and transport priorities. However, ICE would like to see the Government go further and commit to using these NPSs to inform the development of a 30-year transport strategy. This long-term strategy would add detail and scope to the positive work of the NPSs, providing a framework in which regional and local decision-making can contribute to overarching goals.

3. To what extent can rail provide an alternative to short-haul flights?

3.1 The ability of rail to provide a suitable and attractive alternative to short-haul flights is contingent upon the railway network being able to offer the following:

- Top quality services between city centres, with journey times not exceeding four hours.
- Connections to hub airports for intercontinental flights.

3.2 Journeys between London and Glasgow, and London and Edinburgh currently take more than four hours by rail, which means short-haul flights have become the mode of choice on these routes. Even on shorter routes between Manchester to Edinburgh or Glasgow, where no suitable direct intercity rail service exists, short-haul flights are preferred. Finally, due to Heathrow lacking adequate direct connections to the national rail network, particularly for access to critical routes to the North, passengers have few alternatives but to take infrequent flights from their local airports to make onward connections at Heathrow or drive, adding to the already record congestion levels on our roads network.

3.3 The ability of rail to compete effectively with short-haul flights is clearly illustrated by the success of the Eurostar High Speed Rail (HS1) link from London St. Pancras to Paris and Brussels. Passenger numbers rose to 9.1 million in 2008—an increase of 10.3% from 8.26 million in the previous year—and would have arguably been higher without the disruption caused by the fire on 11 September last year.\(^206\) Similar links from London to Edinburgh and Glasgow, offering sub-three hour journey times, could achieve similar success, converting the vast majority of Anglo-Scottish air flows to rail. Furthermore, building on the success HS1, rail lines from major cities such as Leeds, Manchester, and Birmingham all the way to Paris, Brussels and Amsterdam could provide comparable, if not quicker, journey times than short-haul flights to the continent.

3.4 Support for high-speed rail services often simplifies the environmental benefits for HSR to short-haul flights. ICE recognises significant environmental benefits of the train. A high-speed rail journey (London-Paris) compared with a flight shows a 90% carbon emissions reduction.\(^206\) One journey by air from London to Paris generates the equivalent amount of carbon emissions to approximately eleven journeys on the Eurostar.\(^207\)

3.5 However, it must be noted that the French component of the electricity used by Eurostar contains a higher nuclear content in the power system than the UK’s national network. Unless the Government urgently commits to the delivery of low-carbon electricity generation, emissions from any HSR link at the point of electricity generation will be higher than conventional trains, inhibiting HSR’s ability to maximise its full environmental potential.

3.6 The development of a high-speed rail system within the UK is not within the precise remit of this inquiry, but we emphasise that HSR (running at speeds that deliver the greatest net environmental advantage) has the potential to bring benefits through the conversion of existing air flows. This would be additional to all the environmental benefits accruing from the decongesting of the existing rail network, and the resultant modal shift that could be achieved away from road transport.

3.7 Furthermore, a “hub and spoke” operation, whereby rail lines act as the “spokes” linked to a long-haul airport “hub”, would allow rail to work more in harmony with aviation. The need for short-haul, internal flights could be reduced or eventually eliminated though the combination of improved intercity links between all principal conurbations, and efficient connections to Heathrow as the “hub” airport.

3.8 We believe this model has additional potential to extend beyond domestic aviation to short-haul flights to any European destination within four hours (around 1,000km) range of the UK originating point. From London, cities as far afield as Hamburg, Frankfurt, Lyon and Geneva are feasible high-speed flights. \(^207\) Eurostar.\(^207\)

207 Ibid.
destinations. From northern cities, such as Leeds and Manchester, through services to Paris and Amsterdam appear viable (as previously stated) as alternatives to short-haul flights.

4. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

4.1 ICE welcomes the inclusion of aviation into the European Union (EU) emissions trading scheme. We are adamant that the aviation sector must reflect and bear the full costs of its climate emissions.

4.2 Within the UK, aviation only contributes 2% of all carbon emissions produced by transport. While this seems very low, this does not reflect the amount of carbon emissions produced by international travel, ie flights leaving from and coming to the UK. Indeed, within the majority of countries in the EU25 carbon emissions from aviation are growing at a rate in excess of other sectors.208

4.3 The 20% increase in carbon emissions from the transport sector as a whole does not fully reflect the negative role a rapidly expanding international aviation industry is playing. Between 1990 and 2000, emissions from international shipping remained relatively static. But emissions from international aviation rose by 48% over the same period. If the EU aviation sector is allowed to grow at current and predicted rates, the EU could see the aviation sector contributing between 39% and 79% of its total carbon budget by 2050. For the UK in particular, the respective figures are between 50% and 100%.209

4.4 Considering projected carbon emissions levels and predicted passenger growth, the outlook is bleak. The Department for Transport (DfT) projects a three-fold increase in passenger growth by 2030. Current demand is approximately 180 million air passengers, while the mid point forecast of national demand for 2030 is 465 million passengers per year.210

4.5 This level of growth does not seem compatible with the commitment to an 80% reduction in UK CO2 emissions, enshrined in the Climate Change Act.

4.6 Despite the Government’s commitments to improving sustainable mobility within the UK, air passenger numbers are still growing. With further Government-backed aviation growth, there is a clear cleavage between aviation growth trends and an effective, long-term climate policy in both the UK and EU. Aviation must play its full part in a low-carbon economy, and since growth in aviation emissions is predicted in Government policy, it will be essential to improve the low-carbon performance of aircraft technologies.

4.7 ICE is also concerned that Government policy on aviation, and more generally on transport does not seem to take into account the “peak oil” scenario, by extraction rates from depleting global oil reserves due to increasing demand (as seen during summer 2008). The ensuing oil price rises and fuel shortages would inevitable have a dislocating effect on transport, and on the wider economy. This places a particular imperative upon a general decarbonisation of the UK’s transport system, the establishment of which the aviation sector will have to contribute by using alternative fuel sources. ICE is particularly concerned to note that the challenge of fuel supplies security—one of the most fundamental sustainability issues—is not even mentioned in the Department for Transports recent Delivering a Sustainable Transport System consultation.211

5. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

5.1 There is growing risk that blunt instrument taxes on aviation are having a disproportionate impact upon peripheral, remote or economically disadvantaged regions. Demand is weakest in these areas, and therefore decreases more readily when taxes are imposed.

5.2 The imposition of a national aviation fuel tax would have a disproportionate effect upon UK-based airlines rendering them less competitive with their overseas competition. Furthermore, unless an EU or worldwide standard rate of tax could be imposed, the effects of tankering fuel from one country to another would increase emissions rather than reducing them for the same number of flights.

6. What is the impact on the aviation sector of changes in the security environment?

6.1 The cumulative costs of security, policing and other regulatory burdens, combined with the economic and taxation situation, risk making some of the smaller airport businesses unviable.

6.2 ICE is in the process of conducting a major inquiry into the security and resilience of UK infrastructure networks, including airports. This inquiry will examine the impact of both one-off shocks and long-term processes. The inquiry findings will be used as the basis for a major ICE report to be issued in the summer of 2009 examining the resilience of the UK’s critical infrastructure and identifying steps needed to improve its security. The report will consider the effect of man-made and natural events on the health, security and economic well-being of the nation.

February 2009

Memorandum from Highland Council (FOA 41)

The House of Commons Transport Committee has asked for written evidence for its inquiry into the future of aviation. This is an important opportunity for Highland Council to emphasise the importance of aviation in developing the economy of the Highlands. The Highland Council in its programme for Strengthening the Highlands 2009–2011 seeks to “Work with Highlands and Islands Airports, HIE and partners to attract new and enhanced air services into the Highlands at all airports. We will continue to work to safeguard Inverness to Gatwick flights, campaign to reinstate the Inverness to Heathrow flights and develop Wick Airport”. With these aims in mind the following paragraphs are Highland Council’s response to this request for information.

1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

— Aviation is extremely valuable in supporting the Highland economy. The Highlands are in a peripheral location in UK and European terms and air services provide the essential links to support this economy.

— Heathrow is the principal air transport hub in the UK followed by Gatwick. Inverness lost its three times daily service to Heathrow in 1997 and since then has had access to Gatwick. It is vital that the three times daily rotation to Gatwick is not lost although it would be highly desirable to have the Heathrow link restored. There is pressure to replace regional UK flights with more profitable long haul flights at Heathrow, however it should be recognised that locations such as Inverness are highly dependent on the ability to interline at a national hub airport.

— Inverness has so far been unable to sustain a link to a major European hub airport, services to London being dependent on a mix of end to end traffic and interlining traffic.

2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

— The current aviation infrastructure at the London hubs is not adequate in that there is insufficient capacity to meet the access needs of the UK regions. The provision of additional runway infrastructure still seems a long way off.

— It is not clear what the implications will be of possible mergers in the airline industry.

3. To what extent can rail provide an alternative to short-haul flights?

— As things currently stand, rail will not be able to provide a suitable alternative to short haul flights where the distances are long eg the Inverness—London train journey which takes 8 hours whereas the Inverness to Gatwick flight takes 1 hour 50 minutes. An air link to Heathrow/Gatwick is therefore essential for the Scottish Highlands.

4. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

— It is essential that a distinction is drawn between flights which are necessary because of long distances involved eg Inverness—London where surface transport alternatives are not adequate, and those flights which have a suitable surface transport alternatives. The impacts of air transport on the climate and UK society could be reduced if rail services were used where rail journey times are equivalent.
5. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

— The impact of taxation on air transport has a detrimental effect on regional aviation where the routes are lightly trafficked, making it harder to sustain links. This is particularly crucial in the case of Wick airport where it is essential that no additional burdens are placed on the delivery of air services for the Caithness economy.

— Passengers need protection from the collapse of airlines where this could involve the loss of slots at the national air transport hubs at Heathrow and Gatwick. Highland Council, in conjunction with Highlands and Islands Enterprise and HITRANS has campaigned over many years for the introduction of a Public Service Obligation on the Inverness Gatwick route in order to protect the slots from transfer to other routes.

6. What is the impact on the aviation sector of changes in the security environment?

— Changes in the security environment can impose high costs on the aviation sector. Security measures should be provided on a basis commensurate with the scale of the airport operation and associated risk. This will ensure the cost effective operation of air services.

February 2009

Memorandum from the Airport Operators Association (FOA 42)

1. The Airport Operators Association (AOA) is the trade association that represents the interests of British airports. Our membership comprises 71 airport companies, representing all of the nation’s international hub and major regional airports in addition to many serving community, business and general aviation.

2. In summary:

— Oxford Economic Forecasting (2006) demonstrated that the industry contributed £11.4 billion to the UK’s GDP in 2004, which alone represented 1.1% of the overall economy. The aviation industry directly and indirectly supports more than 500,000 jobs.

— Many UK airports are at or near terminal or runway capacity. Growth will benefit the economy and passengers.

— Rail versus air is a false choice. AOA supports the development of a high speed rail network in the UK in addition to the development of new airport capacity.

— In September 2008 DfT published its Emissions Cost Assessment (ECA). The total external cost of aviation was calculated as £1.8 billion. This compares with a tax take from Air Passenger Duty of £2 billion in 2007.

— Climate change is a significant challenge to modern societies and economies. The AOA and its members strongly believe that a post Kyoto framework, being discussed at Copenhagen later this year, should include aviation.

— Aviation Security measures need to be proportionate and appropriate, to prevent sacrificing travellers’ freedom of movement.

— The overall regulatory burden faced by UK airports as a result of taxation, security and regulatory policies is significant, and disproportionate.

3. AOA has previously submitted a request for the Transport Committee to consider the impact of Ofcom’s proposals to introduce administered incentive pricing (AIP) for aeronautical spectrum use. As previously indicated, we would be happy for that request to be considered an appendix to this submission, as a part of this inquiry.212

What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

4. In 2008 AOA member airports handled more than 228 million passengers, nearly 2.5 million tonnes of freight and over 2.3 million air transport movements.

5. Aviation adds value to the UK economy and society. Oxford Economic Forecasting (2006) demonstrated that the industry contributed £11.4 billion to the UK’s GDP in 2004, which alone represented 1.1% of the overall economy. The aviation industry directly and indirectly supports more than 500,000 jobs.

212 See Appendix 1: Administered Incentive Pricing.
6. The Eddington Study noted that the “connectivity of the UK’s airports is particularly important for supporting certain types of business activities, such as the financial services and banking sector”\(^{213}\). The report went on to state that two key determinants of connectivity were the range of destinations served, and the frequency of connections. London was assessed, in the report, as having a good international connectivity rating of c 18,000.\(^{214}\) Manchester is the next best connected UK city. Its rating was only 6,000.

7. In 2007 the UK accounted for the highest proportion (22%) of all intra-EU air passengers. In addition, UK airports handled 33% of all EU passengers.\(^{215}\) This reflects the island position of the UK, and the contingent need for air travel to provide the majority of access to the continent.

8. Air links are vital for high value businesses locating in the UK. London’s airports are critically important for the City and for the London economy as a whole, which is a key driver of the UK’s economy. Without them, businesses will choose other locations with the consequent impact on job creation.

9. In other regions in the UK air links are key drivers of the local economy. Newcastle Airport’s direct contribution to regional GDP in 2007 was calculated at just under £400 million.\(^{216}\)

10. Airports in the UK compete with those in Europe. This is particularly so in terms of air freight. 20% of all air freight brought to the UK is being transhipped elsewhere (CAA 2007). The economic case for bringing this traffic via the UK becomes weaker if it is taxed. Air freight is transhipped via the UK because aircraft operators use some UK airports as hubs. If transhipment becomes less viable then the case for maintaining hub operations in the UK weakens as well.

11. Aviation taxes in the UK are the heaviest in the EU. From November 2009 these will increase further, as announced in the 2008 Pre Budget Report. There will be a substantial hike in long haul taxes, for instance a 113% increase on the longest routes eg UK-Australia between 2008 and 2010. This increase in the cost of long haul flying will impact on air links between the UK and key global economies, including those of India, the Middle East, and China. Revenue from APD is going to grow substantially faster than passenger numbers, and will place a burden on the industry at a time of recession and declining travellers.\(^{217}\)

12. The Competition Commission’s preliminary reports on BAA’s ownership found that competition between airports in the Greater Southeast did exist, but was limited by a shortage of runway capacity in the South East. This strengthens the case for delivering the new infrastructure identified in the Air Transport White Paper.

13. The Eddington Transport Study (2006) noted that:

   — 40% of delays at Heathrow, Gatwick and Manchester are caused by late arriving flights, due to a shortage of runway capacity.
   — In 2006 Heathrow handled some 67 million passengers using facilities designed for around 40 million.

   (Sources: Eddington 2006, DFT 2007)

14. A shortage of space is at the root of many of the current problems faced by travellers at UK airports, particularly the passenger experience of security arrangements. In addition to pressure on runways, many UK airport terminals are at or beyond their planned passenger capacities. By adapting to more stringent security measures many UK airports have reached the limits of their capacity. Little space is available for further improvements unless terminal buildings are either entirely redesigned or replaced.\(^{218}\)

15. New capacity in airport terminals would allow airports to increase the space available for check-in, security and in the departures and arrivals areas. This increase is fundamental to improving the quality of the passenger experience at UK airports to the levels that passengers expect and deserve.

16. The economic case for new capacity, as set out in the Air Transport White Paper, is strong. Oxford Economic Forecasting found that airport expansion could generate wider economic benefits of over £13 billion additional GDP a year by 2030 if full implementation of the Government’s 2003 Air Transport White Paper runway proposals was undertaken.\(^{219}\) New capacity is essential.

17. AOA and its members support the Government’s decision in favour of a third runway at Heathrow. New capacity would improve the resilience of the airport in the face of disruption, and make available space for Heathrow to serve a larger range of international destinations, whilst also providing capacity for additional domestic air links within the UK.

\(^{213}\) Eddington Transport Study (2006) p 77.
\(^{214}\) Ibid. Figure 2.5 p 77.
\(^{215}\) Ibid. p 53.
\(^{216}\) Ecotect (2007).
\(^{217}\) See Appendix 2 for details of PBR 2008/2009.
\(^{218}\) AOA/DfT surveys of airport terminal capacity during work to lift the “One Bag Rule”.
18. Whilst passenger numbers are currently falling, the experience of previous recessions is that passenger number growth swiftly returns to the long term trend as the economy recovers. AOA therefore believes that long term passenger trends will remain broadly as predicted by the DfT in the Air Transport White Paper.

19. Airlines are low-margin operations. Mergers are, thus, common-and more likely in times of economic difficulty. Given the extent of competition in UK aviation, mergers between airlines do not present a significant risk to airport operators, though the market power of merged airlines should be monitored closely.

To what extent can rail provide an alternative to short-haul flights?

20. Rail-air is a false choice. AOA supports the development of a high speed rail network in the UK in addition to the development of new airport capacity. New high speed rail connections should connect airports as well as cities in order to increase the potential for airports outside the Greater South East to operate long-haul flights- reducing congestion at South East airports.

21. Using CAA statistics, even if all of Heathrow’s domestic passengers switched to rail, Heathrow would operate at around 90% of capacity and still be full before 2020 when a third runway could be operational. Rail is not an alternative to airport expansion, but it is part of a coherent inter-modal transport policy.

22. The current UK rail network provides inadequate access to the South West of England, Wales, and much of Scotland. Peripheral regions need good access to rail and air links. The Eddington Study found that a key determinant of business location is the ability for people to travel to and from a business meeting within a single day. Domestic and short haul flights allow this where rail currently does not, facilitating business and investment in the regions. This is most obviously the case where businesses are separated from destinations by bodies of water, as in the case of Northern Ireland and continental Europe.

23. In encouraging the development of high speed rail, it is crucial that the UK transport market is not distorted by a failure to “price-in” the carbon produced by rail. From 2012 aviation will be part of the EU emissions trading scheme. Through this, and domestic taxes, aviation will be more than covering its environmental external costs (see below). It would be wrong not to apply this principle to the rail network.

What costs does aviation impose on society and the environment

24. In September 2008 DfT published its Emissions Cost Assessment (ECA). Based on a carbon cost per tonne of £25.50 (Government Shadow Price of Carbon: equates to £93.33 per tonne of CO2) and aviation emissions of 10.2 million tonnes of carbon in 2005 (including a multiplier of 1.9 to cover non-CO2 externalities such as noise and NOx emissions), the total external cost of aviation can be calculated as £1.8 billion. This compares with a tax take from Air Passenger Duty of £2 billion in 2007.

25. From 2012 aviation will be included within the EU Emissions trading Scheme- a market mechanism which allows sectors of the industry to trade for permits to emit carbon, and in so doing fund carbon abatement projects elsewhere in the economy. Redistribution through an emissions “cap and trade” scheme offers the opportunity for net carbon emission reductions across an economy, whilst allowing industries where abatement opportunities are expensive or technologically challenging to continue to grow, by funding abatement elsewhere in the economy.

26. In UK terms, auction revenues from the EU ETS will raise £98.7 million in 2012. The total UK ETS cost will be £352.6 million per year. Assuming a market carbon cost of £20.83 per tonne of CO2, auction revenues would raise £495.6 million by 2020 (if 100% auctioning is agreed) and the total cost of ETS to UK carriers would be £1.1 billion. The UK and German governments are the only members of the EU who will not be hypothecating auction revenues from ETS to fund research and abatement projects.

27. In 2012 ETS and Air Passenger Duty will together raise £3.6 billion. This compares to an environmental external cost of £2 billion (extrapolating from the Government’s Environmental Cost Assessment). Whilst aviation imposes external costs on the environment and society the industry is, and will be more than meeting those costs through revenue-raising mechanisms.

28. The AOA accepts that aviation needs to cover its environmental external costs if the industry is to achieve permission to grow. This is particularly evident in the UK context, where the debate on climate change is heavily aviation-focussed. The ECA, published by DfT in 2008, demonstrates that aviation in the UK is already covering its environmental costs through existing taxes.

29. Environmental taxes without any form of hypothecation, whilst they play a role in allowing a sector to internalise its external costs, are ineffective as they divert money away from investment in abatement. Given the overall logic of a trading scheme, it is wrong for auction revenue to accrue to the member states as a form of tax, as this prevents the use of the revenue to fund abatement.

220 EUA08 future price for one tonne of CO2 in 2012 (as traded in September 2008).
30. AOA believes that taken together, the cost to aviation of Air Passenger Duty and Emissions Trading should be equal to the environmental external cost of aviation. As the “take” from ETS increases, then the level at which APD is set should be reduced. Passengers should not fly once, but be taxed twice.221

What are the implications of climate change policy-in particular the Climate Change Act 2008-for the aviation industry and infrastructure?

31. All carbon-intensive activities, including aviation, have an environmental impact. Global, cross-sectoral schemes are needed in order to cap, control and curb the costs that these activities have on the environment. The AOA and its members strongly believe that a post-Kyoto framework, being discussed at Copenhagen later this year, should include aviation.

32. Aviation generates 2% of global greenhouse gas (GHG) emissions. In the UK the aviation share is 5% of CO₂ emissions.

33. Aviation will likely remain a growth sector beyond 2030 due to increased demand related to ongoing economic growth. Over this period incremental improvements in technology and operations will deliver real term reductions in aviation emissions. By 2050 absolute emissions for UK aviation will return to a level below that in 2005. The Sustainable Aviation initiative published a “road map” document in December 2008, which set out when and how these improvements are expected to be achieved.222

34. AOA welcomes the Climate Change Act 2008 for the emphasis it places on climate change, and the leadership the UK Government is showing. Aviation is, however, ultimately an international industry. International solutions such as EU ETS are the most appropriate way to deal with aviation’s climate change impact. We strongly support aviation’s inclusion in a post Kyoto deal at Copenhagen in December 2009.

What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

35. In 2004 Aviation paid £3.6 billion in direct taxes into the Exchequer. £1 billion of this was raised by Air Passenger Duty (OEF 2006). APD was doubled to £2 billion in 2007, and aviation’s total tax bill rose to £5.6 billion.

36. APD will be reformed from 1 November 2009 into a four-band tax. AOA’s analysis, based on current passenger numbers and expected growth, indicates that APD receipts will rise to £2.9 billion in 2010, and £3.5 billion by 2015. This taxation is specific to aviation, and is levied in addition to other revenues eg corporation tax paid by the industry.

37. Increased domestic taxation, through APD, on aviation has a number of direct impacts. Transit/transfer traffic is a highly competitive market, and one in which the UK has fallen behind in recent years. In 1990 Heathrow served 227 international destinations. This had fallen to 180 by 2006. Heathrow now has nine domestic links with UK cities compared to 21 from Amsterdam Schipol (DfT 2007). The environmental impact of a further decline in transfer traffic would be muted. Passengers will not stop taking flights; they will simply stop taking them via UK hub airports.

38. The economic impact for the UK would be more tangible. The increased rate of APD from November 2009 will create a financial incentive to travel via a non-UK intermediate hub airport on separately purchased tickets. This will reduce the viability of a hub airport in the UK. Hub airports are important because they have the critical mass to support a large route network. The Eddington Study noted that the “connectivity of the UK’s airports is particularly important for supporting certain types of business activity”. That critical mass is provided, essentially, by non-UK travellers.

39. Taxes have a disproportionate effect on regional air links, particularly direct international routes. For a new route to become attractive to travellers, and thus viable to run, aircraft must fly the route frequently. New routes are, effectively, loss-leaders. Higher taxes penalise new routes as they struggle to become viable, because these routes often rely on lower levels of demand and a smaller number of passengers. This will have the effect of strangling such developments at the UK’s regional airports, which reduce their connections, and ability of regions to attract investment.

40. UK domestic aviation tax places UK aviation at a disadvantage compared to its European competitors. BMI has recently terminated its routes from Heathrow to Leeds Bradford and Durham Tees Valley.

221 Appendix 3: AOA Position on Environmental Taxation.
41. The AOA fully supports the principles behind the National Aviation Security Programme. We acknowledge the current threat from international terrorism and support measures to protect the travelling public. It is self-evident, however, that protective measures need to be proportionate and appropriate, to prevent sacrificing travellers' freedom of movement.

42. The passenger experience of air travel has suffered as a result of tightened security, and in particular due to the complexity of various international requirements. Passenger complaints, deliberate non-compliance and conflict between security officers and the public have increased. Improving the passenger experience is crucial, if air travel is to remain an attractive and competitive option for travellers. The development of new technology and processes should look to restore passenger convenience and public acceptance.

43. The AOA believes greater harmonisation within the EU would bring benefits in reducing the inconvenience and confusion faced by the travelling public. There is an obvious case for greater harmonisation in order to ensure appropriate minimum-security standards are enforced as widely as possible, whilst also bringing the benefits of common standards. The UK aviation security programme should be revised to make clear what measures are required under the EU baseline, and what measures are UK-specific, and thus can be adjusted by Transec, as the threat requires.

44. A Policing and Crime Bill is currently undergoing going through Parliament. Currently, nine airports are “designated” for policing. This means that the airport operator and the police are required to agree a Police Services Agreement and the airport operator pays for policing provided by the local force at their airport. Following the work carried out by Sir John Wheeler in 2002, Stephen Boys Smith’s 2006 Independent Review of Airport Policing concluded that the current system of “designation” was outdated.

45. Under the provisions of the Bill all airports operating within the National Aviation Security Programme (NASP) will undertake a mandatory multi-agency threat risk assessment (MATRA) process for the airport and agree appropriate mitigating action. Where a dedicated police presence is necessary in order to mitigate a security risk the airport operator will be required to pay.

46. AOA members have significant reservations regarding the government proposals. Passenger security is of paramount importance. Appropriate measures should be put in place and properly resourced. The difficulty comes in deciding exactly what the appropriate measures are; and how they should be resourced.

47. The fact that the operator pays, while the police make the resource judgements, designs-in an arrangement that could allow police to gold-plate the solution because they will not have to pay for it themselves. The tension that this creates is exacerbated by the fact that there is no objective standard for the level of policing at an airport. The new system relies on judgement.

48. AOA has called for a number of amendments to the Policing and Crime Bill.223

49. The AOA supported the establishment of the UK Border Agency (UKBA). Border controls at airports are a significant part of a passenger’s airport experience, but are delivered entirely by the UK Government with little reference to the needs or interests of airports, airlines or, ultimately, passengers.

50. There is a fundamental issue in terms of how a single border agency will handle the forecast increase in travel in the years to 2030: UK airports saw 287m passenger movements in 2005, this is expected to rise to c 600 million. It is clear that, given constraints on resource, a single border agency will have to operate differently in the future.

51. In the last 12 months the UKBA has begun to develop service level agreements with some UK airports, in order to set out a baseline level of service at those locations. AOA members have welcomed this, the first substantive effort by the border agencies to recognise the needs of airports, as well as the obligations on them in support of the control agencies. Part of the SLA process involved agreeing standard queuing times at the immigration control point.

52. Whilst AOA welcomed UKBA’s intention of setting queue-time targets, the proposed queuing times of 25 minutes for EEA nationals, and 45 minutes for non-EEA nationals are unacceptable. They are not applicable to some modes- particularly shipping where passengers predominantly are arriving in vehicles, not as individuals on foot. They also fall far short of the expectations placed on the aviation industry for security check-in queue times.

53. In its “generic” national SLA template, the UKBA refers to automated clearance processes, but also refers to “purchasing additional services”. Airport operators should not be expected to fund additional border control resources in order to achieve an acceptable level of service for passengers. UKBA must ensure that it provides an acceptable baseline service.

223 See Appendix 4: Airport Policing.
APPENDIX 1
ADMINISTERED INCENTIVE PRICING

AERONAUTICAL SPECTRUM USE

— The use of aeronautical radio and radio-navigation aids has been commonplace in civil aviation since the end of the Second World War. Operationally, the use of these systems has immeasurably increased the safety of air travel.

— Aviation’s use of spectrum is also mandated internationally, under the Chicago Convention (1949). Both ICAO and the World Radio Communications Conference (International Telecommunications Union) have a role in setting internationally agreed spectrum allocations for aeronautical use. Changes in these allocations cannot be imposed or changed by one state acting unilaterally.

GOVERNMENT POLICY

— The 2005 Cave Audit of spectrum recommended the application of AIP to “public-sector” spectrum uses in order to establish a market mechanism to encourage the more efficient use of that spectrum. It was, however, noted that:

“If there is judged to be no prospect of alternative use due to international restrictions and since the UK is unable to act unilaterally in spectrum that is internationally harmonised for on-board use, then the opportunity cost of the spectrum for alternative use should be judged to be zero”.

Cave Audit p 56

— In its Response to Cave (2006) the Government stated that:

“Economic incentives such as AIP could be effective in promoting greater efficiency in aeronautical spectrum where there is flexibility to influence choice of technology or service. In many cases, international agreements limit the scope to improve spectrum efficiency, and safety considerations will remain paramount.

— Ofcom has signally failed to demonstrate what spectrum efficiencies it believes the introduction of AIP to aeronautical uses will bring, given the largely international nature of aeronautical spectrum allocations.

— Ofcom’s proposals go further than those suggested by Cave and accepted by the Government. As proposed, AIP fails to recognise the essentially international nature of aviation spectrum use. Instead it seeks to impose a market mechanism where Professor Cave argued there can be no market.

ENVIRONMENTAL DISBENEFITS

— AIP will introduce a significant new cost to the aviation industry—AOA has calculated that an airport the size of Birmingham would pay between £800,000 and £1,100,000 per annum. NATS En Route would also have a significant liability.

— The money raised from the industry by AIP would be unavailable for investment in technological and operational changes to allow UK aviation to benefit from the changes being made at a European level by SESAR and SESII. In the longer term this will reduce the ability to UK aviation to increase the capacity of controlled airspace, to shorten routes, and to minimise the environmental impact of aviation through more efficient flight controls.

— In 2009 UK aviation emissions will total around 41,100,000 tonnes of CO₂. The 2009 Shadow Price of Carbon (SPC) will be £32.07. A 10% saving would, for argument’s sake, represents 411,000 tonnes of CO₂ saved. This carbon has an economic value of £131.8 million.

— If, as Ofcom suggests, aeronautical spectrum can be valued at £91 million, and Ofcom are unable to re-role the spectrum due to international agreements, then it follows that the industry will potentially have to cover that cost. £91 million represents a significant portion of the cost of abating 10% of aviation’s carbon emissions.

SAFETY DISBENEFITS

— Ofcom has argued that as the use, or carriage, of safety equipment is mandatory for some aircraft and airports it would be impossible for AIP to bring about a detrimental impact on safety.
Some parts of the aviation system are not subject to mandatory safety requirements—particularly the general aviation sector. Introducing an elective cost on the use of VHF and navigational aids and some GA flyers will vote with their feet: foregoing VHF systems on their aircraft, and flying from unlicensed aerodromes which aren’t subject the CAA’s rigorous licensing criteria. This in itself would represent a material detriment to safety.

**Economic Disbenefits**

- AIP costs do not reflect the size of an airport, or its ability to pay—solely the scale of its VHF and radionavigational aid use. AOA has conducted a survey of its members, and their potential AIP costs, as set out in Ofcom’s consultation document.

- The table below summarises the average airport costs of AIP:

<table>
<thead>
<tr>
<th>Airport</th>
<th>Cost of AIP</th>
<th>Operating Profits</th>
<th>AIP as % of Profits</th>
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</thead>
<tbody>
<tr>
<td>Luton</td>
<td>£427,450</td>
<td>£11,800,000</td>
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<tr>
<td>Cardiff</td>
<td>£765,700</td>
<td>£7,450,000</td>
<td>10.28</td>
</tr>
<tr>
<td>Inverness</td>
<td>£512,800</td>
<td>£2,500,000</td>
<td>-20.51</td>
</tr>
<tr>
<td>Humberside</td>
<td>£632,750</td>
<td>£1,300,000</td>
<td>48.67</td>
</tr>
<tr>
<td>Birmingham</td>
<td>£533,650</td>
<td>£22,907,000</td>
<td>2.33</td>
</tr>
<tr>
<td>Manchester</td>
<td>£1,179,550</td>
<td>£96,500,000</td>
<td>1.22</td>
</tr>
</tbody>
</table>

Some airports will, given their profitability, be presented by significant costs from AIP. In the case of Humberside these costs would represent almost half of its profits. Inverness airport, which is currently owned by Highlands and Islands Airports Ltd (itself owned by the Scottish Government and operated to provide lifeline services in the north of Scotland), would see its losses increased by a further sixth. This would impose a cost on the taxpayer for little discernable gain, whilst diverting funds currently used for the benefit of those taxpayers.

**Ofcom’s Consultation Process**

- Ofcom’s consultation processes have been frankly poor. By relying on discussions with NATS and the CAA, neither of which can be regarded as representative of airports, Ofcom has failed to engage directly with airports or the AOA until after their consultation paper was issued.

- Despite this, the indicative timetable (2009–10) for introducing AIP has remained fixed. As a result, a totally unreasonable timetable for the introduction of AIP is being imposed on aviation. By way of comparison, commercial radio got two years’ notice, and terrestrial television got seven years from 2007.

**APPENDIX 2**

**PRE BUDGET REPORT 2008**

In the PBR the Chancellor announced the dropping of proposals to replace APD with a per-flight tax to be known as Aviation Duty.

As a result of this announcement:
- Aviation Duty plans have been scrapped, with Air Passenger Duty reformed into four bands.
- Airports will not be responsible for the costly and bureaucratic collection of the tax directly, a key area of concern to AOA members.
- By continuing to tax passengers rather than the plane, the impact on regional routes will be minimised.
- Business moved by air is supported as freight remains outside the tax.
- Transfer passengers remain outside the tax.

**Proposed Changes to APD**

The current two APD bands will be replaced by four bands:

- **Band 1** 0–2,000 miles from London (equivalent to the short haul band)
- **Band 2** 2,000–4,000 miles
- **Band 3** 4,000–6,000 miles
- **Band 4** 6,000 + miles

APD will be levied at the following rates:
### Economy Rates

<table>
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<tr>
<th>Distance</th>
<th>Rate 2008</th>
<th>Rate 2009</th>
<th>Rate 2010</th>
<th>% change 2008–09</th>
<th>% change 2008–10</th>
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<tr>
<td>0–2,000</td>
<td>£10.00</td>
<td>£11.00</td>
<td>£12.00</td>
<td>10</td>
<td>20</td>
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<td>88</td>
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### Premium Rates

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<tr>
<th>Distance</th>
<th>Rate 2008</th>
<th>Rate 2009</th>
<th>Rate 2010</th>
<th>% change 2008–09</th>
<th>% change 2008–10</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–2,000</td>
<td>£20.00</td>
<td>£22.00</td>
<td>£24.00</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>2,000–4,000</td>
<td>£80.00</td>
<td>£90.00</td>
<td>£120.00</td>
<td>13</td>
<td>50</td>
</tr>
<tr>
<td>4,000–6,000</td>
<td>£80.00</td>
<td>£100.00</td>
<td>£150.00</td>
<td>25</td>
<td>88</td>
</tr>
<tr>
<td>6,000+</td>
<td>£80.00</td>
<td>£110.00</td>
<td>£170.00</td>
<td>38</td>
<td>113</td>
</tr>
</tbody>
</table>

**Assessment**

There will be a substantial hike in long haul taxes, for instance a 113% increase on the longest routes eg UK-Australia between 2008 and 2010. This increase in the cost of long haul flying will impact on air links between the UK and key global economies, including those of India, the Middle East, and China.

Revenue from APD is going to grow substantially faster than passenger numbers, and will place a burden on the industry at a time of recession and declining passenger numbers.

![Revenue and Passenger Growth to 2007](image)

Given that aviation is already meeting its environmental external costs as assessed by the DfT in its Emissions Cost Assessment, APD will be raising more than aviation’s fair share. (EAC assessed aviation’s external costs at £1.8 billion in 2007, very similar to the sum actually raised in APD that year).

APD will raise around £2.9 billion in 2010. Based on the Emissions Cost Assessment, aviation’s environmental externalities in 2010 will cost some £1.9 billion. As a result, there will be an almost £1bn overpayment in terms of aviation’s fair environmental costs.
APD AND EMISSIONS TRADING

Under current proposals, aviation will be incorporated within ETS from 2012. In UK terms, auction revenues from EU ETS will raise £98.7 million in that year. These revenues will go to the UK Exchequer, in addition to those already raised from APD.

AOA believes that taken together, the cost to aviation of APD and Emissions Trading should be equal to the environmental external cost of aviation. As the “take” from ETS increases, then the level at which APD is set should be reduced. This would allow passengers to avoid flying once and being taxed twice.

APPENDIX 3
AOA POSITION ON ENVIRONMENTAL TAXATION

1. BACKGROUND

1.1 Aviation generates 2% of global greenhouse gas (GHG) emissions. In the UK the aviation share is 5% of all emissions.

Source: Institute and International Energy Agency

1.2 Whilst the Kyoto Protocol (1997) set out commitments to reduce global emissions, international aviation was left outside the framework. Recent developments in climate science, political awareness and public interest have made aviation a focus for action on climate change.

1.3 Aviation will remain a growth sector beyond 2030 due to increased demand related to ongoing economic growth. Over this period incremental improvements in technology and operations will deliver real term reductions in aviation emissions. In the shorter term, however, such reductions are not feasible without demand controls on aviation.

1.3.1 The figure below illustrates the Sustainable Aviation Programme view of future emissions from the UK aviation industry. The uppermost, red, line indicates predictions of growth (without any changes in fleet composition or technology level) and has been derived from projections in passenger numbers published by the UK DfT in November 2007. The yellow area indicates the impact of engine and airframe technology developments, meeting ACARE targets by 2020 with further advances thereafter. It takes 20 years for technology changes to penetrate the entire fleet. The light blue area indicates the contribution from ATM and operations towards meeting the ACARE targets by 2020. The dark blue area indicates the contribution of fuels from renewable and sustainable sources. Overall SA’s judgement is that cumulative improvements from these technologies will reduce CO₂ emissions from the UK aviation industry to below present levels by 2050.
1.4 In the UK the government is now minded to incorporate international aviation within the Climate Change Bill, which would result in aviation’s emissions being brought within annual UK carbon budgets. This might, potentially, result in aviation facing demand controls in order to keep its emissions within budget.

2. EU and UK Proposals

2.1 The EU has operated an emissions trading scheme since 2005. Under current proposals, aviation will be incorporated within ETS from 2012 (the last year of Phase 2).

2.1.1 The full details of aviation’s incorporation remain unclear as the EU legislative process is still underway. An EU Parliament vote on 14 October 2008 set out the following conditions:

- 2012 Cap on emissions to be set at 95% of 2005 emissions;
- cap to decrease by 1.7% annually;
- 15% of emissions within the cap to be auctioned in 2012;
- auction rising to 20% in 2013, and by 11% p.a. thereafter; and
- by 2020 there will be 100% auctioning- revenue to member states.

2.1.2 The figure below demonstrates the development of aviation ETS for the EU member states (assuming no abatement of CO2 emissions by technology or operations):
2.1.3 In UK terms, auction revenues from EU ETS will raise £98.7 million in 2012. The total UK ETS cost will be £352.6 million per year. Auction revenues will rise to £495.6 million by 2020 (assuming a carbon cost of £20.83 per tonne of CO2), and the total cost of ETS to UK carriers will be £1.1 billion. ETS therefore remains cheaper than Air Passenger Duty.

2.1.4 Under ETS, emitters are able to use the Clean Development Mechanism (CDM) to achieve abatement. CDM is an arrangement under the Kyoto Protocol allowing industrialised countries with a greenhouse gas reduction commitment (called Annex 1 countries) to invest in projects that reduce emissions in developing countries as an alternative to more expensive emission reductions in their own countries. A crucial feature of an approved CDM carbon project is that it has established that the planned reductions would not occur without the additional incentive provided by emission reductions credits, a concept known as “additionality”.

2.1.5 The CDM allows net global greenhouse gas emissions to be reduced at a much lower global cost by financing emissions reduction projects in developing countries where costs are lower than in industrialized countries.

2.2 The UK Government announced changes to Air Passenger Duty in its Pre Budget Report of November 2008. HM Treasury argues that the tax will allow aviation to cover its fair share of the public finances, as well as helping aviation to meet its environmental costs.

2.2.1 In September 2008 DfT published its Emissions Cost Assessment (ECA). Based on a carbon cost per tonne of £25.50 (based on DfT’s estimates) and aviation emissions of 10.2 million tonnes in 2005 (including a multiplier of 1.9 to cover non-CO2 externalities such as noise and NOx emissions), the total external cost of aviation can be calculated as £1.8 billion. This compares with a tax take from Air Passenger Duty of £2 billion in 2007.

2.2.2 In 2009 APD will raise around £2.5 billion. There will be a further increase in 2010, raising the “environmental tax” take to £2.9 billion.

3. Comment

3.1 The AOA accepts that aviation needs to cover its environmental external costs if the industry is to achieve permission to grow. This is particularly evident in the UK context, where the debate on climate change is heavily aviation-focussed.

3.2 The ECA, published by DfT in 2008, demonstrates that aviation in the UK is already covering its environmental costs through existing taxes.

3.3 Technological and operational improvements offer the possibility of real-term reductions in emissions from aviation over a longer period. Abatement is technologically challenging and will require considerable investment. In the short term economic and social pressures will generate demand for growth in air transport.

3.3.1 Offsetting through an emissions cap and trade scheme offers the opportunity for net carbon emission reductions across an economy, whilst permitting industries where abatement opportunities are expensive or technologically challenging to continue to grow, by funding abatement elsewhere in the economy (effectively by buying other sectors’ emissions).

3.4 Environmental taxes without any form of hypothecation, whilst they play a role in allowing a sector to internalise its external costs, are ineffective as they divert money away from investment in abatement.

3.4.1 Given the overall logic of a trading scheme, it is wrong for auction revenue to accrue to the member states as a form of tax, as this prevents the use of the revenue to fund abatement.

3.5 The CDM mechanism is potentially open to abuse in some circumstances, where it is used to fund projects of “virtual” rather than “real” climate benefit.

4. AOA Position

4.1 The AOA supports aviation’s inclusion in the EU ETS.

4.1.1 ETS offers an international solution to an international problem.

4.1.2 ETS is a trading solution which allows some sectors to continue to emit whilst growing, and at the same time funds net carbon abatement across the economy. Environmental taxation does not do that.

4.1.3 ETS demonstrably shows that aviation is taking steps to address its climate impact, which in turn strengthens the case for permission to grow.

4.2 AOA believes that taken together, the cost to aviation of Air Passenger Duty and Emissions Trading should be equal to the environmental external cost of aviation. As the “take” from ETS increases, then the level at which APD is set should be reduced. This would allow passengers to avoid flying once and being taxed twice.
4.3 AOA feels that it is inappropriate for member states’ governments to receive revenues raised by auctioning. This money will be diverted away from funding abatement within the economy, which fundamentally undermines the purpose of ETS.

4.4 AOA believes that the Post Kyoto discussions, culminating in the Copenhagen conference (December 2009) should:

4.4.1 Pave the way for a global agreement on aviation emissions.

4.4.2 Review the Kyoto CDM mechanism in order to ensure that money used for abatement under ETS funds real carbon reductions, rather than “virtual” projects with little real benefit.

APPENDIX 4

AIRPORT POLICING—SUPPLEMENTARY DETAIL

Our members are concerned at the potential for police to gold-plate airport policing agreements. The economic impact of the changes will be significant for regional airports.

In the main our amendments have focussed on two areas: the identity of the police force responsible for providing policing to an airport, and the mitigating the economic impacts of the proposed framework for airport policing.

IDENTITY OF THE POLICE FORCE

The AOA has proposed a number of changes to the Bill, to redefine a “relevant police area” for an airport as the “relevant police force”. Our members’ first preference is for a national security force, part of whose duties would be to carry out airport policing. This could be centrally funded, with or without a contribution from airports. This model is working well in the US where central funding and common practices enhance the operation of airport security.

A second option is the use of the British Transport Police (BTP) to police airports as well as the rail network. The BTP “lives or dies” by its relation with rail operators, which provides a real motivation to agree realistic and affordable proposals for policing. In contrast, for Home Office forces, airports are a part, and not always welcome part, of their overall remit. Stephen Boys Smith, whose review of airport policing forms the basis for the proposed legislation, looked at the option of using the BTP and quickly dismissed it in part due to a concurrent review of the BTP.

A third consideration is the opportunity for competitive tendering for the provision of airport policing at airports which sit on or near the boundaries between two or more constabularies. East Midland Airport, and Bournemouth Airport are two examples of airports where this situation arises. The ability to choose a force to provide policing at an airport would provide a check and balance into the policing service agreement process, by minimising the ability of a police force to set its own levels of policing and, thus, of cost.

MITIGATING ECONOMIC IMPACTS

The Regulatory Impact Assessment which accompanied the DfT’s consultation on airport policing reforms concluded that a number of regional airports could become loss making as a result of the Government’s proposals (Airport Policing, Funding and Security Planning, revised RIA published 18 December 2008).

The following table summarises the situation for some of those airports which would become loss making. The airports themselves have asked to be kept anonymous.

<table>
<thead>
<tr>
<th>Airport Type</th>
<th>Large Regional</th>
<th>Large Regional</th>
<th>Small Regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Could you pass through under current commercial arrangements?</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>What does it represent as % of total operating costs?</td>
<td>9.5%</td>
<td>20% (of overall base excluding staff costs)</td>
<td>26.3%</td>
</tr>
<tr>
<td>What would be the impact on profits?</td>
<td>−20%</td>
<td>Airport becomes loss making</td>
<td></td>
</tr>
<tr>
<td>What are the implications for the business?</td>
<td>Business returns to 2003 levels</td>
<td>Banking covenants threatened; triggers job losses; could place airport in jeopardy</td>
<td>Airport becomes loss making</td>
</tr>
</tbody>
</table>

Summary of Impacts of Policing and Crime Bill measures at some UK airports (Source: AOA)
Given the current economic circumstances, the situation for regional airports is more serious now than when the survey was undertaken by AOA in summer 2008.

The introduction of a new, significant, cost will be challenging for airports. Given the nature of the market, most airports, whether or not they are contractually tied to offering their airlines fixed prices do not have the option of renegotiating their contracts with airlines to allow them to pass a portion of the costs on. Nor, in a recession, would airlines be willing to take on a new cost burden.

AOA’s amendments have, therefore, adopted two approaches. The first is to provide a legal mechanism for the recovery of policing costs. A clause in legislation does not guarantee that airports will be able to pass on all (or any) of their policing costs, because many of them have contracts that say otherwise. However, a signal in the act would at least give them some leverage to re-look at any onerous contracts with airlines, rather than forcing airports to absorb all the new costs themselves.

There is a good precedent for this in the recent European Regulation of Persons With Reduced Mobility (PRMs), which transferred the responsibility at an airport for dealing with PRMs from (often many) airlines to the airport itself and (in its section 6) said the airport could levy a charge.

The second approach is to introduce a “phasing” clause, to allow the introduction of new charges for policing to take place once the worst of the current recession is past. These changes lengthen the time to enter into a contact for payment to the police from three months to three years. This does not prevent the airport being policed and is therefore not soft on security. It does, however, provide for a phased introduction of the legislation at airports which have no existing agreement for policing and are not currently facing policing costs, a measure very definitely needed given the economic situation.

*February 2009*

**Memorandum from the Airport Operators Association (FOA 42A)**

Thank you for mentioning at the end of the curtailed session last Wednesday that if there was any point that we wished to submit to the Committee but had not had the opportunity to do so we could contact you.

Had we had the time I would have wished to amplify my response to the question asking us what is the single thing the Government could do to assist the industry. My point would have been that in the short term we would wish for no additional taxes or costs upon the industry, in particular the pending increases in APD in November 2009 and November 2010 should be abandoned; looking to the medium term, we would wish for a policy framework which enables the industry to grow in a sustainable manner.

*July 2009*

**Memorandum from World Development Movement (FOA 43)**

1. **Introduction**

   1. The World Development Movement (WDM) campaigns to tackle the root causes of poverty. With our partners around the world, we win positive change for the world’s poorest people. We believe that charity is not enough. We lobby governments and companies to change policies that keep people poor. WDM is a democratic membership organisation of 15,000 individuals and 70 local groups.

   2. We welcome the Transport Committee’s decision to hold an inquiry into the future of aviation. This submission focuses on the fourth question set by this inquiry: “What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?” We focus our submission on the following points:

   — The UK has to greatly reduce its emissions.

   — There is currently slow progress in doing so.

   — Aviation makes-up 10% of the UK’s contribution to climate change.

   — Under Department for Transport projections for growth in aviation emissions it will be extremely difficult, and probably impossible, for the UK to meet its climate change targets set under the Climate Change Act 2008.
— Expansion of aviation requires very large reductions in emissions very soon from all other sectors, for which there are currently no plans or policies.
— The Department for Transport predictions of efficiency improvements are very optimistic compared to the average over 1990–2007.
— Only half the UK population fly in one year; flying is an activity dominated by the rich.
— There is no social justice reason why aviation should be treated as a special case.
— Including aviation in the EU Emissions Trading Scheme (ETS) will do little to reduce emissions either in the aviation sector or other sectors.
— Including aviation in the EU ETS will not ensure the UK meets its legally binding targets to reduce emissions by 2020 under the Climate Change Act 2008.
— The global warming costs of aviation will be felt primarily through the loss of lives and livelihoods of poor people across the world, especially in developing countries.
— Equating the global warming costs of aviation solely with economic costs of climate change is unjust.

2. THE CLIMATE CHANGE CONTEXT

3. Climate change is a threat to the current and future well-being of billions of people around the world. The European Union and UK government have a target to keep the increase in global temperatures to a maximum of 2°C above pre-industrial levels. The Intergovernmental Panel on Climate Change (IPCC) reported in 2007 that to keep the increase in global temperatures between 2°C and 2.4°C above pre-industrial levels requires global emissions to peak between now and 2015 at the latest, and then fall by between 50 and 85% on 2000 levels by 2050.1 For the UK to play its part in reducing global emissions by 50–85% by 2050 requires UK emissions to fall by 80–95% by 2050 (see Table 1 below).

| Table 1 |
| GLOBAL AND UK REQUIRED EMISSIONS REDUCTIONS BY 2050|

| 2000 total emissions | 23.8 billion tonnes | 555 million tonnes |
| 2000 per person emissions | 3.9 tonnes | 9.3 tonnes |
| 2050 total emissions | 3.6–11.9 billion tonnes | 36–108 million tonnes |
| 2050 per person emissions | 0.6–1.8 tonnes | 0.6–1.8 tonnes |

4. For global emissions to peak by 2015 at the latest rich countries like the UK must make sizeable reductions in emissions straightaway. To reduce UK emissions by 80% by 2050 requires cuts of around 4% every year, beginning in 2009. This means UK emissions need to fall by 40% by 2020 and 60% by 2030.

5. In 2008 the Climate Change Act was passed by Parliament setting a legally binding target to reduce UK greenhouse gas emissions by 80% on 1990 levels by 2050.3 The Act also makes provision for five-yearly carbon budgets to be created, starting with the period 2008–12. The Act further made provision for a Committee on Climate Change to be created to provide advice for the government.

6. In December 2008 the Committee on Climate Change advised that a target should be set for reducing greenhouse gas emissions by 42% on 1990 levels by 2020 if there is an international agreement on limiting emissions up-to 2020, or a target of a 34% reduction on 1990 levels in the absence of such an agreement. It is UK government policy to secure an international agreement on limiting emissions up-to 2020, and so current policy decisions should be made on the basis that the Committee on Climate Change is advising that UK greenhouse gas emissions should be reduced by 42% on 1990 levels by 2020.4
7. The Climate Change Act also requires the Committee on Climate Change to advise the government on how to treat emissions from the UK’s share of international aviation and shipping. In December 2008 the Committee on Climate Change reported, saying: “Whilst aviation and shipping emissions are today both relatively small as a percent of total global emissions they are likely, if unconstrained, to grow to much larger shares. It is therefore essential either to curtail emissions growth significantly or to set more stringent targets for all other sectors which compensate for the difficulty of achieving cuts in these sectors”.5

8. The UK is actually reducing emissions very slowly, if at all. In 2006, the UK’s total contribution to climate change was 8% lower than in 1990.

9. The Department for Energy and Climate Change (DECC) report that in 2007, the UK’s total CO₂eq emissions were 636.6 million tonnes.7 This does not include CO₂ emissions from the UK’s share of international aviation and shipping, and non-CO₂ emissions from international and domestic aviation. The Department for Transport estimates that UK aviation causes 1.9 times more warming than from CO₂ alone.8 Including these emissions therefore raises total UK emissions to 712.7 million tonnes of CO₂eq. Of this, 10% of the UK’s current emissions are from aviation.

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CO₂eq refers to the CO₂ equivalent impact of emissions, whether from CO₂ itself or other greenhouse gases.
10. The contribution of UK aviation to climate change has more than doubled since 1990 (see Graph 2 below).

Graph 2
UK CO₂eq EMISSIONS FROM AVIATION, 1990–2007

11. The current climate change context is that:
   — The UK has to greatly reduce its emissions.
   — There is currently slow progress in doing so.
   — Aviation makes-up 10% of the UK’s contribution to climate change.

3. GROWTH IN UK AVIATION EMISSIONS

12. Whilst aviation emissions fell in 2007, and are likely to have fallen further in 2008 and 2009, the Department for Transport predicts that under current policies aviation and aviation emissions will continue to grow in the medium- and long-term. The most recent estimate of UK aviation emissions is from the Department for Transport in January 2009 (see Table 2 below).

Table 2
DEPARTMENT FOR TRANSPORT PREDICTION OF EMISSIONS FROM UK AVIATION

<table>
<thead>
<tr>
<th>Year</th>
<th>Low case (CO₂)</th>
<th>Central case (CO₂)</th>
<th>High case (CO₂)</th>
<th>Central case (CO₂ eq using multiplier of 1.9)</th>
<th>Central case (CO₂ eq using multiplier of 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>37.5</td>
<td>37.5</td>
<td>37.5</td>
<td>71.3</td>
<td>150</td>
</tr>
<tr>
<td>2010</td>
<td>39.4</td>
<td>41.0</td>
<td>41.7</td>
<td>77.9</td>
<td>164</td>
</tr>
<tr>
<td>2020</td>
<td>45.1</td>
<td>50.3</td>
<td>52.9</td>
<td>95.6</td>
<td>201.2</td>
</tr>
<tr>
<td>2030</td>
<td>51.8</td>
<td>58.4</td>
<td>61.6</td>
<td>111</td>
<td>233.6</td>
</tr>
<tr>
<td>2040</td>
<td>53.8</td>
<td>61.1</td>
<td>65.0</td>
<td>116.1</td>
<td>244.4</td>
</tr>
<tr>
<td>2050</td>
<td>53.0</td>
<td>59.9</td>
<td>65.0</td>
<td>113.8</td>
<td>239.6</td>
</tr>
</tbody>
</table>

13. As well as CO₂ emissions of nitric oxide, nitrogen dioxide and water vapour by aviation at altitude also contribute to global warming. In 1999, the Intergovernmental Panel on Climate Change (IPCC) calculated that up until 1992, the warming caused by aviation was 2.7 times that of the warming of its CO₂ emissions alone. It went on to predict that between 1992 and 2050, the warming caused by aviation would be 2 to 4 times greater than aviation’s CO₂ emissions alone.11

14. The Department for Transport states that: “In order to recognise the varying scientific views on radiative forcing and to demonstrate the potential magnitude of significance of these other effects, in line with the most recent evidence we apply a multiplier value of 1.9 to the figure for carbon dioxide emitted as the central case, with sensitivity tests to define a range using a multiplier of 1 and 4”.12 In Table 2 above we have added columns using these different multipliers.
Table 3

AVIATION EMISSIONS GROWTH AND UK TARGETS FOR REDUCING EMISSIONS

<table>
<thead>
<tr>
<th>Year (1990 and 2005 actual)</th>
<th>UK greenhouse gas emissions required to meet 80% target</th>
<th>Aviation (central case, just CO₂)</th>
<th>Aviation (central case, CO₂ eq with radiative forcing of 1.9)</th>
<th>Aviation (central case, CO₂ eq with radiative forcing of 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>811</td>
<td>17.1</td>
<td>32.5</td>
<td>68.4</td>
</tr>
<tr>
<td>2005</td>
<td>728</td>
<td>37.8</td>
<td>71.8</td>
<td>151.2</td>
</tr>
<tr>
<td>2010</td>
<td>619</td>
<td>41.0</td>
<td>77.9</td>
<td>164</td>
</tr>
<tr>
<td>2020</td>
<td>470</td>
<td>50.3</td>
<td>95.6</td>
<td>201.2</td>
</tr>
<tr>
<td>2030</td>
<td>319</td>
<td>58.4</td>
<td>111</td>
<td>233.6</td>
</tr>
<tr>
<td>2040</td>
<td>225</td>
<td>61.1</td>
<td>116.1</td>
<td>244.4</td>
</tr>
<tr>
<td>2050</td>
<td>162</td>
<td>59.9</td>
<td>113.8</td>
<td>239.6</td>
</tr>
</tbody>
</table>

15. Table 3 above shows that even using the Department for Transport’s central case for aviation growth and multiplier for the non-CO₂ impacts of aviation, aviation will make up 70% of the UK’s contribution to climate change by 2050. For the UK to meet its targets for reducing emissions, whilst allowing for this level of aviation growth, then by 2020 other sectors will have to reduce their emissions by 54% on 1990 levels and by 2050 by 94% on 1990 levels. Neither the UK government nor the Committee on Climate Change has set out any scenario under which emissions from all other sectors can be reduced so drastically. And it is unclear why aviation should be allowed to expand its emissions if all other sectors have to drastically reduce theirs.

16. However, if the multiplier were higher than 1.9—as the Department for Transport accepts is possible—aviation could prevent the UK meeting its reduction targets, even if all other sectors of the economy use no fossil fuels or create no greenhouse gases at all.

Graph 3

UK REQUIRED EMISSIONS UP TO 2050, AND PROJECTED UK AVIATION EMISSIONS AT DIFFERENT LEVELS OF MULTIPLIER

17. The January 2009 predictions of aviation emissions growth by the Department for Transport only compare forecasts for CO₂, rather than CO₂ eq, with the UK’s targets for greenhouse gas emissions reductions by 2050. Given that the UK’s targets are expressed in greenhouse gas emissions, and given that the Department for Transport accepts in the same paper that a multiplier should be applied to aviation CO₂ emissions to account for non-CO₂ impacts, it is not clear why they have not done the comparison above.

18. In January 2009 the UK government announced a new target; UK aviation emissions would be below 2005 levels in 2050. However, this target was not reflected in the Department for Transport’s predictions of aviation emissions up-to 2050. Presumably this means that under current policies the government predict that the new target for 2050 will not be met, and therefore additional policies are needed to ensure aviation emissions are below 2005 levels by 2050.
19. One key assumption lying behind the Department for Transport projections of CO2 emissions is that average fuel efficiency will improve by an average of 1.1% a year from 2005 to 2030, and by 0.75% between 2030 and 2050. This translates into an annual reduction in emissions per passenger of around 0.8%. Therefore, growth in emissions will be at a lower rate than growth in passengers; and from 2030 onwards passenger growth will be constrained and aviation emissions will consequently fall.

20. However, over the period 1990–2007, average emissions per passenger have only fallen by 0.4% a year (see Table 4 below). The Department for Transport projections of aviation emissions growth rely on a doubling in the percentage increase in efficiency over what has happened over the last two decades. The Department for Transport predictions of aviation emissions and efficiency from 2005 to 2050 are very optimistic. In reality, the predicted level of passenger growth could actually equal far higher emissions. If annual percentage efficiency improvements remain the same as 1990–2007, then in 2050 aviation emissions will be an additional 20% higher than predicted by the Department for Transport, even with the same numbers of passengers.

<table>
<thead>
<tr>
<th>Year</th>
<th>Emissions (million tonnes of CO2)</th>
<th>Passengers (millions)</th>
<th>Emissions to passenger ratio</th>
<th>Emissions to passenger ratio average for three years</th>
<th>Annual reduction in emissions/passenger</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>17.1</td>
<td>102</td>
<td>0.167</td>
<td>0.172</td>
<td>N/A</td>
</tr>
<tr>
<td>1991</td>
<td>16.8</td>
<td>96</td>
<td>0.176</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>18.5</td>
<td>106</td>
<td>0.174</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>19.7</td>
<td>112</td>
<td>0.176</td>
<td>0.170</td>
<td>−0.4</td>
</tr>
<tr>
<td>1994</td>
<td>20.4</td>
<td>122</td>
<td>0.167</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>21.7</td>
<td>129</td>
<td>0.168</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>23.0</td>
<td>136</td>
<td>0.169</td>
<td>0.169</td>
<td>−0.2</td>
</tr>
<tr>
<td>1997</td>
<td>24.5</td>
<td>147</td>
<td>0.167</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>27.2</td>
<td>159</td>
<td>0.171</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>29.6</td>
<td>168</td>
<td>0.176</td>
<td>0.178</td>
<td>+1.8</td>
</tr>
<tr>
<td>2000</td>
<td>32.5</td>
<td>180</td>
<td>0.181</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>31.9</td>
<td>181</td>
<td>0.176</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>31.3</td>
<td>189</td>
<td>0.166</td>
<td>0.163</td>
<td>−2.8</td>
</tr>
<tr>
<td>2003</td>
<td>32.0</td>
<td>200</td>
<td>0.160</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>35.1</td>
<td>216</td>
<td>0.163</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>37.8</td>
<td>228</td>
<td>0.166</td>
<td>0.161</td>
<td>−0.4</td>
</tr>
<tr>
<td>2006</td>
<td>38.3</td>
<td>235</td>
<td>0.163</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>37.4</td>
<td>241</td>
<td>0.155</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>41.0</td>
<td>258</td>
<td>0.159</td>
<td>0.159</td>
<td>−0.4</td>
</tr>
<tr>
<td>2020</td>
<td>50.3</td>
<td>350</td>
<td>0.144</td>
<td>0.144</td>
<td>−0.8</td>
</tr>
<tr>
<td>2030</td>
<td>58.4</td>
<td>427</td>
<td>0.137</td>
<td>0.137</td>
<td>−0.5</td>
</tr>
<tr>
<td>2040</td>
<td>61.1</td>
<td>490</td>
<td>0.125</td>
<td>0.125</td>
<td>−0.9</td>
</tr>
<tr>
<td>2050</td>
<td>59.9</td>
<td>525</td>
<td>0.114</td>
<td>0.114</td>
<td>−0.7</td>
</tr>
</tbody>
</table>

21. In summary:

— Under Department for Transport projections for growth in aviation emissions it will be extremely difficult, and probably impossible, for the UK to meet its climate change targets set under the Climate Change Act 2008.

— Expansion of aviation requires very large reductions in emissions very soon from all other sectors, for which there are currently no plans or policies.

— The Department for Transport predictions of efficiency improvements are very optimistic compared to the average over 1990–2007.

4. Social Justice

22. Allowing aviation to expand is also socially unjust. The UK government is expecting every sector of the UK economy to reduce emissions, except for aviation. Yet no case has been presented for why aviation should be an exception. Half of the UK population do not fly in any one year (see Table 5 below).10 In contrast, virtually 100% of the UK population use electricity, home heating and road or public transport every year.
Table 5

PROPORTION OF UK POPULATION WHO HAVE FLOWN IN THE LAST YEAR\(^{17}\)

<table>
<thead>
<tr>
<th></th>
<th>Proportion who have not flown in last year</th>
<th>Proportion who have taken one return journey</th>
<th>Proportion who have taken more than one return journey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total UK population</td>
<td>49%</td>
<td>25%</td>
<td>26%</td>
</tr>
<tr>
<td>AB (upper middle class/ middle class)</td>
<td>36%</td>
<td>27%</td>
<td>38%</td>
</tr>
<tr>
<td>C1 (lower middle class)</td>
<td>42%</td>
<td>26%</td>
<td>32%</td>
</tr>
<tr>
<td>C2 (skilled working class)</td>
<td>53%</td>
<td>25%</td>
<td>22%</td>
</tr>
<tr>
<td>DE (working class/no earnings)</td>
<td>68%</td>
<td>22%</td>
<td>10%</td>
</tr>
</tbody>
</table>

23. Aviation is an activity dominated by the rich. The richest 18\% of the UK population are responsible for 54\% of flights, whilst the poorest 18\% are responsible for just 5\%.\(^{18}\) The growth in flying over the past few years has been due to richer people flying more, whilst those on the lowest incomes are actually flying less. In 2000, over 8 million leisure trips were taken from UK airports by passengers earning less than £14,374 a year. In 2004, the same group of people flew less, with just over 7 million trips. In contrast, people earning over £28,750 a year made 28.8 million leisure trips in 2000, and this rose to 36.5 million in 2004.\(^{19}\)

24. In summary:
   - Only half the UK population fly in one year; flying is an activity dominated by the rich.
   - There is no social justice reason why aviation should be treated as a special case.

5. **Aviation in the EU Emissions Trading Scheme**

25. The UK government argues that expansion of aviation is partly justified because aviation’s inclusion in the EU’s Emissions Trading Scheme means that the sector will need to pay to reduce emissions in other sectors in Europe. The reasoning is that total UK emission reduction targets can still be met if aviation pays for extra emissions reductions in other sectors whilst continuing to grow. Including aviation in the European Union’s Emissions Trading Scheme (ETS) is the mechanism for this to happen. In Table 6 we set out theoretically how this could work to meet the UK’s target of reducing greenhouse gas emissions by 42\% by 2020 on 1990 levels.

Table 6

THEORETICAL EFFECT ON UK EMISSIONS IN 2020 OF AVIATION BEING INCLUDED IN THE EU EMISSIONS TRADING SCHEME

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-aviation emissions (CO(_2)eq)</th>
<th>Aviation emissions (CO(_2)eq, multiplier of 1.9)</th>
<th>Extra reductions aviation needs to buy from other sectors (CO(_2)eq)</th>
<th>Total emissions (CO(_2)eq)</th>
<th>Percentage reduction on 1990 levels (CO(_2)eq)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>776.3</td>
<td>32.1</td>
<td>0</td>
<td>808.4</td>
<td></td>
</tr>
<tr>
<td>2004–06</td>
<td>659.1</td>
<td>69.7</td>
<td>0</td>
<td>728.8</td>
<td>9.8%</td>
</tr>
<tr>
<td>2020</td>
<td>450.3 (42% reduction on 1990 levels)</td>
<td>95.6(^{20})</td>
<td>77</td>
<td>468.9(^{21})</td>
<td>42%</td>
</tr>
</tbody>
</table>

26. In this example, non-aviation sectors reduce their emissions by 42\% on 1990 levels by 2020. Aviation emissions grow in line with UK Department for Transport predictions. For the UK to still reduce total emissions by 42\% by 2020, aviation emissions would need to actually be reduced by 42\% on 1990 levels by 2020; taking aviation emissions down to 18.6 million tonnes of CO\(_2\)eq. Therefore, aviation needs to pay to reduce emissions by a further 77 million tonnes of CO\(_2\)eq (95.6 – 18.6 = 77) on top of the cuts other sectors will already be making. Total UK emissions would be 468.9 million tonnes of CO\(_2\)eq in 2020, a 42\% reduction on 1990 levels.

27. However, there are three reasons why the inclusion of aviation in the EU ETS will not lead to this reduction in emissions, and so government policy will not be met. We set these out in turn below.
5.1 **Permits allocated based on emissions in 2004–06**

28. From 2013, the aviation sector will be allocated permits to emit equivalent to 95% of the sector’s average emissions from 2004 to 2006. For UK aviation this is 66.2 million tonnes of CO2eq. The growth in aviation emissions from 1990 to 2004–06 is not accounted for. Whilst aviation will have to pay for reductions in other sectors for emissions above 2004–06 levels, it will not have to do so for emissions growth before 2004–06. However, UK, EU and global targets for emission reductions work on a baseline of 1990. In the UK, aviation emissions were 32.1 million tonnes of CO2eq in 1990, compared to the annual average of 69.7 million tonnes of CO2eq for 2004 to 2006, a growth of 117%.

29. Furthermore, aviation will be allocated the same level of permits every year; it will not have to reduce emissions. In contrast, every other sector in the EU ETS has been allocated permits based on emissions in 1990 minus a reduction target, and permits allocated or auctioned will continue to fall every year.

30. By 2020, aviation will only have to pay to reduce any emissions over 95% of 2004–06 levels (66.2 million tonnes of CO2eq). Based on Department for Transport estimates of aviation emissions growth, aviation will emit 95.6 million tonnes of CO2eq by 2020, and so will need to purchase permits to emit 29.4 million tonnes of CO2eq, rather than 77 million tonnes as highlighted in the hypothetical example above. (see Table 7 below). Aviation does not have to pay for the growth in aviation emissions between 1990 and 2004–06 to be reduced elsewhere. Neither does aviation have to contribute to emission cuts below 1990 levels, unlike every other sector. The overall impact of this is that total UK emissions will be cut by 36% rather than 42%, even with every sector other than aviation cutting by 42%.

### Table 7

**EFFECT ON UK EMISSIONS IN 2020 OF PERMITS BEING ALLOCATED FOR AVIATION ON 2004–06 EMISSIONS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-aviation emissions</th>
<th>Aviation emissions (CO2eq multiplier of 1.9)</th>
<th>Extra reductions aviation needs to buy from other sectors</th>
<th>Total emissions (CO2eq)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>776.3</td>
<td>32.1</td>
<td>0</td>
<td>808.4</td>
</tr>
<tr>
<td>2004–06</td>
<td>659.1</td>
<td>69.7</td>
<td>0</td>
<td>728.8</td>
</tr>
<tr>
<td>2020 (42% reduction on 1990 levels)</td>
<td>450.3</td>
<td>95.623</td>
<td>29.4</td>
<td>516.5</td>
</tr>
</tbody>
</table>

5.2 **Only CO2 emissions from aviation will be included in the EU ETS**

31. Only CO2 from aviation will be included in the emissions trading scheme; non-CO2 impacts will not. This means that rather than having to buy permits to cover the growth in all its emissions, the aviation sector will only need to buy permits to cover the growth in CO2 emissions. This is 13.6 million tonnes of CO2 between 2004–06 and 2020 rather than 25.9 million tonnes of CO2eq (see Table 8 below). The increase in non-CO2 impacts of aviation will not be reduced elsewhere. Because the non-CO2 impacts of aviation are not included, adding the effect of this to the loophole in section 5.1 shows that total UK emissions will be cut by 34% rather than 42%, even with every sector other than aviation cutting emissions by 42%.

### Table 8

**EFFECT ON UK EMISSIONS IN 2020 OF PERMITS BEING ALLOCATED FOR AVIATION ON 2004–06 EMISSIONS, AND ONLY ADDRESSING CO2 EMISSIONS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-aviation emissions</th>
<th>Aviation emissions (CO2eq multiplier of 1.9)</th>
<th>Extra reductions aviation needs to buy from other sectors</th>
<th>Total emissions (CO2eq)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>776.3</td>
<td>32.1</td>
<td>0</td>
<td>808.4</td>
</tr>
<tr>
<td>2004–06</td>
<td>659.1</td>
<td>69.7</td>
<td>0</td>
<td>728.8</td>
</tr>
<tr>
<td>2020 (42% reduction on 1990 levels)</td>
<td>450.3</td>
<td>95.624</td>
<td>13.6</td>
<td>532.3</td>
</tr>
</tbody>
</table>
5.3 Use of credits from outside the EU

32. Airlines do not have to pay for equivalent emissions reductions “in other sectors” in Europe. Aviation will be free to trade within the main EU ETS, which means aviation can meet its emissions through buying permits from outside the EU generated by Clean Development Mechanism (CDM) projects.

33. Under the EU climate and energy package agreed in late-2008, 50% of required emissions reductions in the ETS from 2013 on can be met through buying CDM credits rather than European permits. This means that up-to half of required emissions reductions can be met through projects outside the EU rather than cutting emissions within Europe.

34. The price for CDM offset credits is predicted to be low until 2020, and so therefore it is likely that EU industries in the ETS will use as many CDM credits as they can, rather than buy EU permits (see Table 9 below).

<table>
<thead>
<tr>
<th>Year</th>
<th>CDM offset credit price projections (central case) (€)</th>
<th>EU ETS allowance price projections (low reference case) (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>14</td>
<td>24</td>
</tr>
<tr>
<td>2015</td>
<td>12</td>
<td>30</td>
</tr>
<tr>
<td>2020</td>
<td>16</td>
<td>38</td>
</tr>
</tbody>
</table>

35. Buying credits from outside Europe assumes that climate change can be tackled by reducing emissions in developing countries instead of reducing emissions in the UK and Europe. In reality, cuts in developing countries have to be in addition to the cuts required of industrialised countries. Industrialised countries currently account for 54% of global CO2 emissions, whilst containing 20% of the world’s population. Developing countries account for 46% of CO2 emissions, and have 80% of the world’s population.

36. To meet global emission reduction targets to prevent dangerous climate change industrialised countries like the UK have to reduce emissions by around 40% by 2020 and more than 80% by 2050. And some developing countries have to be assisted in halting the growth in emissions, and in the future reducing them. Such help has to be in addition to large cuts in emissions in rich countries, not instead of cuts in rich countries.

37. The Committee on Climate Change has said: “rich developed economies need to start demonstrating that a low-carbon economy is possible and compatible with economic prosperity, in order to gain developing country commitment to long-term emissions reductions, and need to start driving the technologies and energy efficiency improvements which will make a low-carbon economy possible. They can only do this by employing measures which drive down emissions in rich developed economies rather than relying solely on purchased credits.”

38. Furthermore, there is widespread evidence that CDM projects do not reduce emissions in developing countries. The Joint Committee Parliament on the Climate Change Bill said that: “the economic incentives offered by the CDM [Clean Development Mechanism] appear actually to be encouraging the building of refrigerant plants in the developing world, simply in order that the HFC by-products from the plant can be incinerated, and the credits generated from this sold at a large profit.”

39. The Committee on Climate Change has said: “there remain concerns as to whether offset credits can ever be as certain a form of emission reduction as domestic reductions. While the procedures for the approval and monitoring of CDM projects are being continually improved, any system of credits for reduction against a hypothetical business-as-usual scenario, is inherently less robust than a cap and trade system where reductions are required in the certifiable total of all emissions.”

40. A report by International Rivers Network found that three out of four CDM projects were already up-and-running by the time they were approved to generate CDM credits, strongly suggesting that the projects would all have happened anyway. A report by the US Government Accountability Office to Congress says the CDM’s “effects on emissions are uncertain . . . available evidence suggests that some offset credits were awarded for projects that would have occurred even in the absence of the CDM”.

41. Assuming that the aviation sector buys half of its extra permits from outside Europe, this means that rather than needing to buy permits to emit 13.6 million tonnes of CO2 from other sectors in Europe, aviation only has to buy 6.8 million tonnes (see Table 10 below).
Table 10

THE ACTUAL EFFECT OF INCLUDING AVIATION IN THE EMISSIONS TRADING SCHEME

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-aviation emissions</th>
<th>Aviation emissions (CO₂eq, multiplier of 1.9)</th>
<th>Extra reductions aviation needs to buy from other sectors</th>
<th>Total emissions</th>
<th>Percentage reduction on 1990 levels (CO₂eq)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>776.3</td>
<td>32.1</td>
<td>0</td>
<td>808.4</td>
<td></td>
</tr>
<tr>
<td>2004–06</td>
<td>659.1</td>
<td>69.7</td>
<td>0</td>
<td>728.8</td>
<td>9.8%</td>
</tr>
<tr>
<td>2020</td>
<td>450.3 (42% reduction on 1990 levels)</td>
<td>95.6³³</td>
<td>6.8</td>
<td>539.1</td>
<td>33.3%</td>
</tr>
</tbody>
</table>

42. Even with:
   — every other sector reducing emissions by 42% on 1990 levels by 2020; and
   — aviation being included in the ETS.

43. The impact of including UK aviation in the EU ETS will be to reduce emissions somewhere in Europe by 6.8 million tonnes of CO₂ a year by 2020. This is in contrast with projected growth in UK aviation emissions by the Department for Transport of 25.9 million tonnes of CO₂eq between 2004–06 and 2020.

44. By 2020 the UK’s actual contribution to climate change will have only fallen by 33%, from 808.4 million tonnes of CO₂eq in 1990 to 539.1 million tonnes of CO₂eq (see Table 11 above), rather than a policy target of 42%. Including aviation in the EU ETS will not ensure the UK meets its legally binding targets to reduce emissions by 2020 under the Climate Change Act 2008. Therefore, additional policies are needed. If the UK government adopts a 2020 target lower than that recommended by the Committee on Climate Change, then the actual reduction in emissions will be even less.

45. In summary:
   — Including aviation in the EU Emissions Trading Scheme (ETS) will do little to reduce emissions either in the aviation sector or other sectors.
   — Including aviation in the EU ETS will not ensure the UK meets its legally binding targets to reduce emissions by 2020 under the Climate Change Act 2008.

6. AVIATION PAYING ITS ENVIRONMENTAL COSTS

46. The Committee has asked the question “What costs does aviation impose on society and the environment?” The Stern Report and UK government have both sought to answer this question through the concept of the “price of carbon”; the economic cost one unit of CO₂ or CO₂eq has across the world through its global warming impact.

47. The government has a “shadow price for carbon” of £25 per tonne of CO₂eq emissions in 2007, which it uses as a measure of “environmental cost”.³⁴ This cost of carbon is based on the world taking all the measures needed to prevent global temperatures increasing by more than 2°C on pre-industrial levels. However, neither the UK government nor other countries around the world are taking the measures needed to prevent global temperatures increasing by more than 2°C. The Stern Report said that the cost of carbon on the basis of current policies and the warming they will bring is US$85 (£60) a tonne of CO₂eq.³⁵ Using this figure would make the annual climate change cost of UK aviation emissions £4.3 billion.

48. However, the cost of carbon approach is fundamentally flawed. The highest costs of emissions and climate change cannot be measured in monetary terms. The World Health Organisation estimates that already 150,000 people are dying every year from the effects of climate change,³⁶ and this number will get much higher the more we cause temperatures to rise through our emissions. The highest costs of emissions are not financial but are the loss of life around the world as a result of climate change.

49. The Intergovernmental Panel on Climate Change (IPCC) reported in 2007 that based on past emissions, over the next two decades we are likely to see:
   — Crop productivity declining in tropical areas with global temperature increases of 1–2°C.
   — In Africa, by 2020, between 75 and 250 million more people exposed to increased water stress.
   — In some countries in Africa, yields from rain-fed agriculture could be reduced by up to 50% by 2020.³⁷

50. The IPCC went on to report that if the world does not act quickly to mitigate greenhouse gas emissions, we could see temperature increases of 3.2 to 6.1°C over the course of this century.³⁸ Such increases could mean:
   — In Asia, an additional 130 million people at risk of hunger by 2050 and 270 million by 2080.
   — More than 100 million people at risk of water shortages in Latin America by the 2080s.
   — In Africa, an additional 350–600 million people suffering from water shortages by 2050.
— Decreased water availability in Asia affecting more than one billion people by 2050.
— Crop revenues for farmers in Africa falling by 90% by 2100.

51. Using a financial value for external costs is also deeply unjust. GDP per person on a Purchasing Power Parity (PPP) basis in Bangladesh is US$2,053, and in Malawi is US$667. In the UK it is US$33,238. It would take the devastation of the livelihoods of 16 Bangladeshi or 50 Malawi citizens from the effects of climate change to equal the devastation to one UK citizen, under a cost of carbon analysis. This is unjust. Such cost of carbon values should not be part of UK government policy to tackle climate change.

52. A more robust approach, as set out in this submission, is to ensure all the measures are taken to keep the increase in global temperatures to a maximum of 2°C. The UK government has rightly said that average global temperature should not be allowed to increase by more than 2°C. Therefore, the UK government has to ensure emissions are reduced as required to keep the global temperature increase to a maximum of 2°C.

53. On the basis of science from the IPCC, UK emissions have to be reduced by at least 40% by 2020, 60% by 2030 and more than 80% by 2050. As was shown earlier, this cannot happen if UK aviation is allowed to continue to grow. The cost of aviation will need to increase to halt the growth in UK aviation. This is the measure of extra cost on aviation which the UK government should be using, not an arbitrary and unjust shadow price of carbon.

54. In summary:
— The global warming costs of aviation will be felt primarily through the loss of lives and livelihoods of poor people across the world, especially in developing countries.
— Equating the global warming costs of aviation solely with economic costs of climate change is unjust.

7. CONCLUSION

55. In conclusion:
— The UK has to greatly reduce its emissions.
— There is currently slow progress in doing so.
— Aviation makes-up 10% of the UK’s contribution to climate change.
— Under Department for Transport projections for growth in aviation emissions it will be extremely difficult, and probably impossible, for the UK to meet its climate change targets set under the Climate Change Act 2008.
— Expansion of aviation requires very large reductions in emissions very soon from all other sectors, for which there are currently no plans or policies.
— The Department for Transport predictions of efficiency improvements are very optimistic compared to the average over 1990–2007.
— Only half the UK population fly in one year; flying is an activity dominated by the rich.
— There is no social justice reason why aviation should be treated as a special case.
— Including aviation in the EU Emissions Trading Scheme (ETS) will do little to reduce emissions either in the aviation sector or other sectors.
— Including aviation in the EU ETS will not ensure the UK meets its legally binding targets to reduce emissions by 2020 under the Climate Change Act 2008.
— The global warming costs of aviation will be felt primarily through the loss of lives and livelihoods of poor people across the world, especially in developing countries.
— Equating the global warming costs of aviation solely with economic costs of climate change is unjust.

REFERENCES


20 Department for Transport prediction.

21 450.3 + 95.6—77 = 468.9.

22 In 2012, aviation will be allocated permits to emit the equivalent of 97% of the sector’s emissions in 2004–06.

23 Department for Transport prediction.

24 Department for Transport prediction.


32 For simplicity, we also assume that aviation buys permits from within Europe from the UK rather than other European countries.

33 Department for Transport prediction.


Memorandum from Natural England (FOA 44)

SUMMARY

— Opinion differs on the nature of the benefits provided by air travel and airport expansion and the figures that underpin them.
— Natural England is opposed to any expansion of airports.
— Aviation is a significant source of carbon dioxide emissions and has a range of additional impacts on the climate. According to forecasts, aviation could be responsible for 10–15% of the UK’s carbon dioxide emissions by 2020. This implies that aviation growth is incompatible with meeting the UK’s climate change targets and without effective management of UK aviation carbon the UK will not meet those targets. Aside from a car with one person in it, all other modes of transport are significantly better than aviation in terms of carbon dioxide emissions per passenger kilometre for domestic journeys.
— Air Passenger Duty (APD) is a straightforward mechanism for internalising some of the external costs of air travel. It is disappointing that it is not being applied more consistently and with greater determination.

INTRODUCTION

1. Natural England has been charged with the responsibility to ensure that England’s unique natural environment including its flora and fauna, land and seascapes, geology and soils are protected and improved. Natural England’s purpose is to ensure that the natural environment is conserved, enhanced, and managed for the benefit of present and future generations, thereby contributing to sustainable development.

2. Natural England is concerned about the potential impacts of airport expansion on the landscape and biodiversity. We have previously expressed the view that growth at England’s airports must be managed more stringently in order to reduce environmental impacts. Natural England has objected to expansion plans for Stansted, London Ashford and Bournemouth Airports and commented that further expansion at Heathrow will damage local landscape character and adversely affect local biodiversity. Natural England welcomes the opportunity to submit evidence to this Committee.

EVIDENCE

Question 1—What is the value of aviation to the UK economy?

3. The debate on UK aviation is hampered by a lack of agreement on basic data and forecasting. This is identified in the recent Sustainable Development Commission (SDC) report which states that “much basic evidence on which current and future [aviation] policy is based, is in dispute”. The SDC report highlights a disagreement on the economic arguments for and against aviation (for example, the extent and significance of the tourism deficit). Other research highlights that “the explicit cost-benefit analysis undertaken for the Aviation White Paper focused primarily on savings for passengers, assuming that the value of time would increase steeply in future” and concludes that the appropriateness of the measure of value, and the values used, are open to debate.

4. In addition positive and adverse impacts cannot be quantified and are not always represented in the cost benefit analysis of expansion. For example, the Department for Transport’s cost benefit analysis for new runways at Stansted and Heathrow remains positive even when worst case greenhouse gas emissions scenarios are used. However, the calculations do not include any monetary estimate of other environmental disbenefits such as impacts on biodiversity and landscape. Further detail regarding the environmental disbenefits relating to aviation is provided in our response to Question 4.

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226 Predict and Decide; Aviation, Climate Change and UK Policy, 2006 Sally Cairns & Carey Newson.
Question 2—Is the current aviation infrastructure adequate for the needs of UK business and individuals, and how should it be developed?

5. The Government argues that the Air Transport White Paper is not based on “predict and provide” yet the difference between growth unconstrained by airport capacity (from 228 million passengers per annum (mppa) in 2005 to 495mppa in 2030 (within the range 460–540mppa)) and the growth enabled by the level of expansion supported by the AWP 480mppa by 2030 (within the range 450mppa to 505mppa)228 is very small.

6. Agreement is needed at the European level on how much expansion is sustainable, rather than the current situation where the UK is seen as competing with European and international airlines. For example, the Department for Transport consultation on a third runway and 6th terminal at Heathrow referred to the need for the UK to maintain its position in the face of European competition, referring to Schipol’s five runways. But some business demand could be met through alternative technology such as videoconferencing and telepresence, and domestic rail should be priced to provide a realistic and sustainable alternative for leisure travel to many domestic and European destinations.

Question 4—What costs does aviation impose on society and the environment? What are the implications of climate change policy— in particular the Climate Change act 2008, for the aviation industry and infrastructure?

7. The Department for Transport accepts that aviation leads to a number of adverse environmental impacts and that, in keeping with the “polluter pays” principle, these external costs should be reflected in the costs incurred by the aviation industry, so that “(in an ideal world) it fully meets its external costs”.229 Environmental costs include:

(i) The growing contribution from aviation to greenhouse gas (GHG) emissions. Department for Transport research in 2005 acknowledged that “other environmental impacts associated with airport capacity, such as townscapes, landscape, biodiversity, heritage and water, are not considered here/ as there are no relevant studies that have attempted to place valuations on these impacts”.230 The shadow cost of carbon enables the monetisation of CO2 emissions, but there remain significant challenges posed by GHG emissions from domestic and international aviation to the achievement of the UK’s climate change targets. These challenges relate to:

— The swift rate of growth in aviation emissions. Global aviation (both domestic and international together) currently represents around 2% of global CO2 emissions, but could account for 15–20% of all CO2 permitted in 2050. At the UK level, domestic aviation accounted for 0.4% of UK CO2 emissions in 2005, rising to 6.3% of UK CO2 emissions when international aviation emissions are added to the total. By 2050, UK aviation CO2 emissions are forecast to reach approximately 60 MtCO2.231

— The lack of an accepted international methodology for allocating international emissions and the failure of the International Civil Aviation Organisation (ICAO) to address this issue.232 The UK Climate Change Committee proposes that international aviation and shipping should be part of the UK’s climate strategy and the UK’s 2050 target, but should not be explicitly included in the budgets given the difficulties in allocating emissions at the national level. We support their proposal that until these difficulties are resolved, the level of budgets for other sectors should ideally reflect likely progress in reducing emissions in aviation and shipping. The Government has accepted that the UK’s share of international aviation emissions should be “taken into account” when setting carbon budgets for the rest of the UK economy.

— The Sustainable Development Commission233 highlights the uncertain knowledge of radiative forcing (relating to the climate impacts of greenhouse gases from aeroplanes at altitude) and the impact that technology can have on reducing emissions from aviation.

(ii) Air pollution. Other emissions from aviation include nitric oxide and nitrogen dioxide, together termed NOx (which form ozone, a greenhouse gas, at altitude); particulates (soot and sulphate particles); water vapour (which leads to the formation of contrails and cirrus clouds at altitude); and other compounds including sulphur oxides, carbon monoxide, hydrocarbons and radicals such as hydroxyl. NOx and ozone are the two pollutants of greatest concern for vegetation and ecosystems. Natural systems are thought to be even more vulnerable to excessive levels of these pollutants than humans. The resultant deposition of NOx (and associated environmental issues such as nutrient enrichment and acidification), and the large extent of predicted critical load exceedance already across the UK are a perceived risk to the natural environment. Current air pollution limits for NOx and sulphur dioxide are based on ecosystem impacts as well as human

228 UK Air Passenger Demand and CO2 Forecasts, Department for Transport, 2007.
229 Valuing the external costs of aviation, Department for Transport, 2005.
230 Valuing the external costs of aviation, Department for Transport, 2005.
231 UK Air Passenger Demand and CO2 Forecasts, Department for November 2007.
232 International aviation emissions were excluded from the Kyoto Protocol under Article 2.2. Responsibility for regulating emissions falls to the International Civil Aviation Organisation which has no power to enforce. Royal Commission on Environmental Pollution (RCEP), 2002: The Environmental Effects of Civil Aircraft in Flight—Special Report.
233 Breaking the Holding Pattern, Executive Summary, Sustainable Development Commission.
health impacts. The UK emissions of nitrogen oxides have been decreasing (1.49 million tonnes were emitted in 2007) but we are not on track to meet our commitment to reduce emissions to 1.17 million tonnes under the EU NECD by 2010, and to 1.18 million tonnes under the UNECE Gothenburg Protocol also by 2010. Road transport was the largest source of emissions of nitrogen oxides in 2007, accounting for 30% of the total. In relation to local air quality, pollution from the surface transport feeding airports is often of equal or greater concern as the emissions from aircraft themselves.

(iii) **Noise and tranquillity.** Natural England has submitted evidence to the Transport Select Committee inquiry into the use of airspace highlighting the threats to tranquillity posed by airports and overflying of protected landscapes, and the lack of methodology for quantifying this.

(iv) **Land take** contributing to loss of biodiversity and landscape quality.

(v) **Constraints on new habitat creation.** particularly where wetland creation would be difficult to reconcile with the safety issues associated with bird strike.

(vi) **The additional adverse environmental impacts caused by surface access to airports**; for example, a significant level of new road and rail infrastructure is required to deliver the Stansted Generation 2 planning application.

8. In all modes of transport except aviation carbon dioxide emissions account for the majority of their climate impacts. In contrast aviation’s climate impacts are significantly greater than those generated by its carbon dioxide emissions alone. The combined effects of these other emissions is to add significantly to the climate change effects of aviation, over and above those caused by its CO₂ emissions alone. The fact that aviation’s climate impacts are “significantly worse” than those caused by its carbon dioxide emissions is scientifically uncontroversial. However, putting a precise value on “significantly worse” is problematic.

9. When a multiplier is used to allow for this, it becomes clear that aviation is, at best, roughly comparable to a single occupancy car journey over a “short haul” distance (such as a trip to Europe), whilst being significantly more environmentally damaging, per passenger kilometre, than all other modes of transport and for both domestic and long haul flights. As a worst case; compare, for example, taking the Eurostar from London to Paris, where the climate impacts would be between 10 and 21 times worse if the journey was taken by plane.

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10. Defra 2008 guidelines currently provide the most widely accepted data source for comparing the carbon dioxide emissions from different modes of transport. These give typical carbon dioxide emissions per passenger kilometre for all modes except car—where emissions per vehicle kilometre are given. A tabulated version of relevant data is presented below.

### COMPARATIVE EMISSIONS FROM DIFFERENT MODES OF TRANSPORT

<table>
<thead>
<tr>
<th>Mode</th>
<th>CO₂ Emissions per Passenger Kilometre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurostar to Brussels and Paris</td>
<td>17.7</td>
</tr>
<tr>
<td>National rail</td>
<td>60.2</td>
</tr>
<tr>
<td>Average coach</td>
<td>29</td>
</tr>
<tr>
<td>Average bus</td>
<td>107.3</td>
</tr>
<tr>
<td>Large RoPax ferry</td>
<td>115.2</td>
</tr>
<tr>
<td>Average car (1 occupant)</td>
<td>204.2</td>
</tr>
<tr>
<td>Average car, average occupancy</td>
<td>129.2</td>
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<td>Average car (2 occupants)</td>
<td>102.1</td>
</tr>
<tr>
<td>Average car (4 occupants)</td>
<td>51.1</td>
</tr>
<tr>
<td>Domestic flight</td>
<td>175.3</td>
</tr>
<tr>
<td>Short haul flight</td>
<td>98.3</td>
</tr>
<tr>
<td>Long haul flight</td>
<td>110.6</td>
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<td>333.1</td>
</tr>
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<td>Short haul flight (using 1.9 multiplier)</td>
<td>186.8</td>
</tr>
<tr>
<td>Long haul flight (using 1.9 multiplier)</td>
<td>210.1</td>
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<tr>
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<td>701.2</td>
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<tr>
<td>Short haul flight (using 4 multiplier)</td>
<td>383.2</td>
</tr>
<tr>
<td>Long haul flight (using 4 multiplier)</td>
<td>701.2</td>
</tr>
</tbody>
</table>

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Question 5—What is the impact of taxation on the aviation sector nationally and regionally?

11. The “Predict and Decide Report”\(^{236}\) concludes that “increasing air passenger duty probably offers the simplest and fastest way to reduce emissions from aviation and could be implemented swiftly”. The 2006 pre-Budget report\(^{237}\) announced an increase in all rates of air passenger duty, with effect from 1 February 2007, “in recognition of the environmental costs of air travel” thus signalling a willingness on the Government’s part to apply this tax in keeping with the “polluter pays” principle.

12. We welcome this general statement but, given the international barriers and complexities to reforming the lack of fuel tax for aviation; it is disappointing that domestic instruments such as APD, that can be immediately effective, are not being applied more consistently and with greater determination.

February 2009

Memorandum from Manchester Airports Group plc (FOA 45)

A. INTRODUCTION

1. This is the response of the Manchester Airports Group Plc (MAG) to the inquiry into the future of aviation.

2. MAG is the second largest UK airport operator and comprises the airports of Manchester, East Midlands, Humberside and Bournemouth. MAG handled over 29 million passengers in 2008 and 496,000 tonnes of freight. MAG welcomes the committee’s interest in the future of aviation.

3. In summary:
   - MAG airports generate £3.5 billion for the UK economy, support more than 136,000 jobs and provide an alternative to the London airports;
   - MAG has no immediate plans to expand runway capacity but would like to see surface access improvements;
   - Most short haul routes from regional airports cannot be replaced by rail;
   - MAG aims to be carbon neutral by 2015;
   - Aviation taxes are a particular burden on regional airports, where airline yields are lower and passengers are more price sensitive; and
   - MAG has invested heavily to minimise inconvenience to passengers caused by security restrictions.

B. QUESTIONS

1. (a) What is the value of aviation to the UK economy?

4. The aviation industry generates more than £11 billion for the UK economy and directly employs over 200,000 people.\(^{238}\) MAG generated some £3.5 billion for the UK economy in 2007 (2007 prices), and supported more than 136,000 jobs. A study commissioned by MAG estimates that by 2015, its airports would support between 221,600 and 230,400 fte jobs across the UK, generating between £6.8 and £7.1 billion of income (2007 prices).\(^{239}\) This is estimated to increase to 251,500–269,300 fte jobs and between £10.4 and £11.1 billion of income by 2030.

(b) What are the roles of the London and regional airports?

5. The UK’s regional airports have two major roles – first as a direct alternative to the London airports and second as drivers of local economic growth. In the case of East Midlands Airport (EMA), the airport has both a regional and a national role, as the UK’s premier freight hub.

6. As engines of growth, regional airports have a vital role to play. Manchester Airport is recognised by the Northern Way group and others as the international gateway for the North of England, and a major contributor to the economic development of the North West, providing the interconnectivity that business in the region needs. Manchester is the only UK airport outside the South East with a network of long–haul services to destinations in the USA, Middle East, Asia and the Far East. The airport contributes to the Government’s policy of narrowing the economic gap between North and South, both in terms of its direct economic contribution and in supporting employment.

\(^{236}\) Predict and Decide; Aviation; Climate Change & UK Policy Sally Cairns & Carey Newson page 83.
\(^{238}\) DfT, Britain’s Transport Infrastructure Adding Capacity at Heathrow: Decisions following consultation, January 2009
7. However, the extent to which regional airports can play this role is inhibited by a number of factors. Airlines will always be more attracted to the London airports than the regional airports, as yields in London are considerably higher.\textsuperscript{240}

8. Unlike the London airports, regional airports have a lower proportion of inbound traffic (necessary to make both legs of a route viable), fewer local major corporate headquarters and a lower proportion of ABC1s with a higher propensity to fly, all of which combine to make returns for airlines less attractive. This means that regional airports are always at a disadvantage when it comes to attracting services, particularly in terms of long–haul route development. If regional airports are to truly play their part in local economic development, then the international connectivity provided by long haul routes to the growing economies such as China and India should be encouraged.

9. Yet at a time when regional economies arguably need long–haul links more than ever, the airlines have typically chosen to consolidate their operations at London. For example, British Airways dropped its long–standing service from Manchester to JFK in Winter 2008, and now operates just LHR and LGW feeder services from Manchester. Similarly, bmi has dropped routes from Manchester in favour of services from Heathrow.

10. Regional airports have adapted to the absence of a major based hub carrier by encouraging point–to–point services, primarily from overseas carriers. In this sense, regional airports play an important role in relieving the strain on congested London airports and minimising unnecessary long distance trips to London.

11. EMA has both a national and a regional role. It is the UK’s largest pure freight airport and a base for major air freight operators. Over 300,000 tonnes of freight were carried from EMA in 2007–08. In addition to this national role, EMA makes a significant contribution to the regional development of the East Midlands region, supporting inward investment and providing connectivity for business and leisure travellers. The express freight industry directly employs 4,700 and overall supports 10,200 jobs in the East Midlands region.\textsuperscript{241}

(c) \textit{What competition do they face from abroad?}

12. Manchester Airport competes with major and secondary European hubs and has even competed with non–European cities like Kuala Lumpur for airline business. However, much of the competition is more local, given similar surface access times to airports.

13. MAG was pleased that the Government did not progress the proposals to introduce Aviation Duty, as this would have placed a serious competitive disadvantage on UK airports seeking to attract airlines. A number of competitive disadvantages remain for UK airports, however, such as Air Passenger Duty, the requirement on UK airports to pay for all their own security and policing costs. When the Policing and Crime Bill comes into force, all UK airports will also be obliged to pay for airport policing—a requirement that does not apply on the continent, where most member states take the view that policing and security is a matter for the state.

14. Similarly, OFCOM’s proposals to apply spectrum pricing to the aviation sector would distort competition as UK airports and airlines would have additional cost burdens not imposed on European competitors.

15. Given the roles of airports in furthering economic growth, MAG would like to see a levelling of the playing field for UK airports. We believe that the competitive distortions that UK airports suffer should be removed.

2. (a) \textit{Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?}

16. MAG believes that the current aviation infrastructure at its four airports is adequate. We have submitted a planning application for a small runway extension at East Midlands and a major programme is underway at Bournemouth to replace existing terminal facilities, but no other major infrastructure is planned for the foreseeable future.

17. MAG would argue that aviation infrastructure alone is only part of the picture. As we found in our audit of carbon emissions at Manchester Airport, 60% of CO2 on the ground comes from vehicles accessing the site. If we are to meet our target of becoming carbon neutral by 2015 then surface access to airports is an important challenge.

18. Surface access at MAG airports is inadequate. While MAG has invested substantially in the infrastructure and terminal facilities at its airports, issues surrounding surface access remain.

\textsuperscript{240} Airlines assess services on a seasonal basis and will not hesitate to reduce their services or withdraw completely if a market is not providing sufficient profits. Long–haul route networks from UK regional airports are extremely fragile. Since 2001–02, Manchester Airport has gained 26 new long haul routes but has lost 28, a net loss of 2 routes. See Appendix 3 for details.

\textsuperscript{241} Economic Impact of Express Carriers for UK plc, OEF, January 2006.
19. We would like to see a more strategic use of the rail and motorway network, prioritising access to ports and airports, to support airports in their role as economic drivers.

20. Finally, a more coordinated approach would help airports promote regional objectives such as local regeneration. The Phase 3b Manchester Metrolink would encourage urban regeneration and access to employment as well as enhancing public transport alternatives for passengers and staff.

(b) What are the implications of future passenger trends and possible mergers in the airline industry?


22. 2008 saw, for the first “ordinary” time in a generation, a break in that trend, with passenger growth not just slowing down, but in decline. Overall passenger numbers across MAG are expected to decline some 5% in 2008–09 on the previous year, with the biggest fall (7%) at Manchester. Economic downturn also saw some 30 airlines around the world collapse in 2008, leaving UK airports handling fewer passengers.

23. Airlines have responded to the crisis in a number of ways. Some have removed capacity from the system, others have consolidated services around their hub airports and some are pursuing mergers and alliances.

24. For regional airports, the implications are two–fold. First, the fall in passengers and the retreat to hub airports have combined to make trading conditions even tougher. Second, as airlines seek to aggressively reduce costs, the trend towards falling aeronautical revenues is likely to accelerate, forcing airports to pursue alternative income streams from retail, car parking and elsewhere.

25. Other recent passenger trends include continued migration across continents and across Europe—leading to a growth in “visiting friends and relatives” (VFR) traffic. Demographic changes, such as the ageing population and the growth in single person households and single parent families, will also have implications, on propensity to travel and on passenger needs from airports and airlines—eg there could well be a higher incidence of passengers with reduced mobility. Finally technological changes (eg mobile phone and kerb–side check in etc) will mean that airports need to continue to work closely with airlines, retailers and other on–site partners to anticipate changing passenger needs.

3. To what extent can rail provide an alternative to short-haul flights?

26. There are relatively few routes on which rail can provide a realistic alternative to short-haul flights. Apart from domestic short haul and London to the near continent via the Channel Tunnel, most alternatives involve ferry crossings and lengthy rail journeys, which make the journey very protracted (see Appendix 1 and 2).

27. Even within the UK, rail connection times between some city pairs compare poorly with air. While it is convenient for critics to cite good quality rail services from London as evidence of alternatives, not all journeys begin or end in London. Services such as Manchester to Aberdeen or Exeter are not quickly accessible by rail, with journey times in excess of four hours.

28. Manchester—London is therefore one of very few routes where there is a genuine rail alternative. Indeed rail is already providing fierce competition on this route, following the West Coast Main Line upgrade and the timetabling improvements.

29. However, the majority of passengers flying from Manchester to Heathrow are doing so to catch a connecting flight. There also remains a role for domestic flights in providing choice and competition to travellers.

30. In 2008 over 1.3 million passengers flew between Manchester and London. The majority of these (approx 0.9 million) were travelling to Heathrow and, of these, 63% were transferring to onward destinations. Rail is not an attractive alternative for connecting air passengers.

31. The Government has expressed interest in a North–South high–speed rail link. MAG welcomes this and would like to see Manchester Airport connected to London by high–speed rail, to allow genuine choice for passengers. If Heathrow is connected to the network, then it is vital that Manchester Airport is as well. Rail can and does provide an alternative to short haul flights in certain cases, but is unlikely to replace it in the short term.

242 Manchester Airport has also suffered in the short term from the effect of EU–US “Open Skies”, which has seen long haul carriers desert Manchester for more lucrative routes out of Heathrow, as slots become available.

243 CAA, Recent trends in growth of UK air passenger demand, January 2008.
4. (a) What costs does aviation impose on society and the environment?

32. Aviation has an environmental impact on society, quantified by the Department for Transport in terms of its external costs as £1.8 billion.\textsuperscript{244} Considering that the Government received £2 billion in Air Passenger Duty in 2007, the industry is more than covering its climate change costs, even before direct taxes on business are taken into account.

(b) What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

33. The Climate Change Act 2008 requires the Government to reduce UK greenhouse gas emissions by 80% by 2050. MAG is already working hard to reduce its carbon emissions. All MAG airports have publicly committed to become carbon neutral by 2015 and we are making good progress towards this target.

34. For example, carbon emissions within our direct control (electricity, gas, fuel oil and vehicle fuel) reduced by 4,712 tonnes (or 6%) in 2007–08 compared to the previous two years.

35. Carbon footprint assessments at EMA, BOH AND HUY are currently near completion, and Manchester Airport has already become the first airport to be achieve the Carbon Trust Standard, which certifies that the airport is measuring, managing and reducing its carbon emissions. We are working closely with European airports body ACI to develop an EU–wide standard for airport carbon management and promote carbon neutrality.

36. EMA will shortly install four wind turbines on site, which will provide approximately 10% of the site’s electricity (enough to power 500 homes). Each turbine can produce up to 225 kWh. Some 30% of MAG’s electricity is now sourced from renewable sources.

37. Other recent initiatives include automatic switch off of computers at night, a facility on our websites to allow passengers to offset the emissions from their flights and trials of electric cars and scooters, currently underway at Manchester, Bournemouth and East Midlands Airports.

38. MAG is confident that it is playing a leading role in the reduction of carbon emissions across the airport group, in line with the Climate Change Act.

5. (a) What is the impact of taxation on the aviation sector nationally and regionally?

39. APD currently costs departing passengers around £2 billion per year. This is set to increase from November 2009 as set out below:

| NEW APD CHARGES (REDUCED RATE)\textsuperscript{245} |
|------------------|-----------------|-----------------|------------------|
|                  | Current | From 1/11/09 | From 1/11/10 |                  |
| UK Domestic      | £10     | £11           | £12           | Band A           |
| EU/Europe        | £10     | £11           | £12           | Band A           |
| Algeria/Tunisia/Morocco/Libya | £40     | £11           | £12           | Band A           |
| Egypt            | £40     | £45           | £60           | Band B           |
| Middle East/West Africa/Pakistan/Canada/USA | £40 | £45           | £60           | Band B |
| Caribbean/Brazil/China/Hong Kong/India/Japan/India | £40 | £50           | £75           | Band C |
| Ocean/South Africa/Thailand | £40 | £55           | £85           | Band D |

40. As shown above, the impact of the price increases on long–haul are acute, particularly in the second phase. An economy ticket to Singapore (band D) would potentially cost £85 more in 2011, equating to rise of over 16% on a typical fare of around £520, should the airline choose not to absorb the increase.

41. It is too early to understand how airlines will respond to these planned changes, and the likely impact on the viability of services from regional airports. However regional airports already struggle to attract and retain long haul services, and this is likely to become yet more difficult against the backdrop of rising air passenger taxes for two reasons. First, passengers at regional airports tend to be more price sensitive than at London airports. Second, this price sensitivity, combined with the sharp difference in yields that results, might discourage airlines from developing and sustaining new routes from regional airports, especially long haul.

42. MAG believes APD should be repealed once EU ETS comes into force, to remove competitive distortions, bring the UK into line with Europe and avoid UK passengers being doubly taxed.

\textsuperscript{244} DIT Emissions Cost Assessment, September 2008.
\textsuperscript{245} Business or “standard” rates are double the new rates.
(b) Are passengers adequately protected from the collapse of airlines?

43. MAG would support initiatives to improve protection for passengers from the collapse of airlines.

6. What is the impact on the aviation sector of changes in the security environment?

44. Changes in the security environment have had a huge impact on UK aviation, both in terms of its cost burden (which falls almost exclusively on airports) and its impact on the passenger experience.246

45. Costs on airports include the significant investment needed in capacity and equipment, as well as ongoing security costs. MAG’s smaller airports—East Midlands, Humberside and Bournemouth—spent over £1.25 million in the last two years investing in security improvements. At Manchester, we have invested £21 million in security, including:

- New outbound control areas, increasing the number of security lanes (from 7 to 14 in Manchester’s T1);
- £2 million on additional x-rays and additional temporary search lanes;
- £4 million on new technology to release more Security Officers for passenger search duties; and
- Around 12% more security officers now in place, [688 compared with 606 (FTE) before 10 August] and around 160 extra part-time officers

46. As a result of this investment, Manchester exceeded its stated target of 95% of passengers clearing security in less than 8 minutes in 2008, including during the peak summer period.

47. MAG would like to see a more coherent approach for security. It cannot be right that airports have made significant investments in security to persuade the UK Government to relax the one-bag restriction, only for a minority of airlines to unilaterally insist on one piece of carry on luggage, including items bought airside, which itself undermines airports’ commercial income.247

48. MAG would also like to see greater representation for UK airports on the NASC Executive Committee, given that the costs of security fall heaviest on airports.

49. Finally we are working closely with on-site partners such as UKBA—currently trialling e-gates at Manchester Airport—to achieve a secure but enjoyable passenger experience.

Appendix 1:

TRAVEL TIMES BY AIR VS RAIL (UK DESTINATIONS)

<table>
<thead>
<tr>
<th>Route</th>
<th>Travel time by air</th>
<th>Travel time by rail</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manchester—Aberdeen</td>
<td>1hr 15 mins</td>
<td>5hr 50 mins</td>
<td>1</td>
</tr>
<tr>
<td>Manchester—Inverness</td>
<td>1hr 20 mins</td>
<td>6hr 47 mins</td>
<td>1</td>
</tr>
<tr>
<td>Manchester—Glasgow</td>
<td>1hr 5 mins</td>
<td>3hr 15 mins</td>
<td>1</td>
</tr>
<tr>
<td>Manchester—Edinburgh</td>
<td>1hr 5 mins</td>
<td>3hr 19 mins</td>
<td>0</td>
</tr>
<tr>
<td>Manchester—Exeter</td>
<td>1hr</td>
<td>4hr 16 mins</td>
<td>1</td>
</tr>
<tr>
<td>Manchester—Newquay</td>
<td>2hr 15 mins</td>
<td>7hr 12 mins</td>
<td>2</td>
</tr>
</tbody>
</table>

| Bournemouth—Edinburgh | 1hr 10 mins | 6hr 51 mins | 1 |
| Bournemouth—Glasgow   | 1hr 5 mins  | 6hr 41 mins | 1 |

| East Midlands—Inverness | 1hr 25 mins | 9hr 10 mins | 2 |
| East Midlands—Aberdeen  | 1hr 20 mins | 7hr 54 mins | 2 |
| East Midlands—Glasgow   | 1hr 5 mins  | 5hr 37 mins | 3 |
| East Midlands—Edinburgh | 1hr 10 mins | 5hr 04 mins | 3 |
| East Midlands—Belfast   | 1hr         | 12hr 17 mins| 5 |

| Humberside—Aberdeen    | 1hr 10 mins | 7hr 16 mins | 3 |

246 MAG made separate representations on the impact of security restrictions on the passenger experience in 2007.
247 Ryanair has publicly declared that passengers arriving at the gate with more than one piece of hand luggage will be required to pay a £30 charge to put the bag in the hold.
Appendix 2:

TRAVEL TIMES BY AIR VS RAIL (INTERNATIONAL DESTINATIONS)

<table>
<thead>
<tr>
<th>Route</th>
<th>Travel time by air</th>
<th>Travel time by rail</th>
<th>Changes</th>
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<td>Manchester (from Manchester Piccadilly)</td>
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<tr>
<td>Manchester—Frankfurt</td>
<td>1hr 45 mins</td>
<td>9hr 59 mins</td>
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<td>Manchester—Amsterdam</td>
<td>1hr 35 mins</td>
<td>8hr 31 mins</td>
<td>2</td>
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<td>Manchester—Hamburg</td>
<td>1hr 30 mins</td>
<td>13hr 05 mins</td>
<td>3</td>
</tr>
<tr>
<td>Manchester—Brussels</td>
<td>1hr 35 mins</td>
<td>5hr 30 mins</td>
<td>2</td>
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<tr>
<td>Manchester – Dublin</td>
<td>1hr</td>
<td>6hr 20 mins</td>
<td>3</td>
</tr>
<tr>
<td>Bournemouth (from Bournemouth station)</td>
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<tr>
<td>Bournemouth—Paris</td>
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<td>Bournemouth – Brescia</td>
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<td>Bournemouth—Innsbruck</td>
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<td>Bournemouth – Dublin</td>
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<td>East Midlands (from East Midlands Parkway)</td>
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<td>East Midlands—Brussels</td>
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<td>13hr 47mins</td>
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<tr>
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The travel times by air were calculated using the Manchester Airport, East Midlands Airport, Bournemouth Airport and Humberside Airport websites.

The travel times by train were calculated using the D–bahn website.

Appendix 3:

LONG HAUL SCHEDULED ROUTE ANALYSIS THAT OPERATED IN PART OF THE FINANCIAL YEAR

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Due to its central role in the UK air transport system the future of Heathrow holds the key to the future of UK aviation and for meeting the government goals to secure air transport contribution to the economy along side its accessibility benefits to the UK regions while lowering its adverse impact on the environment.

There is a risk that even with a third runway, the current pattern of services will remain unchanged (at a higher volume of passengers). Thus any accessibility benefits that do occur will benefit passengers from the London area and international passengers transferring at Heathrow. Regional passengers would have to continue to rely on foreign hubs as their gateway to the world. The quote “Heathrow is our main gateway to the global economy” will remain valid only from a London perspective.

Apparently, there are no direct accessibility (and thus economic) benefits to the UK regions from a third runway at Heathrow and there may be losses, as UK regional airports link directly to other European hubs (eg Amsterdam) and not to Heathrow. The benefits of a third runway are therefore very much depending on how its capacity is used and what level of accessibility it provides to the UK regions. This must be further investigated.

The surface accessibility of Heathrow is treated as an ancillary issue in the UK air transport policy, with this important issue only being considered after decisions on air-side infrastructure and terminals have been made. This undermines the air transport policy objectives of the government especially with regard to securing Heathrow economic contribution to the whole of the UK, and at a lower environmental impact.

Decisions on a third runway at Heathrow cannot be separated from decisions on providing sufficient high quality public transport access, especially by rail, from all parts of the UK, not just London. This requires substantial investments from the public and private sectors to ensure reliable public transport travel times. It is as important as providing additional runway capacity to secure the potential economic benefits of Heathrow.

Government places substantial weight on an Integrated Transport Policy as the main underlying principle in the development of the UK transport network, and new approaches to Heathrow and air transport policy are needed to fulfil this goal. One possibility would be to set up an Independent Planning Commission to address the uni-modal division of the institutions governing the UK transport system. The Government support for an integrated transport policy must be demonstrated in the development of Heathrow airport.

**Introduction**

1. Due to its central role in the UK air transport system the future of Heathrow holds the key to the future of UK aviation and for meeting the government goals to secure air transport contribution to the economy along side its accessibility benefits to the UK regions while lowering its adverse impact on the environment.

2. “The aviation sector makes an important contribution to the UK economy, bringing significant benefits in terms of employment and business investment. International connectivity—and Heathrow is our main gateway to the global economy—supports billions of pounds of British exports and thousands of UK jobs, and encourages hundreds of international businesses to locate in the UK… But Heathrow’s runways are now full and its route network is shrinking. Since 1990 the number of destinations served by Heathrow
has fallen by over 20%. Capacity constraints will lead to fewer routes, increasingly congested conditions and more delays at the airport and fewer connecting services to the UK regions”. (DfT, Consultation Document on the Third Runway, p 18).

3. The above provides a good picture of air transport in the UK and specifically the situation at Heathrow, but the conclusions drawn from it do not, in our opinion, adds up and are not necessarily the right ones to meet the policy goals stated above.

4. We believe that any decision on the future of air transport must carefully consider and focus on the following:
   
   (a) The use of available runway capacity and the level of accessibility it provides.
   (b) The economic benefits of the air transport industry.
   (c) The surface accessibility to UK air transport services.
   (d) The environmental cost of air transport services.

5. From the above four areas, we believe there is relatively good evidence based research to allow making policy decisions with respect to “c” and “d”, but less with respect to “a” and “b”, although there is enough evidence to question some of the assumptions currently dominating the debate.

THE AIR TRANSPORT ACCESSIBILITY HEATHROW PROVIDES THE UK

6. Air transport main contribution to the UK is providing access from the rest of the world by air. This is what drives the its contribution to the economy and is therefore the first criterion to assess any development of the UK air transport system, especially at Heathrow.

7. Due to lack of capacity, airlines at Heathrow focus on the long-haul market (more profitable) at the expense of the short-haul market. Similarly, in the short-haul market the focus is on international traffic (where Heathrow competes with other European hubs for transfer passengers) at the expense of the domestic market.

8. The result is that the UK regions are losing access to Heathrow and its global network of air services, while cities like Paris and Amsterdam benefit from increasing access to Heathrow. In addition, while Heathrow capacity has increased substantially since 1990, its route network shrunk.

9. It is recognised that even with a third runway, capacity at Heathrow will barely meet demand in 2030. Therefore, capacity and congestion are likely to remain a problem in the future and will have similar impact on the route network and level of service provided. There is no empirical evidence to show that provision of an additional runway (and runway capacity) at major airports reduces congestion and delays, as any additional capacity will be used to increase service frequency on existing routes. This is demonstrated by the absence of services to many UK airports, while Paris is served with almost 30 daily flights.

10. In addition, providing more capacity in order to meet rising demand and reduce congestion (without using appropriate pricing policies) has failed in the road transport sector, and this is an important lesson for the air transport industry. Even if building more runways can solve congestion on the ground, it may still increase congestion in the sky resulting in aircraft queuing on the ground waiting for clearance.

11. The above trend will be reinforced, even with a third runway, by two forces. First, the continued “opening of the skies” will increase the competition between (European) hub airports and between airlines operating on the existing routes to/from Heathrow. In particular, the recent EU-US open sky agreement will draw more airlines to the lucrative trans-Atlantic routes between Heathrow and the US taking up significant (new) capacity. Second, the expected (longer term) economic growth of London will increase demand from London for Heathrow services, pushing demand from the regions to other (European) airports.

12. Without sufficient access to Heathrow and its international route network the alternative for many UK regions is to use other European hub airports as gateways to the world, when demand is too low to support direct flights. Amsterdam airport, for example, provides direct services to 21 UK airports! Almost 50% of passengers flying from Birmingham to Amsterdam transfer there to another flight (most likely a KLM flight).

13. There is a risk that even with a third runway, the current pattern of services will remain unchanged (at a higher volume of passengers). Thus any accessibility benefits that do occur will benefit passengers from the London area and international passengers transferring at Heathrow. Regional passengers would have to continue to rely on foreign hubs as their gateway to the world. The quote “Heathrow is our main gateway to the global economy” will remain valid only from a London perspective.

14. The consultation supporting the debate on the future of air transport, and especially that of Heathrow, lacks any analysis of the link between runway capacity and the number of destinations served. The trend at Heathrow in the last 20 years would suggest a negative correlation.
THE ECONOMIC BENEFITS OF HEATHROW AIRPORT TO THE UK AND THE REGIONS

15. The main benefits of air transport to the UK economy are through the accessibility it provides to/from the world. This is crucial as globalisation trends continue. Other benefits relate to the activity of the air transport sector (employment and tax revenues), and the additional economic benefits associated with accessibility which relate mainly to agglomeration benefits (relevant only in the case of large airports, such as Heathrow).

16. Differentiating between these alleged economic benefits is difficult but important. The government estimates of the economic contribution of air transport rely on the second category, namely the general size of the industry (and mainly its supply of employment). These arguments, and especially the methodology used with the reliance on “multiplier effects”, were questioned by the CE Delft report.

17. The competition of Heathrow with other European hubs, specifically for transfer passengers, was given a high weight in the decision to construct Terminal 5 at Heathrow and now in the support for a third runway. Allegedly, transfer passengers enhance demand at Heathrow and allow higher level of service (the principle of Hub&Spoke operation). But with Heathrow operating at full capacity these passengers reduce the level of service available for UK passengers, certainly those living outside London.

18. The nature of the transfer market (where passengers normally spend a few hours at the hub airport) means that their contribution to the local economy is minimal. They do however contribute by (normally) using British airlines, if transferring at Heathrow. This is compensated for, to some degree, by regional passengers using foreign airlines and hub airports and not Heathrow.

19. Apparently, there are no direct accessibility (and thus economic) benefits to the UK regions from a third runway at Heathrow and there may be losses, as UK regional airports link directly to other European hubs (eg Amsterdam) and not to Heathrow. The benefits of a third runway are therefore very much depending on how its capacity is used and what level of accessibility it provides to the UK regions.

20. There is a need for research on the (economic) benefits for the UK and the UK regions from Heathrow’s position as a transfer hub. There is also a need to question if it is important that the UK regions’ gateway (airport) to the world will be in the UK, through Heathrow, or through European airports.

ACCESSIBILITY OF HEATHROW AIRPORT

21. The Heathrow catchment area is very much limited to Greater London, even though it is the main UK airport. This is very much due to its poor surface transport accessibility from areas outside Greater London. The airport is not a node on the UK long-distance rail network.

22. Overall, Heathrow airport has a relatively good share of public transport use on access journeys to the airport (36.2% in 2004), and the majority of these journeys are by rail (over 20% of total access journeys), but these are mainly from London. Regional rail access services to Heathrow require a bus transit from one of the nearby railway stations and are therefore not attractive. National rail access to Heathrow is only via London. From outside London, most of the access journeys by public transport are by coach services which are subject to the congestion on the roads around Heathrow and poor reliability. Given this, it is not surprising that from outside London access to Heathrow rely on the private car.

23. The UK air transport policy often refers to Amsterdam Schiphol airport, in particular to the fact that, as one of Heathrow’s main competitors, it has five runways (but even with five runways Schiphol capacity is much lower than Heathrow’s capacity). Amsterdam is better used as an example in terms of its rail connectivity. In the 1990s, a third line was constructed from Amsterdam to the South especially to connect the airport to the rail network (the airport railway station was built directly under the terminals). In 2003, the airport station was ranked 5th in the Dutch network in terms of rail connectivity, before Amsterdam’s central station (ranked eighth). Since then, a new rail connection was opened which allow direct railway services from Schiphol to cities like Utrecht and Eindhoven, and it allows the German ICE trains from Germany to serve the airport. In 2009 the HST line from Amsterdam to Belgium is expected to open and all services will stop at the airport.

24. Current rail plans for Heathrow (eg AirTrack and Crossrail) will not substantially change the situation, and they do not include the sixth Terminal which will be built with a third runway. It is very likely that, as today and with Terminal 5, there will be no direct rail service connecting all of Heathrow’s terminals, a major handicap for a transfer airport.

25. For the foreseeable future, the main UK airport, which already handles over 40 million non-transfer passengers, will continue to rely on coach services for public transport access from outside London.

26. The main conclusion of the Eddington report in terms of transport infrastructure was that in economic and social terms investments in improving access to the main UK international gateways will have the highest welfare return on investments, mainly since access to these gateways is currently congested. This important conclusion is ignored in the case for developing Heathrow airport.

27. Research on air-rail integration found that in 2003 on 10 short haul routes served from Heathrow, High-Speed Train (HST) services could offer a better option for passengers. To serve these routes, airlines used 20% of Heathrow capacity, including over 4% of the runway capacity just to serve Paris CDG (at a time
when Eurostar already had close to 70% of the market on that route). In addition, placing Heathrow airport directly on the main rail network in the UK would allow major UK cities access to its services, for example Birmingham and Bristol. This would facilitate public transport use on journeys to Heathrow from outside London and reduce the need to use foreign hub airports.

28. Recently, the government announced, together with recommendation for a third runway at Heathrow, plans for a HST line from London to the North which will include a stop at or next to Heathrow. While our research suggests that for many UK cities it is crucial to have direct rail access to Heathrow, it does not have to rely on HST services (eg Bristol, Birmingham). A HST station at Heathrow must form part of the investigation of whether a new HST line should be built or not, if the answer to this is yes the line must include a station at Heathrow which will be directly on it (not a branch line from it) and will provide easy and fast access to all terminals.

29. The surface accessibility of Heathrow is treated as an ancillary issue in the UK air transport policy, with this important issue only being considered after decisions on air-side infrastructure and terminals have been made. This undermines the air transport policy objectives of the government especially with regard to securing Heathrow economic contribution to the whole of the UK, and at a lower environmental impact.

**Planning the Air Transport System—Heathrow Airport as a City**

30. The size and importance of Heathrow airport to the UK means that its development cannot be carried out in isolation from the development of the rest of the transport network. But this is the current situation!

31. The consultation document on Heathrow’s third runway considered a situation where Heathrow airport will handle 91.5 million non-transfer passengers and employ about 60,400 workers. The document then states that “it would be for the airport operator, as part of a comprehensive transport assessment, to develop a surface access strategy” (p 102).

32. At present, with over 40 million non-transfer passengers and over 63,500 employees, the airport is dealing with access strategies through the Heathrow Area Transport Forum (members of which are mainly local stakeholders). Such a forum cannot suggest or progress any strategic decisions on access infrastructure.

33. In the Dutch planning system, Schiphol airport is very much considered as a city and is often referred to as an “AirportCity”. Schiphol has no unique location attributes which makes it the fifth most important station on the Dutch rail network, rather it is its function as an international gateway and its size (in terms of potential rail travellers) which makes the airport, in terms of railway services, one of the largest cities in the Netherlands. The potential demand for rail services at Heathrow is likely to make it the biggest railway station in the UK if appropriate infrastructure was provided.

34. The differences between rail accessibility to Heathrow and Schiphol link closely to the issue of ownership. In the UK, the airlines, airport and rail companies are privatised, while in the Netherlands the state still owns (most of) the railway, the airport and until recently it had some control of the airline. In addition, placing Heathrow airport demonstrates that privatisation and competitive pressures on the air and rail industries can facilitate the connection of a main airport to the rail network.

35. In addition to the effect of privatisation (which can be positive or negative), the institutional settings play an important role, as these can provide the forum in which such infrastructure projects are discussed and coordinated between different stakeholders. The Eddington report recognised this. “Government needs to ensure the delivery system is ready to meet future challenges, including through reform of sub-national governance arrangements and reforming the planning process for major transport projects by introducing a new Independent Planning Commission to take decisions on projects of strategic importance” (page 7 of the Eddington report).

36. Such a commission could ensure that, for example, if Stansted (with two runways) becomes the UK main hub, it will also be a major node on the UK (HST) network. It would also need to reconcile the desire of local authorities to own an airport (for economic or prestige reasons) and potential for consolidating airport capacity to capture the benefits of economics of scale in airport operation and (rail) access. For example, given Liverpool’s proximity to Manchester, and the good network of air services provided by Manchester airport and its good (rail) surface access, there might be no justification for Liverpool airport within an integrated strategy. Similarly, having airports in Southampton, Bournemouth and Exeter might not provide good value for money, and all these cities would be better served by one airport or by direct rail connections to Heathrow.

37. Government places substantial weight on an Integrated Transport Policy as the main underlying principle in the development of the UK transport network, and new approaches to Heathrow and air transport policy are needed to fulfil this goal. One possibility would be to set up an Independent Planning Commission to address the uni-modal division of the institutions governing the UK transport system. The Government support for an integrated transport policy must be demonstrated in the development of Heathrow airport.
Conclusions:

There are alternatives to a third runway to increase capacity at Heathrow

38. Building another runway at Heathrow does not guarantee the claimed economic benefits of air transport. It certainly does not guarantee that such benefits, if realised, will be shared across the UK regions. Making Heathrow a station on the UK rail network—similar to the position of Schiphol airport on the Dutch rail network—can provide similar and additional benefits and, this will ensure that these benefits are enjoyed by the UK regions. Adding capacity through the rail network will provide environmental benefits, not only from aircraft-rail substitution but also from car-rail substitution. Thus, such a strategy will meet both the economic and environmental objectives for development at Heathrow.

39. A HST link at/to the airport might enhance these benefits, as it will enhance the possibility for air-rail substitution, thus further reducing air transport impact on the environment, and it will also increase Heathrow’s accessibility from the UK regions. It will prevent the leakage of economic benefits, as some areas in the Southeast find it easier to access Paris CDG directly by Eurostar services.

40. The Eddington report rightly concluded that we need to make the best use of existing capacity. At Heathrow there are on average (2006) 142 passengers on each aircraft landing or taking off. Evidence from other airports suggests that additional capacity might be used by airlines to increase service frequency on existing routes and, in order to keep high load factors, reduce aircraft size. This will lead to a less efficient use of the runway capacity. At Tokyo Haneda there are over 200 passengers per flight while in Atlanta (4 runways) and Chicago O’Hare (7 runways), the largest airports in the world, there are only 87 and 75 passengers per atm respectively.\textsuperscript{xii}

41. The Government is correct to recognise the importance of Heathrow airport to the UK economy, and in recognising that its current position, domestically and internationally, undermines air transport contribution to the UK economy. But in developing Heathrow a broader view of “capacity” is required, and a recognition that Heathrow is not just an airport but a strategic node on the UK transport network.

42. It is clear that any increase in the capacity of Heathrow will result in substantial additional environmental costs, as it is unlikely to meet agreed EU standards or those imposed earlier on future development at Heathrow itself. A HST at the airport has the potential to reduce these costs only if it is considered as an alternative, and not an addition, to a third runway.

43. There is a risk that in the current financial and economic climate, and considering the government belief in the direct link between investments in new runways and economic growth, a third runway at Heathrow will appear ever more attractive. We urge the government to fully investigate the potential economic benefits of Heathrow’s expansion, along the lines of investigation suggested above, before making any commitment. It is important to note that at the same time the financial crisis means the forecast growth in demand for air transport, the main reason for the need of a larger Heathrow, would most likely not materialize, or at least be delayed.

References

\begin{enumerate}
\item in 1990, 18 destinations were served from Heathrow by 118 round trips per day, and these figures fell to only eight destinations and 84 round trips per day in 2004 (CAA, Civil Aviation Authority, 2005. CAP 754 UK regional air services. CAA Economic Regulation Group, February).
\item In 2003, there were 27 and 23 daily (one way) flights from Heathrow to Paris and Amsterdam respectively, and this has not changed much since.
\item The number of scheduled international destinations served by Heathrow has fallen from 227 in 1990 to 180 in 2006.
\item CAA, 2005 (see endnote i).
\item This is currently being researched at the Transport Studies Unit, Oxford University.
\item I is not clear in the UK which body, since the demise of the SRA, represents the rail industry and sector in the future of aviation debate.
\end{enumerate}
SUMMARY

1. INTRODUCTION

1.1. This section explores the policies in the “Future of Air Transport” in the light of the changes in views about the need for effective action in dealing with climate change, and the new Planning Guidance Statements on Sustainable development and the role that Planning controls should play in ensuring that new developments contribute to reducing carbon emissions.

1.2–1.4 outline some of the relevant arguments and decisions made in relation to the application to expand Stansted Airport. This decision virtually followed the policies expressed in the 2003 White Paper and para 1.5 repeats the initial response made by Stop Stansted Expansion to the consultation on the ATWP on the subject of sustainable development and climate change as the points made are just as relevant today.

2. PLANNING AND AVIATION

2.1–2.3 presents the development of air transport, namely airports and airline services as market based and somewhat haphazard, providing services based on London, Heathrow as the main hub airport, to the detriment of those living in many Regions. The increase in the number of flights has been led by the emergence of the low cost airlines which has been based on tourism and influenced by the subsidies offered by many continental airports in order to attract tourists to their areas. It has not provided such a convenient range of services to business passengers or freight. Airlines have been subsidised by the provision of cheap fuel. Now all airport development is controlled by planning rules there is an opportunity to rectify some of the weaknesses of the present infrastructure.

3. QUESTIONS BEING ADDRESSED

3.1. The value to the UK economy. We suggest that this is a question to which a precise answer is impossible and that the better one would be to ask if the air transport services are providing an adequate service within the parameters of safety and environmental impacts. This raises the questions of infrastructure already mentioned in section 2 and how services can be improved. This has implications for the commercial activities undertaken both by airports and airlines in order to maximise profits from passengers and still provide a variety of routes and schedules, mainly for tourism. We question whether there are any significant effects on the UK economy if transition passengers change planes on the continent rather than in the UK, it is the airlines of all nationalities who may lose passengers and business.

3.2 Aviation infrastructure. We continue our discussion into future services which should be more geared to business needs and suggest that there is a need for a round trip scheduling that offers Regional airports more services to the main destinations. In 3.3. Rail we point out that the limitations are partly due to the capacity of the rail network but also to comparative price,

3.4. Costs to Society and the Environment. We go into more detail on the effects of noise and local air pollution, as well as increased local traffic. We consider that climate change is the biggest issue and question whether the inclusion of aviation in the ETS will curb the number of flights sufficiently and express concern that the ability to purchase permits to pollute through the Clean Development Mechanism may impair the ability of the developing nations to develop sustainably. Improvements in aircraft engine technology to reduce CO2 are still far away and very dependent on new aircraft frame design.

4. Our conclusions are that changes in type and distribution of schedules could improve services without increasing flights. The priority has to be climate change and continued growth in the number of flights should not be encouraged, notably by not increasing the size of airports. Air travel must pay for its environmental costs and the simplest way is to charge full costs for fuel. This also encourages the saving of fuel in operations and aircraft design.
1. **Introduction**

1.1. The Government’s White Paper “The Future of Air Transport” was based on the perceived need to meet a predicted significant increase in demand for mainly recreational air travel during the next 20 years. This predicted demand was not modified in the 2006 Review though it was conceded that more needed to be done to reduce the environmental consequences of flying. The need to take these into account when setting carbon budgets has been recognised in the 2008 Climate Change Act, though the method of achieving this aim has been restricted to including aviation emissions in the EU Emissions Trading Scheme, plus some expressions of confidence in long term technological improvements in aircraft design. Recently the DfT has revised the forecasts for the numbers of passengers in 2030 for Stansted and Heathrow though it is not entirely clear whether these figures represent a true fall in the overall predictions or merely a postponement of proposed maximum totals for the relevant airports.

1.2. A huge amount of evidence was submitted to the Stansted Inquiry (the G1 inquiry) on the economic evidence—benefits and disbenefits of Stansted Airport’s expansion, as well as the environmental disbenefits. While Stansted’s faster growth than other regional airports has been entirely due to the exceptional success of the emergence of the short-haul airlines offering cheap fares (notably Ryanair) the business mix of the airport’s operations do not markedly differ from other airports except Heathrow, which has been and is the main hub airport in the UK. Stansted’s situation near to London, with a dedicated rail line and near a motorway has clearly been able to attract passengers from a larger population than airports elsewhere that are less easily accessible. Both business passengers and cargo operations are a relatively minor part of Stansted’s business. Cheap recreational flights, short haul (internal and European) are responsible for the bulk of the operations and BAA, the airport operator’s predictions for future development have preserved that dominance. This pattern is likely to be repeated at the majority of the UK airports though the larger ones will have a greater proportion of long haul flights the bulk of the increase in passenger trips are likely to be recreational.

1.3. The decision of the Secretaries of State to allow a further 10 mppa expansion of Stansted Airport to 35mppa was based on the view that the economic advantages of an increase in flights outweighed the environmental annoyance from increased noise and the environmental damage from increased air pollution. The decision was taken in spite of the acceptance that statutory levels of pollution for the protection of vegetation had been and would be breached over part of the National Nature Reserve and SSSI Hatfield Forest on the grounds that the Forest is within 5 Kms of a motorway (the M11). (The wording of the EU Directive on Air Quality is somewhat equivocal on this point and as yet there has been no authoritative legal opinion on the intentions of the Directive). As would be expected, the Secretaries of State did not consider that the increase in carbon dioxide emissions from additional aircraft flights were relevant as these were to be controlled on a national basis through the EU emissions trading scheme. With regard to the economic arguments the Inspector did not regard as relevant the fact that a big relative increase in outward recreational trips had already and would adversely affect the balance of payments, and the Secretaries of State accepted his advice.

1.4. The decision taken over the Stansted Inquiry and the reasons for this decision have followed the lines of the Government’s views expressed in the 2003 White Paper and its Review in spite of the passage of time and the increasing realisation that Climate Change has to be mitigated. The recent financial situation will clearly have an effect on demand though the monthly increase in passengers had begun to fall before the banking crisis and, judging from the number of advertisements filling the national press for “free” or very cheap short haul flights it would seem that the demand for seats was falling before the credit crunch. This suggests that the demand even for cheap seats was easing off.

1.5. In our view the introductory comments made by SSE in 2003 in response to the original consultation over the Aviation White Paper are still relevant today. We quote from the introduction to the South East Consultation Response. The references to the “consultation” could be replaced by the “The Future of Air Transport”:

“The Government has repeatedly declared its commitment to sustainable development. In Foundations for the Future Margaret Beckett, the then Secretary of State at DEFRA spelt out her determination “to place sustainability at the heart of our actions, and to protect and ensure a better quality of life”. In the same document sustainable development was held up as “the central organising principle”, not just for Government, but for “the economy and society” generally. The Government has defined sustainable development as “a better quality of life for everyone, and for generations to come”, and has identified four key objectives which have to be met at the same time if it is to be achieved. These are:

— Social Progress which recognises the needs of everyone.
— Effective protection of the environment.
— Prudent use of natural resources
— Maintenance of high and stable levels of economic growth and employment.

The consultation document, however, expresses sustainability in terms of a policy that “should aim both to maximise the significant social and economic benefits that growth in aviation would bring whilst trying to minimise the environmental impacts.”
This strongly suggests that ‘trying to minimise the environmental impacts’ is subordinate to maximising the ‘significant social and economic benefits’.

In addition, since the publication of the Aviation White Paper the Planning Guidance Statement PPS1 has been published, which puts Sustainable development at the heart of Planning Policy, and, the supplement, Planning and Climate Change, which states unequivocally on the first page (para 3) that “Tackling Climate Change is a key Government priority for the Planning system” and that (para 2) it “supplements PPS1 by setting out how planning should contribute to reducing emissions and stabilising climate change and take into account the unavoidable consequences”.

2. PLANNING AND AVIATION

2.1. Air Transport depends on the provision of airports. The development of airports in the UK has been haphazard and has in the past been very dependent on utilising old military airfields. The air transport routes have developed between the airports and most UK airports are and have been privately owned as business enterprises. In recent years new airports have had to be approved through the Planning system though it is only in recent years that the environmental impacts have received proper recognition and some statutory control, notably in relation to air safety. Although there are statutory limits to local air pollution the debate over the expansion of Heathrow has shown that they can be widely breached for a number of years without any effective action being taken to remedy the situation. In the case of noise annoyance controls are as yet mainly airport controlled except for night noise in specified airports and can only be enforced through the planning system of imposing conditions when the initial approvals to new applications are given or through local fines.

2.2. The development of air transport has been market based, notably in relation to the services provided by airlines, now all privately owned, who compete to provide the most profitable and popular services. Airborne routes are controlled and with the increasing number of routes and flights are at present causing problems for NATs in devising safe routes. This is in marked contrast to the road and rail transport systems, long subject to tight planning conditions and overall government regulation in respect to the geography of the routes and the need for the services that are or should be provided as well as fares and subsidies.

2.3. The rapid expansion of flights to a wide range of destinations has been largely influenced by tourism which in turn, with the advent of low cost airlines, is also influenced by the desire of the destination airport to encourage tourists to visit their area, and hence to supply the airlines with financial inducements. Low cost airlines themselves depend on the extras sold with the journey as well as providing only basic facilities with the price of the seat.

Airlines also are able to purchase their fuel at prices much lower than prices charged to road vehicles or diesel trains or indirectly to electricity suppliers.

Airports are financially dependent on parking fees charged for cars and rents from shopping and eating facilities.

3. QUESTIONS BEING ADDRESSED

3.1 The value of aviation to the UK economy

(i) We suggest that this question is not relevant in terms of value. Firstly it includes aircraft production which forms a considerable part of UK industry and plays a vital role in UK exports both in goods and skills. Airports themselves provide shopping facilities and transport hubs for rail and road -which can equally well be otherwise provided where most needed rather than at a site that happens to be an airport. Air transport, whether business, recreational or cargo, is an essential part of a modern transport system and many journeys cannot be made in the time available without the use of air travel. As with other essential services, if the market fails to deliver a satisfactory service the Government would be obliged to take appropriate action. The better question might be “Is the Air Transport System providing an adequate service within the parameters of proper safety standards and environmental impacts?

(ii) If the services had been developed on the basis of local need Regional airports would have played a bigger part in providing services rather than London providing the main international hub, supported by Gatwick, which has created additional traffic problems for those passengers coming from regions further away who are not wishing to visit London, only the nearby airport. Much is made of the role of Heathrow as a transition airport for passengers who simply change from one plane to another, usually long haul to short haul thence to Europe. This benefits only the airport shopping facilities and the airlines concerned, a number of extra jobs will be provided, but it is difficult to see why this should be of such great economic benefit to the UK that so much concern is raised about competition from Paris or Amsterdam. Common sense suggests that genuine visitors to the UK would be happier to have less congestion in the airport. Airlines clearly do not wish to lose passengers from flights they have slots for, but the economic question is primarily one of airline competition for passengers, not of possible benefits to the UK economy, direct or indirect.
3.2 The current aviation infrastructure

We have already drawn attention to the somewhat haphazard development of airport sites and airport routes. While the market has been successful in developing air transport it has been distorted by low cost flights to European tourist centres, and the constant search for cheaper airport charges for airlines, to the detriment of business travellers who still have to travel to Heathrow in order to reach main centres of business activity not served by the main low cost airlines. Neither can the low cost airlines carry cargo, which must restrict the possibilities for many firms wishing to use air transport facilities.

Regional airports that supply a reasonable range of services are the logical answer but they may not be able to provide enough scheduled flights to a sufficient number of destinations. We believe that the future should envisage an air bus service stopping off at a number of airports and providing a regular scheduled service to key airports. We do not believe that the current low cost recreational services can continue to expand, ignoring the environmental impacts. They help to create their own market by marketing policies heavily dependent on apparent price cuts, offers that are taken up by many on higher incomes looking out for bargains. They are subsidised by low fuel costs. They provide a service for many who otherwise could not afford to fly, but bearing in mind that the other costs of a foreign holiday are still prohibitive they still do not provide cheap holidays for all who wish for them. Other more traditional group coach holidays can offer better value to those with lower incomes.

3.3 Rail as an alternative

Rail can always offer an alternative within the UK and to much of the continent without much increase in time taken for the journey. Within the UK the possibilities are limited by the rail network itself and increasing the network or providing high speed connections requires huge capital expenditure. However, expanding airports and motorways is also capital intensive and choosing rail has considerable advantages in meeting climate change targets. One question is that of night services, when more space on the network may be available, and both car and freight carriage should be better exploited. Again, low cost air fares and cheaper petrol mitigate against the relatively high cost of rail travel.

3.4 The Costs to Society and the Environment

(i) The costs to the environment are from emissions, mainly greenhouse gases both on the ground and while airborne. While the adverse effects on the health of those living round some airports are the same as those from any fossil fuel engine the effects on climate change are 2-4 times greater when emitted from aircraft in the upper atmosphere. There are also the additional effects of contrails and their role in the formation of cloud cover.

(ii) The effects on Society are most marked in relation to noise. Individuals vary in the amount of annoyance they suffer from over—flying aircraft and the presence of low frequencies in noise emissions of aircraft can intensify the annoyance factor. It is unfortunate that the Government has not yet admitted the part played by the number of flights passing over. The official LAeq measurements in decibels represent average noise exposure levels and while this is a valuable tool to express overall noise experiences it does not make enough allowance for the maximum noise experienced as the plane actually passes over. On a summers day outside a house the number of planes passing over for a limited time can be far more disturbing than the average noise level appears when portrayed by a contour on the map in which the quieter periods lower the average noise levels.

The health effects through stress are also underestimated as are the effects on lessons in schools, church services, theatres and meetings. Mitigation by insulation cuts down the noise but living permanently with closed windows is not conducive to most people's preferred way of life.

(iii) All airports bring more road traffic and more industry. This may provide welcome employment, but airports do not provide a broad range of jobs as a significant number are lower wage and semi skilled. Figures for induced jobs are assumptions and must vary with the situation of the airport. At Stansted, an area of full employment, the airport has recruited a significant number of both temporary workers who may live locally but have no intention of integrating, and others who live as far away as North London creating additional traffic. Extra traffic brings more problems for local communities.

(iv) We believe that the most important issue is the effect of aircraft on climate change. While the contribution of aviation is now much lower than that of road traffic, power stations and peoples houses it has been rising fast, and, with continued expansion would soon become a major contributor at a time when all efforts are being made to reduce domestic CO2 emissions, to cut the CO2 emissions from road vehicles and to reduce emissions from industry through the EU emissions trading scheme. The Government's policy is to curb aviation through an extension of the ETS. Whether this will be successful remains to be seen, but it seems perverse to also actively encourage the expansion of airports in order to meet a predicted further considerable increase in demand, largely for recreational flights. The two policies are in direct competition and cannot succeed unless it is at the expense of other equally important sections of industry or involve considerable purchases through the "Clean Development Mechanism" from the developing world. This could prejudice sustainable development in these countries.
(v). It is also important to remember that technical advances in vehicle technology and renewable energy can all play their part in reducing CO2 emissions in buildings and vehicles. No such technical improvements can be expected yet from aircraft. While the industry has promised reductions in fuel use, nitrogen emissions, and noise,—at the moment there is an inevitable trade off between the different design improvements. Even if fuel reduction (and CO2) becomes the main objective we understand that significant improvements are unlikely until there is a radical change in airframe design which at the moment is at the drawing board stage, too late for 2020 and 2030 predictions. In addition, there is still the question of radiative forcing at high altitudes.

4. Conclusions

Our conclusions are that further expansion of the number of flights should not be encouraged. This means that any airport expansion could only be justified by demonstrating that there was a specific regional need for expansion in order to save unnecessary land travel by a significant number of people and goods. All air travel should pay for its environmental effects, probably the simplest way is to tax the fuel and create a level playing field with rail.

Airport passenger taxes do not have the same direct relationship with fuel use, which is the cause of the environmental damage and varies from journey to journey and aircraft to aircraft.

The aim should be to achieve services that provide better direct access to regional airports for basic routes important for commercial reasons rather then recreational. Circular routes should be explored so that a network of scheduled flights to the continent could be developed.

We suggest that the further development of the low cost services can then be left to the market, provided the full environmental costs of the journeys are included in the ticket. There are better ways of subsidising cheap recreational holidays.

February 2009

Memorandum from Mr T Anderson (FOA 48)

SYNOPSIS

Aviation will become subject to severe resource constraints in the very near-future. However, there is a positive way forward in relation to short- to medium-distance air travel. In this paper, the potential contribution of high-speed rail to “an alternative Heathrow” and to the rationalisation of London’s airports is outlined. A high-speed rail—multi-airport hub is proposed for London.

1.0 High Speed Rail and Aviation

1.1 The underlying contention of this paper is that aviation on its current vast scale is not sustainable.

A recent report (The Energy Crunch: Securing the UK’s energy future (ITPOES 2008)) indicated the imminence of “peak oil”, whereupon “easy oil” (affordable to extract etc) will sharply diminish in quantity within 5—10 years. The inevitable consequences of peak oil include rising real prices for aviation gasoline and other oil-based products, periodic shortages which futures markets are likely to exacerbate rather than ease, and restrictions on use.

Given the relatively exclusive nature of air travel, fuel restrictions are most likely to occur in the aviation sector at an early stage in any democratic polity.

It should be noted that limits to other global resources are also being reached.

1.2 A sustainable volume of flying is conceivable, but at a significantly reduced scale from now.

Until the issue of sustainability is fully canvassed and future aviation fuel supplies at reasonable cost assured, any decisions to increase capacity at existing airports are both wildly premature and high risk.

1.3 The lower-risk investment is high-speed rail (HSR).

It is relevant to note that HSR makes more efficient use of the fixed infrastructure than slower rail services. HSR would effectively complement remnant air service provision.

1.4 As France found on the Paris—Lyon route, TGV services are highly competitive against air for city centre to city centre travel.

Substantial investment in HSR routes has made travel in France, Germany, Italy, Spain, Japan and others accessible to a large proportion of the population. This has been assisted by market segmentation and discounts for off-peak and advance travel, now in customary use.

Travel by rail provides a democratic opportunity that air travel could never achieve.

1.5 HSR may interface with airports and air travel by...
— providing access from city centres to peripheral or distant airports (eg. Munich and Schipol airports)
— substituting for short-distance air flights (eg. Paris—Lyon)
— contributing to a rail-air hub (Schipol again), and,
— linking nearby airports.

All of the above might apply to London’s airports.

1.6 HSR became inevitable for the UK once its success in other countries was apparent. Recent indications that HS2 and other lines will be constructed are extremely welcome and long overdue.

A necessary component of HSR in the UK will be an orbital route around London (cf. Paris). There will be a requirement to link all the HSR lines originating in London, primarily to permit direct services from Leeds to Brussels, say, to by-pass London, and to facilitate positioning movements of rolling stock in relation to demand.

Such a line should be very deep-level, 4-track (6-track in part) and connect with other (non-HSR) lines—ECML, WCML, GW etc. It would necessitate the construction of some interchange stations on the orbital hub, strategically located to optimise travel opportunities.

1.7 Another major rationale for the HSR orbital line would be to link London’s airports at Gatwick, Heathrow, Stansted and Luton with each other, facilitating transfers among them, and creating an air hub which could not be surpassed by a single airport—say, by London Heathrow, Amsterdam Schipol or Paris Charles de Gaulle.

Fast transfers between the airports would enable better use to be made of all of them. More efficient use of airspace by the hub airports would reduce overflying over London. Rather than duplicating facilities by building a third runway at Heathrow and others elsewhere, the airports, perhaps owned and managed by different companies, could be controlled collectively. A multi-airport hub would spread the risks, and provide resilience in the event of a mishap, local weather event or terrorist action.

1.8 New HSR connections would also ease access to these airports, notably Heathrow. Surface access to all airports could readily be improved by rail, but not easily by road—another mode that may have passed the point of diminishing returns for future investment in the UK.

1.9 Apart from facilitating internal passenger travel connections generally, the major benefit of HSR would be the substitution of rail services for short- to medium distance flights.

The suggestion that the UK is geographically too small to justify high speed links is nonsense, and in any case undermined by HS1—perhaps a relatively short link in pan-European terms but nonetheless an extremely valuable component of the international transportation network. HS1 is already substituting for London—Paris/Brussels/Amsterdam flights, an environmental benefit not to be under-valued.

1.10 The construction of HS2 from London to Scotland (via Birmingham and Leeds, with a spur to Manchester) should become a national priority, especially during a recession when costs are lower, and the employment generated significant. Whenever the economic recovery occurs, such a project is beyond the simplistic calculations of benefit—cost analysis, which has only short-term validity. This line is a strategic necessity.

1.11 HSR in the UK would also spread prosperity along its routes to the regions in a way that airports and air services cannot.

Although HS2 and other HSR lines will release capacity on the existing network for freight (and for regional, sub-regional and local passenger services), all HSR lines should be designed to carry freight as well as passengers.

2.0 AN ALTERNATIVE HEATHROW

2.1 It appears very doubtful that a Third Runway at Heathrow will be realised, not least because of intense political and public opposition. The Third Runway is also inappropriate, given the present impacts on the local environment and the total lack of action to deal with them, and given the highly probable limitations on future fuel supplies.

Any technological innovations would merely allow flights and traffic to increase, as has been the experience over the past 30 years or more.

Strategically, it would be unwise to invest so much more in a single vulnerable facility.

2.2 A 12-platform station has been mooted for the enlarged airport. Welcome though national HSR links from Heathrow would be, such a large rail station would become a major destination in itself, and generate more non-airport traffic on the nearby highway network.

2.3 A 4- or perhaps 6-platform HSR rail station at Heathrow would appear appropriate in relation to a London orbital HSR line and to either HS2 or HS4, and to the more likely future scale of airport operations (ie. probably lower than now).
Proposals for a link from London via Heathrow to the north are too piecemeal in their approach. An orbital HSR would enable both Heathrow—The North and direct London—The North services.

2.4 This paper does not pretend that the notion of a multi-airport London hub served by HSR is as yet well-researched or practicable. Subject to appropriate evaluation however, the benefits of applying this concept are likely to be substantial.

The consequences of an incorrect decision will be long-term, and “crowd-out” investments with better returns.

3.0 CONCLUSIONS

3.1 There is a strong case for improving surface access to and from London’s airports, but not by road. Highways cannot deliver without further substantial land-take and other environmental disbenefits.

3.2 The frequent chaos and delays around Heathrow would be significantly alleviated were a HSR connection to be provided, but this needs to be set in the broader terms of a UK-wide HSR strategy.

3.3 The larger game is about all of the capital’s airports operating as a hub. Their peripheral locations would lend themselves to an orbital HSR link.

3.4 Should air travel “fall over” in a future stampede towards sustainability, there are other obvious uses for such HSR links.

3.5 It should become national and international policy that HSR be provided to substitute for short- and medium-distance air routes wherever feasible and practical.

February 2009

Memorandum from Dr S Cairns and Ms C Newson (FOA 49)

1. Due to time constraints, we are unable to make a full submission of evidence at this time. However, in case it is useful, we make various points in relation to parts of the remit of the inquiry, as outlined below. We would be happy to provide more information on these. These are derived from a major study about the policy implications of the UK’s current aviation strategy, Predict and Decide: Aviation, climate change and UK policy, available here:

http://www.eci.ox.ac.uk/research/energy/downloads/predictanddecide.pdf

In relation to the questions raised by the inquiry:

2. Re. Q.1 What is the value of aviation to the UK economy?

We note that the UK currently has a large and growing tourism deficit—estimated at £18 billion in 2006 by the Department for Culture, Media and Sport, and the issue receives relatively little attention in the Aviation White Paper. A workshop to look at the role of current aviation policy in relation to the UK tourism industry was held in 2007, and the outputs are available here:

http://www.ukerc.ac.uk/TheMeetingPlace/Activities/Activities2007/071123UKTourisminalowcarbonworld.aspx

3. Re. Q. 2 Is the current aviation infrastructure adequate for the needs of UK businesses and individuals and how should it be developed?

Predict and Decide (chapter 4) argues the case for demand management to address the current growth in aviation, rather than new infrastructure. It also highlights that airport capacity is not necessarily used for purposes which maximise its value to the UK. For example, in 2004, 35% of passengers at Heathrow were transit passengers, of questionable benefit to the UK economy.

4. Re. Q.4 What are the implications of climate change policy for the aviation industry and infrastructure?

Predict and Decide highlighted that UK climate change policy was fundamentally incompatible with a policy of major aviation growth. Specifically, three forecasts of aviation growth were reviewed, including forecasts by DfT and by DEFRA, and compared with emissions targets. This work has since been revised for Natural England, and placed in the context of the new 80% target. It suggests that aviation’s carbon dioxide emissions alone would take up between about 30% and 89% of the proposed target for emissions in 2050. Allowing for the fact that the climate impacts of aviation are at least 1.9 times worse than the carbon dioxide emissions alone, emissions from aviation could consume more than half of the UK’s total target emissions budget in 2050, using the lowest estimate of climate impacts, and could potentially generate more
climate damage than the entire proposed total target. It should be noted that the forecasts used already assume significant improvements in fuel efficiency due to improvements in technology, operations and air traffic management.

5. Re. Q. 5 What is the impact of taxation on the aviation sector nationally?

Chapter 6 of Predict and Decide reviews the evidence about the price responsiveness of aviation to changes in fares (which might result from changes in taxation). This work was further developed for the Commission for Integrated Transport, as outlined here:


February 2009

Memorandum from Plymouth City Council (FOA 50)

SUMMARY
— Air services are fundamentally important to the social and economic cohesion of the southwest. Plymouth City Airport provides a vital service for the City in supporting the local economy and Growth Agenda (as detailed in the Core Strategy and Local Economic Strategy) by providing a direct link to London and the wider international air network.
— Aviation infrastructure in the UK is far from adequate to accommodate the growth in air travel predicted over the next two decades. The Aviation White Paper, in December 2003, saw the UK Government lend its support to the construction of two additional runways in London. Plymouth City Council supports the views of the Government and specifically backs plans for the 3rd runway at Heathrow, which we see as a vital step in restoring regional access to Heathrow.
— The current trend of regional communities losing access to Heathrow needs to be reversed. The southwest UK today has no air services linking its airports with Heathrow.
— Plymouth City Council has long campaigned for Public Service Obligation designation on a Plymouth-Heathrow (or at the very least Plymouth-London) route. This is seen as an essential part of securing and protecting lifeline links to the UK’s only hub airport, which will also allow onward connections to both domestic and international destinations.
— Whilst rail travel can in some instances be considered a suitable alternative to air travel on domestic routes, it is not a viable substitution for Plymouth residents and the business community wishing to access London and other UK regions to conduct a day’s business.

1. The House of Commons Transport Committee has asked for contributions to its inquiry into the future of aviation in the UK. This is a strategic inquiry that will focus on economic, environmental and infrastructure issues. Plymouth City Council is pleased to take this opportunity to respond to the Committee’s call for evidence.

2. Plymouth City Council (PCC) is the owner of the lease on Plymouth City Airport (PLH).

3. In 2008, Plymouth Airport processed nearly 100,000 terminal passengers from just over 6,200 air transport movements. Plymouth’s population is around 250,000, with the wider catchment area of some 1.2 million residents.

4. Air services are fundamental to daily life in the southwest UK. Plymouth is the largest centre of population in Devon and Cornwall and one of the major commercial centres of the region with a significant Growth Agenda as set out in the Council’s adopted Core Strategy 2006—2021:
   — Population Growth to 350,000.
   — To become the economic hub of the far South-West.
   — Employment Growth of 42,000 new jobs to the period 2026.
   — New Housing of 17,250 dwellings.
   — Increasing airport passenger numbers to 580,000 per annum.

5. Although unemployment at the regional level was 3.7%\(^{248}\) in Q4 2007, the lowest rate of any English region, that for the city of Plymouth was a far higher 7.9%. Plymouth’s decline as an industrial focus in the southwest has been closely linked to the changing fortunes of its naval dockyards—Plymouth was once a premier base for the Royal Navy, but reduction in the fleet size has reduced that role. Tourism also plays a significant role in the southwest’s economy, but it cannot be relied upon to carry the region’s fortunes forward. Plymouth’s relative decline as a thriving, economically active city is often seen as being unrecognised at the national level.

\(^{248}\) Source: South West RDA—State of the South West 2008
What are the roles of the London and regional airports?

6. Appendix 1 displays domestic route data derived from the Civil Aviation Authority (CAA) for the years 1990 and 2008. One of the key air transport issues for PCC is access to London Heathrow. In 1990, PLH was linked to Heathrow (with an average of three daily flights), but by 2008, nearly two decades later, PLH had no links to Heathrow, and was instead served from London Gatwick with an average of four daily flights. In the intervening 18 years between 1990 and 2008, 13 domestic regional airports lost access to Heathrow.

7. In 1998, Plymouth City Council submitted evidence to the House of Commons Transport Select Committee Inquiry into Regional Air Services in an effort to redress the balance on the provision of air services between Plymouth and London. 11 years later—nothing has happened to secure the vital links and all the same issues still apply. Despite the commitment and endeavour shown locally, the national Government has done nothing in enabling policy and legislation to help the southwest.

8. If anything, the southwest has become even more marginalised as Exeter and Newquay, as well as Plymouth, have all been denied access to Heathrow in the last two decades.

9. We would contend that one consequence of the discontinued Heathrow connection on Plymouth’s economic development was that it contributed to two multinational Japanese companies relocating away from the area, citing that the air service to Heathrow was the major reason they invested in Plymouth.

What competition do they (UK airports) face from abroad?

10. One side-effect of denying regions access to Heathrow is that regions thus affected will seek interlining capability at the “next best” option on the Continent. Amsterdam, Paris CDG and Frankfurt airports all offer far greater opportunities for a transfer passenger than Gatwick does. Amsterdam Schiphol has five operational runways, Paris CDG has 4, and Frankfurt Main received approval for a 4th runway just as Heathrow was getting the go-ahead for a 3rd.

<table>
<thead>
<tr>
<th>Airport</th>
<th>Weekly departing flights</th>
<th>Weekly departing seats</th>
<th>Non-stop destinations/Countries</th>
<th>Seats per aircraft departure</th>
<th>Weekly flights per destination</th>
</tr>
</thead>
<tbody>
<tr>
<td>LHR</td>
<td>4,331</td>
<td>845,750</td>
<td>157 / 79</td>
<td>195</td>
<td>27.6</td>
</tr>
<tr>
<td>CDG</td>
<td>4,382</td>
<td>701,853</td>
<td>224 / 103</td>
<td>160</td>
<td>19.6</td>
</tr>
<tr>
<td>FRA</td>
<td>3,770</td>
<td>612,837</td>
<td>235 / 97</td>
<td>163</td>
<td>16.0</td>
</tr>
<tr>
<td>AMS</td>
<td>3,363</td>
<td>478,613</td>
<td>195 / 76</td>
<td>142</td>
<td>17.2</td>
</tr>
</tbody>
</table>

Source: OAG Max Online for w/c 16 February 2009

11. As the table shows, Heathrow offers the greatest weekly seat capacity of the four hub airports, which is why access is so critical to regions/cities such as Plymouth. This partially explains why, with fewer runways than its continental competitors, Heathrow is operating at or close to capacity for the majority of the time. The average aircraft size at Heathrow is larger than its rivals, due in no small part to the smaller regional aircraft operations being “squeezed out” and moved elsewhere, such as Plymouth.

12. The problem for Plymouth and the other smaller UK regions that do not receive scheduled air service to Heathrow is that they generally have insufficient traffic to support direct flights to continental hubs, even if slots at these busy locations are available. If they cannot access Heathrow (and to a lesser extent Gatwick) then they cannot access the world, and the local economies and the ability to attract inward investment suffer tremendously.

13. The likelihood of obtaining slots at London Heathrow on the open market for flights to Plymouth is remote in the extreme. Data collated by Airport Coordination Ltd (ACL) shows the excess demand for departure and arrival slots generated at Heathrow in the summer of 2008. This demand is only getting stronger.

Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

14. Currently, aviation infrastructure is far from adequate to serve the needs of businesses and communities across the UK, such as Plymouth. The “hub and spoke” concept relies on air traffic from the regions feeding passengers into London for onward domestic and international connections, and vice versa. While there may be sufficient runway and terminal capacity at many regional airports (at the very least to handle air traffic growth over the next two decades), the congestion occurs at the London airports, specifically Heathrow (as shown in the ACL charts above). Heathrow is the largest UK airport, and the only UK airport to offer effective interlining capability. Therefore, access to Heathrow for the UK regions is singularly important to our business community.
15. The problems of constrained capacity at Heathrow and Gatwick and their impact on regional air services have existed for many years. In the eighth report on Regional Air Services, the Environment, Transport and Regional Affairs Committee concluded in 1998 that:

“Runway capacity in the South East of England is in short supply. This shortage puts pressure on regional air services. The Government must address the question of capacity in the South East as a matter of urgency.”

“Regional links to London airports are economically important. The economic value of air links from the regions to Heathrow is greater than that of access to any other airport in the South East owing to the high frequencies and vast choice of worldwide connections it offers from its two runways, which results in four times as many scheduled passengers travelling from Heathrow as from Gatwick. The higher frequencies offered by airlines from Heathrow on the trunk domestic routes means that even for passengers flying to or from London, Heathrow is generally more convenient.”

“Services to continental hubs are an inadequate substitute to Heathrow since neither Amsterdam Schiphol nor Paris Charles de Gaulle offer the choice of flights or the high frequency that are available at Heathrow. It is not in the economic interests of the UK for passengers to use foreign hub airports, since they are extremely likely to travel on foreign carriers.”

16. The 1998 report also supported innovative solutions for new runway capacity in the southeast vis a vis the development of non-scheduled airports, Redhill and Northolt. The question remains, where have these concepts gone in the intervening 11 years?

17. If Heathrow is finally to achieve its 3rd runway, PCC believes slots should be protected for regional air services, as PCC (and others locally) has consistently campaigned for.

18. The Future of Aviation White Paper published in December 2003 by the UK Government outlined what additional capacity was necessary to enhance the UK’s economic competitiveness. In the southeast, two new runways in London were identified—as of today, we are no closer to achieving this, although the Government has now given its backing for a third runway at Heathrow. This is the first step, however, in what will be a very long drawn-out planning process.

19. It is unlikely that London will not see additional capacity before 2020 at the earliest. In this time, it is highly possible that more regions will lose access to Heathrow, and possibly London altogether, as slot values, already fetching £30 million a pair on the open market at peak times at Heathrow, increase their scarcity.

20. The Competition Commission’s recommendation for the dissolution of the BAA monopoly in 2008 was intended to increase competition and therefore provide passengers with more choice, cheaper fares and a wider product offering. However, selling Gatwick Airport will do nothing to ease congestion at the already-over-capacity second London airport or at Heathrow. Provision of extra runway capacity in the southeast is the only way to ensure that the needs of UK business and individuals continue to be met and cities such as Plymouth retain their vital air links.

*What are the implications of future passenger trends and possible mergers in the airline industry?*

21. Given the competitive business environment that airlines operate within, consolidation has been accelerating particularly in the current tough economic climate. Allied to that, growth in air passenger numbers sees no signs of abating, with the UK DfT predicting the number of passengers travelling through UK airports will double from 240 million in 2008 to around 500 million by 2030.

22. A concern for PCC centres around the fact that PLH today is served by one solitary airline by virtue of PLH’s short runway prohibiting all but turboprop operations. This leaves PLH vulnerable to hostile manoeuvring from larger, predatory airlines bent on dominating market share in a region. The designation of a PSO on the PLH-LON route would help protect Plymouth’s vulnerable position and secure its vital air services.

*What is the impact of taxation on the aviation sector nationally and regionally?*

23. The aviation industry is a net contributor to the UK Treasury. IATA’s Air Transport Action Group (ATAG) published its study on “The Economic and Social Benefits of Air Transport” in 2005, revealing that in the UK, the aviation industry’s net contribution to public funds is around US$14 per 1,000 revenue-kms while government subsidies for rail correspond to US$43. Some will argue that aviation already “pays its way” and more. Air Passenger Duty (APD) is ostensibly a tax on air travel allowing the industry to further contribute to the public purse. Air services in the southwest UK should be considered for exemption to Air Passenger Duty, as in the case of the Highlands and Islands, to stimulate inward investment and inbound passenger flows. To levy an additional £10 per domestic flight can mean passengers having to pay an extra 5-10% on top of the ticket price. APD is a tax on peripherality. Plymouth Airport serves the local community and acts as a gateway to the region, allowing residents and the business community alike to access important connections to the rest of the UK. It seems unfair to penalise a local population that is dependent upon air
travel by levying a tax that has exemptions elsewhere in the peripheral regions of the UK (eg the Highlands and Islands in Scotland). PCC asks the Committee to press for an exemption on APD for the southwest airports.

To what extent can rail provide an alternative to short-haul flights?

24. The issue of rail-air substitution is complex. Generally, rail journeys of less than three hours render a corresponding air service less competitive. Yet on the London-Manchester route there are around 30 daily flights with a 2.5 hour rail connection in competition.

25. The Government has announced its support for a proposed high-speed rail network linking London and the southeast to English regional areas. However, under the current proposals, the southwest will remain unserved by high-speed rail. The underlying concept is to offer air travellers an environmentally sustainable alternative to flying the relatively short routes and PCC supports this policy. Although it is an environmental concern that is leading this initiative, there is a degree of inapplicability to the southwest as the rail route to the West Country is still not electrified and thus not using emission-free nuclear or renewable energy sources. The fact that high-speed rail is planned to connect the north and the southeast further lends weight to the argument that the importance of the southwest is overlooked on a national level.

26. There are some short haul domestic air services that can and will be largely replaced by rail alternatives. For example, Birmingham, East Midlands, Norwich, Bristol and Southampton have already had air services replaced by rail. Rail is a more convenient way to travel between these points, as the potential rail journey time is generally under two hours. The proposal to introduce a high-speed rail network in the UK will further cut the train journey time on these shorter routes and other intercity corridors, bringing Birmingham within 1 hour 15 minutes travel time to London. On much longer domestic air service routes, for example the Plymouth-Newquay-London routes, rail becomes less feasible as an alternative to air travel. For time-conscious business travellers, frequency of service, duration of journey and flight times to allow a days business at the destination are the most critical factors when considering transport modal usage—cost of travel alone is a secondary concern.

27. It must be stressed that rail and air should be considered complementary modes of travel, not exclusive, and should be developed as such to give passengers the freedom of choice.

28. It must also be stressed that road travel is not an option for business travellers given the length of journey time to Plymouth from London.

29. Although we make much reference to the Plymouth-London route, it is critical to note the importance of air travel for Region-Region travel—there is no viable substitute for air travel on, for example, a Plymouth-Newcastle route.

Are passengers adequately protected from the collapse of airlines?

30. It is not necessarily the collapse of individual airlines that Plymouth is concerned about, more the collapse of specific routes. Generally, when an airline ceases operations competitive market forces will dictate that another airline commences operations on the collapsed airline’s route network (although only where a route is viable profitable). Of much greater consequence to Plymouth is when a route is “lost” and cannot be picked up by another airline—such as the British Airways/Brymon Plymouth-Heathrow service. BA dropped this operation and used the peak-time runway slots at Heathrow for other services, arguably for a lucrative transatlantic route yielding greater profits.

31. This trend has been increasing since Heathrow effectively became “full” at peak operating times, and has been further exacerbated by the EU/US Open Skies agreement concluded in 2008 which saw a number of carriers moving selected long-haul operations from Gatwick to Heathrow to optimise profitability. The inevitable has happened at Heathrow—peak slots are in great demand and short supply so regional carriers connecting London to many UK regions, are “priced-out” of Heathrow. A pair of peak runway slots at Heathrow can fetch up to £20 million for the proprietor—a sum that only the major players serving passengers on high volume international routes can afford. BA’s Plymouth-Heathrow service suffered as many other regional routes have. BA clearly felt its shareholders would benefit more if the slots at Heathrow were used for more profitable long-haul services.

32. To counter this major problem, PCC has long campaigned for the UK Government to provide Public Service Obligation (PSO) protection for the Plymouth-Heathrow route as is provided on a number of internal routes in France. This is seen as the only viable mechanism that protects “lifeline” air services for peripheral communities that cannot achieve effective land based transport access to the London hub, offering subsidies for a carrier to operate if necessary, although this would not always be needed as while these services may not be as profitable as international ones, they still potentially offer a return on investment. PCC believes a PSO designation on the Plymouth-Heathrow and other comparable routes will provide stability to the remoter regions of the UK and send the message that the regions are an important element in the UK economy and in many ways as important to the UK economy as the southeast.
33. Plymouth Airport’s short runway dictates that only specific aircraft types can be used, and thus only airlines operating with complementary fleets can access Plymouth. Indeed, PLH is served by a sole scheduled carrier. This means PLH is more vulnerable to industry downturns/recessions as there are fewer operators to choose from—if one carrier disappears, it is harder to find replacements—and also the route is more vulnerable to competitive threats from aggressive airlines seeking to dominate market share.

34. PCC is disappointed that the Government has not sought to secure PSO’s to major hubs as other leading European nations have done.

What is the impact on the aviation sector of changes in the security environment?

35. Post 9/11, ICAO has issued wide-ranging recommendations on airport security issues for airports worldwide. Regrettably, a “one size fits all” approach to improvements in the airport security environment was adopted. Logic dictates that an airport with the size and importance of Heathrow requires a higher level of security measures than a small, regional airport like Plymouth. PCC would like to see a level of security at airports that is commensurate with the level of operations and risk, so that smaller airports are not crippled by disproportionately high security costs.

APPENDIX 1

DOMESTIC ROUTES SERVED FROM HEATHROW AIRPORT—1990 AND 2008

<table>
<thead>
<tr>
<th>Domestic Routes served from LHR in 1990</th>
<th>Domestic Passengers</th>
<th>Domestic Routes served from LHR in 2008</th>
<th>Domestic Passengers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen</td>
<td>464,649</td>
<td>Aberdeen</td>
<td>658,984</td>
</tr>
<tr>
<td>Belfast International BFS</td>
<td>1,116,606</td>
<td>Belfast City BHD</td>
<td>626,218</td>
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<tr>
<td>Birmingham</td>
<td>117,082</td>
<td>Durham Tees Valley</td>
<td>88,223</td>
</tr>
<tr>
<td>Cardiff Wales</td>
<td>189</td>
<td>Edinburgh</td>
<td>1,436,598</td>
</tr>
<tr>
<td>Durham Tees Valley</td>
<td>196,722</td>
<td>Glasgow</td>
<td>1,207,127</td>
</tr>
<tr>
<td>East Midlands International</td>
<td>88,812</td>
<td>Inverness</td>
<td>53,549</td>
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<tr>
<td>Edinburgh</td>
<td>1,394,268</td>
<td>Jersey</td>
<td>77,574</td>
</tr>
<tr>
<td>Exeter</td>
<td>100</td>
<td>Leeds Bradford</td>
<td>136,952</td>
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<tr>
<td>Glasgow</td>
<td>1,416,159</td>
<td>Liverpool</td>
<td>66</td>
</tr>
<tr>
<td>Guernsey</td>
<td>131,800</td>
<td>Manchester</td>
<td>973,044</td>
</tr>
<tr>
<td>Humberside</td>
<td>24,415</td>
<td>Newcastle</td>
<td>495,366</td>
</tr>
<tr>
<td>Inverness</td>
<td>133,206</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Isle Of Man</td>
<td>122,960</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jersey</td>
<td>288,327</td>
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<td>Leeds Bradford</td>
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<td>Liverpool</td>
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<td>London City</td>
<td>17</td>
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<td></td>
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<tr>
<td>Luton</td>
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<td>Manchester</td>
<td>1,036,500</td>
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<td>Newcastle</td>
<td>388,923</td>
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<tr>
<td>Newquay</td>
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<tr>
<td>Norwich</td>
<td>68</td>
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<td></td>
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<tr>
<td>Plymouth</td>
<td>37,149</td>
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<tr>
<td>Stansted</td>
<td>68</td>
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<tr>
<td>LHR Domestic Pax</td>
<td>7,336,942</td>
<td>LHR Domestic Pax</td>
<td>5,753,701</td>
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<td>Total UK Dom Pax</td>
<td>42,950,416</td>
<td>Total UK Dom Pax</td>
<td>66,907,593</td>
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<tr>
<td>Total Domestic Routes</td>
<td>24</td>
<td>Total Domestic Routes</td>
<td>11</td>
</tr>
<tr>
<td>Total UK Passengers</td>
<td>17.1%</td>
<td>Total UK Passengers</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

Source: CAA Airport Statistics
Ev 322  Transport Committee: Evidence

APPENDIX 2

RUNWAY SLOT CAPACITY AND DEMAND AT HEATHROW AIRPORT—SUMMER 2009

RUNWAY MOVEMENT DEMAND - ARRIVALS
Peak Week Movements per Hour - All times UTC

Source: ACL

Memorandum from the Guild of Travel Management Companies (FOA 51)

INTRODUCTION

The Guild of Travel Management Companies (GTMC) is a trade association, first established in 1967, which represents the interests of companies that provide travel advice and services to SMEs, national and international corporations, local and national Government agencies, and other national and international bodies. As such our members are highly attuned to the perspective of the business traveller. The GTMC welcomes the opportunity to submit evidence on the future of aviation, with a particular slant on the interests of the business traveller.

GTMC has 31 members (listed in Annex A) which in 2008 issued more than 6.9 million air tickets to their clients with a value exceeding £3.7 billion (the top 70 international routes for which those tickets were issued are at Annex B).

The following paragraphs will address those questions, or parts of those questions, we see as being most relevant to the business travellers.
1. **Summary**

British business needs frequency, reliability and a range of destinations accessible by air. Congestion, at Heathrow in particular, is a major problem for the future. Current infrastructure is barely adequate. Future growth in business travel is likely, but only if the current problems are solved. High speed rail would improve matters, but good aviation links will remain paramount. APD makes British business less competitive and does little to ease environmental costs. Protection of travellers against failure of scheduled airlines is required. Security measures are accepted as essential, but their application should be constantly reviewed and streamlined wherever possible.

2. **Value to the Economy, Roles of Airports and Competition**

2a. There have been a number of recent studies that have sought to quantify the value of aviation to the UK economy, and we leave it for other parties to submit such evidence directly.

2b. Where we can contribute additional understanding is the criteria by which members’ clients rate a particular country and region as a place to “do business”. This is chiefly that the location of their workplace must be somewhere where transport infrastructure offers frequent, reliable connections to a broad range of destinations. Indeed our members’ experience of business traveller demands shows that they value these factors as much as the cost of travel.

2c. The CAA report “Connecting Passengers at UK Airports” supports this view on the needs of business travellers and how these are inextricably linked to the connecting passengers. In it the CAA states that “They [connecting passengers] therefore support the benefits that accrue to passengers (particularly business passengers) who place a high value on frequency of service and range of destinations.” Although the quotation relates to Heathrow, it is applicable to all business travel.

2d. For some years, the general congestion at Heathrow has caused business travellers based near regional airports to request that our members connect them to airports on mainland Europe, such as Schipol, Charles de Gaul and Frankfurt. This has been further encouraged by the aggressive pricing of European airlines keen to gain the connecting regional traffic that would have gone to London, and it may be further encouraged by the effects of the changes to be introduced to the APD pricing structure. We have no doubt that the continuing failure to increase capacity and/or relieve congestion of aircraft both on the ground and in the air at Heathrow will only encourage this tendency.

3. **Adequacy of the Current Aviation Infrastructure—Future Trends**

3a. The current aviation infrastructure is barely adequate today. Even in the present downturn, there is little sign of a reduction in services offered by the major carriers, and any reduction in frequency or the range of destinations on offer would only serve to make the UK, and London in particular, less attractive when economic activity starts to recover. To plan on the expectation that growth will not return is to risk creating a self-fulfilling prophecy. It also ignores the benefits that additional capacity would bring in reducing congestion, even if no additional flights were to be offered from Heathrow. Feedback from the business traveller is that delays caused by congestion are among the greatest frustrations they experience and tarnish the attractiveness of London as a place to do business.

Furthermore, infrastructure development at airports would be a risk for the investing companies concerned, not a risk for the Treasury. Surely, encouraging such investment must be just what is needed at a time when employment prospects are diminishing.

3b. Although airline mergers could offer the prospect of some rationalisation of the route network, this could offer only some short term alleviation of the congestion whereas infrastructure solutions, such as the third runway at Heathrow are needed as a medium to long term solution.

3c. The Guild is therefore supportive of expansion in capacity however it is achieved. The recent Government decision on Heathrow is to be welcomed and will provide at the very least some much needed slack in the system that prevents minor issues from escalating into considerable delays and congestion. We are also aware of the promotion by the London Mayor on the estuarial airport concept. At the moment however this remains a concept, and until evidence of practicality and available funds for investment are revealed we will continue to be focused on capacity that can realistically be delivered.
4. **Rail as an Alternative**

4a. There is little doubt that a high-speed rail network capable of delivering passengers direct to airports would be welcomed by the business traveller. Our quarterly transaction data for 2008 shows that rail travel in its current form continues to grow in use by the business travellers. Any investment that would speed this travel up would be welcomed.

4b. We do however retain some doubts as to how much the availability of high-speed rail will dilute the need for regional air travel. While there may be some truth to this in terms of a journey between Manchester to a meeting in London, there are doubts as to whether a high-speed rail journey to London and then a connection to an international flight would be as attractive an option. This is chiefly due to the difficulties associated with changing mode. Passengers from Manchester, Birmingham, Leeds, Newcastle and the Scottish airports faced with having to change from rail to air, even at an airport, may still be attracted by a flight to a hub on mainland Europe if they cannot have the option of flying to Heathrow, London City or Gatwick.

5. **Tax and Passenger Protection Against Airline Failure**

5a. APD makes British business less competitive against nations where such taxes are not applied.

5b. The limits placed by the European Union on the provision of state aid to national companies make the historic claim of major airlines, and 'flag carriers' in particular, that they would never fail financially to be a hope rather than any sort of guarantee. For several decades the GTMC has argued to successive governments that passengers on scheduled air services are as deserving of protection as much as holiday makers protected by the Package Holiday Directive. Indeed, the fares they have to pay are often greater than the cost of an all in package holiday. Some may argue that air passengers deserve no more protection than the purchaser of major domestic household items. The one unique circumstance that puts the air traveller at risk is the possibility of being stranded overseas after the failure of a carrier.

5c. Therefore, we strongly support the case put forward by the CAA for the extension of the £1 ATOL levy to cover all passengers departing the UK. We understand that the fund behind the ATOL scheme, the Air Travel Trust Fund (ATTF), is in serious debt. Clearly, this would make the addition of millions of air travellers to the cover on offer a grave risk for the fund. Therefore, we suggest that the Treasury bolsters that fund, possibly by using APD monies. Not only would this move bolster the ATTF against any increased risk, it would also help to minimise the possibility that the current levy will have to be increased. Finally, we believe it is worth emphasising that we are talking of a levy paid by passengers and by nobody else.

6. **The Effect of Security Measures**

6a. The heightened security regime has made the business of air travel much more painful than in the past. All concerned recognise that measures are required to minimise the risks posed by extremists. However, there is a suspicion that such measures are more easily added than removed and that there may be some duplication or overlapping of all the systems now in place.

6b. We would hope that, as more effective measures continue to be developed, the existing regime be kept under regular review and, when and where possible, the system is streamlined to speed and simplify the processes experienced by business travellers.

7. **Conclusion**

International trade is the lifeblood of the UK economy. We trust that the results of this inquiry will assist current and future Governments to keep aviation firmly in the front of its strategy and future planning as the pre-eminent mechanism for helping that trade to blossom.

*February 2009*

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**Annex A**

GUILD OF TRAVEL MANAGEMENT COMPANIES

Members—2009

- Advanced Travel Partners.
- American Express Corporate Travel Service.
- Bath Business Travel.
- BCD Travel.
- Business Travel Direct.
- Capita Business Travel Ltd.
Carlson Wagonlit Travel.
Chambers Travel Management.
Chelsea Travel Management.
Commodore International Travel.
Co-operative Travel Management.
Egencia UK.
FCm Travel Solutions.
Gray Dawes Travel.
Hillgate Travel (London) plc.
Horncastle Executive Travel plc.
HRG.
Ian Allan Travel.
Key Travel.
Munro’s Travel Group.
Peltours Ltd.
Portman Travel
Reed & Mackay Travel.
Statesman Travel.
Thornton’s Travel Service.
Travel Alliance.
Travel by Appointment.
Travel Focus.
Travel Management Group.
Travelocity Business Limited.
Wexas Travel Management.

Annex B

TOP 70 CITY PAIRS BASED ON BOOKINGS MADE BY MEMBERS OF GTMC

<table>
<thead>
<tr>
<th>City Pair</th>
<th>Bookings</th>
</tr>
</thead>
<tbody>
<tr>
<td>London - Amsterdam</td>
<td>115,422</td>
</tr>
<tr>
<td>London - New York</td>
<td>83,735</td>
</tr>
<tr>
<td>London - Zurich</td>
<td>82,350</td>
</tr>
<tr>
<td>London - Paris</td>
<td>82,200</td>
</tr>
<tr>
<td>London - Frankfurt</td>
<td>77,688</td>
</tr>
<tr>
<td>London - Munich</td>
<td>57,807</td>
</tr>
<tr>
<td>London - Dublin</td>
<td>56,102</td>
</tr>
<tr>
<td>London - Madrid</td>
<td>50,627</td>
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<tr>
<td>London - Dusseldorf</td>
<td>41,524</td>
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<tr>
<td>New York - London</td>
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<td>London - Helsinki</td>
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<tr>
<td>London - Geneva</td>
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<tr>
<td>Frankfurt - London</td>
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<td>London - Milan</td>
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<td>London - Stockholm</td>
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<tr>
<td>London - Dubai</td>
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<td>Aberdeen - Stavanger</td>
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<tr>
<td>Dubai - London</td>
<td>11,698</td>
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<tr>
<td>Geneva - London</td>
<td>9,389</td>
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<tr>
<td>Aberdeen - Amsterdam</td>
<td>8,112</td>
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<tr>
<td>Milan - London</td>
<td>7,450</td>
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<tr>
<td>Dublin - London</td>
<td>7,259</td>
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<tr>
<td>Madrid - London</td>
<td>6,362</td>
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<tr>
<td>Origin</td>
<td>Destination</td>
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<td>-----------------</td>
<td>-------------</td>
</tr>
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<td>London</td>
<td>Los Angeles</td>
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<td>Munich</td>
<td>London</td>
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**Total** 1,032,817

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**Memorandum from the Chartered Institute of Logistics and Transport (UK) (FOA 52)**

**Summary**

CILT(UK) provides independent advice based on the experiences of its wide ranging membership in all modes of transport and logistics. Airports throughout the UK benefit their regions and the whole of the UK, while Heathrow in particular faces significant competition from abroad. Additional capacity is needed to ensure the UK retains the benefits of air transport, including responding to changing airline structures. Passengers should be allowed the choice of air or rail transport based on a balance of economic and environmental factors.
Air transport’s costs are already met by its customers and emissions trading will ensure that its climate change impact is accounted for.

Taxation already covers air transport’s costs to society, while air passengers are adequately protected.

Security measures can have a significant adverse impact and should be implemented in a way that takes account of the consequences.

INTRODUCTION

1. The Chartered Institute of Logistics and Transport in the UK—CILT(UK)—is the professional body for individuals and organisations involved in all aspects of transport and logistics. It has over 19,000 members in numerous disciplines, including the aviation industry and transport planning. As it is not a lobbying organisation it is able to provide a considered and objective response on matters of transport policy. Through its structure of forums and regional groups it provides a network for professionals in the transport industries to debate issues and disseminate good practice. This response has been prepared by the CILT’s Aviation Forum and approved by its Public Policies Committee, which includes members with experience of all modes of transport.

2. This response is structured in the same way as the six questions noted in the terms of reference.

Question 1: What is the value of aviation to the UK economy? What are the roles of London and the regional airports? What competition do they face from abroad?

3. The Institute, whose members have considerable experience in their respective sectors of the transport industry, has always strongly argued the case that transport infrastructure is an essential prerequisite for the efficient functioning and growth of the UK economy, never more so than now with the ever expanding global dimension to trade. The importance of suitable airport infrastructure is recognised internationally in both mature and developing economies. This has been endorsed in a series of reviews by consultants and academics both at national and at regional levels (such as the Oxford Economic study on Heathrow and the Fraser of Allander Reports on the Scottish airports). The CILT has no independent source of information to second guess these reports but strongly supports the conclusions that have been drawn from them and in particular the importance of aviation links to attracting new employment in both the regional and the national context.

4. Largely as a result of World War 2 the UK has never been short of airfields that have been developed into airports—indeed in some areas there have been too many. These airports have been developed to meet the needs of local communities and regions for passenger and cargo air services to both domestic and international destinations. However a few airports—Heathrow and Gatwick in the SE, Manchester and, until the 1980’s Prestwick, filled a wider role than just serving their immediate catchment areas. In part this was due to the UK’s geographic position and the limited range of long haul aircraft together with post war priorities of European reconstruction.

5. With the removal of bilateral restrictions, any airline wishing to operate international air services from regional airports in the UK, including “Fifth Freedom” flights, is able so to do and there are no constraints on the type of traffic that those airports can seek to attract. Although at one time both Manchester and Birmingham were used by British Airways as “European mini hubs”, market forces resulted in the closure of those particular operations leaving Heathrow as the only hub airport in the UK. Services to most long haul destinations worldwide can only generate sufficient traffic, particularly premium fare passengers, to be viable from Heathrow or Gatwick, so continued access to Heathrow for domestic services remains a priority for the regions particularly as several services have been moved out of Heathrow for more profitable international flights.

6. In simple headline terms the most important distinction between London’s airports and those in the regions (and nations) is that the London airports tend to specialise in particular markets whereas the regional airports tend to serve all the markets for that region. However, there are exceptions, for example East Midlands’ role as an air cargo centre, and airports in the peripheral regions such as the Scottish Highlands and Islands, Northern Ireland and Cornwall have a lifeline role.

7. The three major London airports were all developed to the same basic brief—to handle international air services for London and the South East as well as a wider role for the regions (whose airports will never experience sufficient demand to support long haul services to many parts of the world). However in practice market forces have changed these roles—in particular the strategy of Gatwick becoming a second major hub with a “second force” airline, as recommended by the Edwards Committee, was not sustainable. Similarly the brief for the new Stansted airport to handle primarily long haul scheduled services that could not be accommodated at Heathrow and Gatwick was negated by Government six months before its completion when it abolished the Traffic Distribution Rules for Heathrow.

8. Traffic at the airports serving London has now evolved so that Heathrow is the main international airport in the country, (although its role as a major international transfer hub is constrained by its limited runway capacity), and is developing a terminal strategy around the needs of the three major airline alliances. Gatwick handles the overflow of scheduled airline services that cannot gain access to Heathrow together
with those serving its regional catchment area. It remains a major centre for the (declining) inclusive tour industry, and also has an expanding business of European Low Cost Carriers (LCC’s). Stansted has become the largest base for LCC flights in Europe and is the major centre for cargo/overnight package flights in the SE, whilst Luton has also developed as a robust LCC base as well as being a long established centre for business jets. London City, with its unique location, has expanded to become a centre for scheduled European business traffic. London’s smaller airports, such as Biggin Hill and Farnborough, specialise in serving business aviation. Finally, there are some small general aviation airfields serving training and private flying.

9. Heathrow, and to a much lesser extent Gatwick, compete with the three major hub airports in mainland Europe—Charles de Gaulle, Frankfurt and Schiphol—for international transfer traffic (mostly long haul although there is also inter European transfer traffic from UK regional airports). Overt competition is mostly between the main airline alliance carriers based at those four airports but the individual airport can have a significant deterrent effect on its competitiveness if either its service standards or capacity are inadequate (eg Heathrow terminals prior to the opening of Terminal 5 and its current shortage of runway capacity).

Question 2: Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

10. Demonstrably the current global economic crisis has reduced some of the excess demand for runway slots at Heathrow but these are still unavailable for most of the weekday scheduling period other than the occasional opportunity for an airplane to purchase a pair at considerable cost. Gatwick has a similar but less acute shortage during the peak summer months and London City is close to its capacity at times. Other UK airports generally have adequate capacity with several terminal expansions planned or underway.

11. Previous experience of significant downturns in air travel—whether triggered by oil price hikes, recession, or “9/11”—have been short lived and within two to three years traffic levels have returned to long term trend forecasts. Certainly the combined longer term pressure on costs from fuel prices and environmental measures may see slower growth (ie at the bottom end of forecasts). But there is every reason, based on aviation’s past record of innovation and adapting to change, to expect continued expansion particularly from emerging economies, even if the balance between the different types of airline services will inevitably change. It is also of interest to note that Heathrow declined less in 2008 than Gatwick or Stansted, because of the continuing demand from airlines for Heathrow slots.

12. However there is no doubt that major structural change to the airline industry has significantly altered the balance of air services from UK airports. The LCC’s and regional airlines, such as Flybe, have opened up a range of short haul scheduled and regional services from regional airports which conventional carriers were unable to operate viably, sometimes at the expense of Inclusive Tour programmes. The consolidation of “legacy airlines” into alliances together with the “mega hub” Middle East/Far East airlines has effectively increased competition to long haul destinations which has seen off such services by UK carriers from regional airports. Generally these changes have been positive for passenger volumes in the regions although the withdrawal of long haul services by BA and BMI from regional airports did cause concern.

Question 3: To what extent can rail provide an alternative to short haul flights?

13. This is the question which CILT can offer a particularly significant opinion, given that our membership is multimodal. In addition, we endorsed a conference held in October 2008 which looked at the particular issue of high speed rail at Heathrow.

14. The relative market shares of rail and air have varied over many years since air services began in earnest after WW2. London-Manchester provides a good example where electrification of the West Coast Main Line in the 1960s changed the balance to rail, while the introduction of jets and competition between airlines brought the balance back to air. Disruption post-Hatfield and from the West Coast Main Line Upgrade works gave air transport the advantage, but the latter is now completed and rail journey times and frequencies have improved. However, CAA statistics for the last few years show that, between 2001 and 2007 Manchester-Heathrow air passengers declined by around 0.3 million, while passengers to other London airports (particularly London City) have grown by around 0.1 million. In addition, international passengers from Manchester have grown by 2.4 million and no doubt some of these would previously have flown via Heathrow. These figures are compatible with a view that the growth of London-Manchester rail passengers has not, in recent years, been at the expense of London-Manchester air passengers.

15. At Heathrow, a particular issue in recent years has been the fact that some airlines have been holding on to short haul slots pending their transfer to long haul flights that are now becoming possible with more ‘open skies’ agreements. There are now many fewer short haul slots which compete with rail services.

16. The key issues which determine the balance are the passenger requirements, the economic effect and the environmental impact. Issues which influence the passenger include punctuality and reliability, service quality, fares, convenience of the station or airport and overall journey time. Every individual journey, such
as those made by members of the Committee, will depend on these factors which vary greatly. In a large geographic area such as London and the surrounding mega city region, a central city station will be best for access from the centre, while a range of airports may serve the surrounding area better.

17. The economic effect can be estimated for all journeys rather than for individuals. In straight financial terms, the air transport industry does not receive public subsidy, so the investment and pricing decisions are based on straightforward commercial considerations. However, planning approvals for major airport developments do require the economic case to be made, and the economic value of aviation is discussed earlier under Question 1. Rail transport does receive public subsidy, although this is mainly for routes where air does not compete. However, the justification for major new expenditure on long distance rail routes does require an economic justification as it would not be a straightforward commercial investment.

18. The environmental impact is complex and the CILT is seeking to ensure a better structure and understanding of the issues. While many take it for granted that electric rail produces less emissions than jet aircraft, the estimates often depend on assumptions which are by no means fully justified. It is easy to estimate the carbon emissions from jet fuel, but there are then assumptions about radiative forcing which are by no means proven for short haul flights. In any event, with short haul aviation included in an emissions trading scheme, the overall level of emissions is capped. For rail transport, a key issue is how the additional electricity would be generated and whether this would lead to more fossil fuel powered generation at the margin.

19. It is also pertinent to look at international experience. In many other parts of Europe, the experience is similar to the UK in that short haul air travel is being partly substituted by improved rail services. However, examples where rail has completely replaced air transport are rare. This has happened between Paris and Brussels but, for markets where rail has been competing for some time, it is often the case the air transport finds a small share of the market, such as Paris-Lyon. Another mature market is in Japan, where high speed rail has been providing excellent links between cities for 40 years. Despite over 100 Shinkansen trains per day between Tokyo and Osaka, there are still over 50 flights between the various airports of the two cities.

20. One particular issue which was the subject of the October 2008 Heathrow High Speed Rail conference endorsed by CILT was the question of how Heathrow might be served. Various proposals have been put forward for a hub, outside the airport boundary, on a spur from the high speed line, separately connected to High Speed 1 and with a cross platform interchange to Great Western Main Line and Crossrail services. Each option has advantages and disadvantages and, as yet, there does not seem to be a proposal which would provide the convenience to the passenger of good aircraft/train interchange which also links together all the rail options. There is, as yet, no clear business case for these proposals.

21. Taking all these factors into account, the CILT view is that the best balance will be achieved by allowing choice. In our view, both rail and air transport should be permitted to grow, not to meet unconstrained demand, but to provide the best economic and environmental balance. This means, for example, considering new rail lines primarily on the grounds of capacity required. In some circumstances this will mean high speed (300 kph), but for other routes it could mean new conventional routes with fewer intermediate stops. For air transport, the UK nations and regions should be able to retain their links with London, either to Heathrow for onward connections to the rest of the world, or to the other airports to enable them to retain their ability to do a day’s business. The resulting number of runway slots that would be released if high speed rail gained market share on short haul routes is unlikely to be no more than 5% of the capacity of the airport.

Question 4: What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

22. CILT has consistently agreed with the proposition that air transport should meet its full costs. However, when deciding future policy, there is a need for a better understanding of what those costs are and how they compare with other modes.

23. It is common ground that air transport emissions represent a small share of domestic, international total, and even transport, emissions. However, there are still unresolved areas such as radiative forcing, the extent to which the greater or lesser use of electricity leads to more coal fired, and therefore carbon intensive, power generation and the relatively small amount of carbon required for the construction, maintenance and operation of air transport infrastructure.

24. The air transport industry has shown that dramatic reductions in noise, emissions and other environmental impacts per unit of activity have taken place, although in some cases the increase in activity has increased the overall impact. CILT is confident that these improvements will continue in the future. European airline fleets are among the most modern in the world and low cost airlines are particularly adept at making the best use of their assets through high load factors.
25. CILT believes that emissions trading, starting with the European ETS but eventually extending to the whole world, will provide a way of capping total emissions in balance with the growth in demand. It will be self regulating, in the sense that, if emissions do not reduce, activity will have to. It is of course vital that governments do not accede to any pressure to increase caps, but the air transport industry, at least in the UK, seems prepared to stand by the targets.

Question 5: What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

26. Air Passenger Duty is now a recognised, if hardly an appreciated, part of the cost of air travel in the UK. Often viewed as a surrogate fuel tax it is by its nature a fairly unsophisticated form of taxation and recently prompted IATA to state that UK passengers would become the heaviest taxed in the world. Of significant concern is the need to avoid any unintended effects from modifying or changing taxation structure, as was the case with recent Treasury proposals, such as making it cheaper for passengers from the regions to use European hubs rather than Heathrow.

27. Above all it is important to note that air transport does not receive subsidies from the UK Government. Indeed, when the industry is in profit, corporation tax is paid and, of course, there are very significant amounts paid into public funds through the spending of the industry, not least through the employment of staff.

28. Recent experience when airlines and tour operators have gone out of business is that passengers are generally well protected, either through the CAA’s ATOL bond scheme or through individual passengers’ credit card and insurance arrangements. However, it is relevant to note that often the consequential loss is greater than the air fare.

Question 6: What is the impact on the aviation sector of changes in the security environment?

29. CILT unreservedly endorses the principles that have driven forward the National Aviation Security Programme and, of course, internationally aviation security is a fundamental objective. However it believes that achieving those objectives requires that passengers and staff buy in to the security measures and environment that they encounter, whilst the general public must also have confidence in them for them to be seen as effective and followed.

30. Whilst fully recognising the seriousness of the threat assessment which gave rise to the exceptional measures introduced in July 2006, the immediate response which of necessity was introduced at extremely short notice created significant disruption and problems for passengers, staff, and airlines at those airports which were operating at or near their planned capacities.

31. There was no apparent appreciation of the major impact of the way the ban on all hand baggage was implemented nor any evidence of contingency arrangements having been considered to handle a complete change to the security regime. With insufficient check in desk capacity, check in staff, baggage system capacity (including hold baggage screening), as well as security staff numbers for hand searching all passengers and staff the resultant chaos in the landside areas of terminals made them vulnerable to precisely the type of terrorist attacks that they were intended to avoid.

32. The short term impact again was largely limited to busy airports with the disruption resulting in cancellation of journeys and flights which restored some degree of control. The medium term scenario saw much of Heathrow’s transfer traffic switching to other European hubs, passenger numbers on short distance flights (internal and to near Europe) switching to rail or just cancelling trips and much of that change seems to have been permanent.

33. This also highlighted again that air passengers and the industry in the UK are faced with meeting escalating costs whatever the nature or origin of the threat. A more proportionate approach would not penalise the ordinary travelling passengers for threats which arise from motives that have no direct connection with aviation.

February 2009

Memorandum from British Airways plc (FOA 53)

INTRODUCTION

British Airways welcomes the opportunity to submit evidence to the Transport Select Committee’s inquiry into ‘The Future of Aviation’. It comes at a time when the aviation industry is facing unprecedented challenges due to the global economic downturn. These difficulties are more severe and sustained than in 2001.
The airline’s main base is London Heathrow Airport, the UK’s primary international hub airport and one of the busiest airports in the world. British Airways also operates from 8 other airports in the UK, and worldwide, to more than 150 destinations over 70 countries. It employs 43,000 people, of whom 38,000 work in the United Kingdom.

British Airways offers almost 550 flights in total to and from Heathrow each weekday, with a further 190 services a day to and from London Gatwick daily and more than 40 per day to and from London City.

Question 1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

1.1 Aviation plays a vital role in connecting the United Kingdom to the rest of the world. As an island nation and one of the world’s major economies, the UK has for centuries relied on strong trading links to secure its place as a successful and key member of the global marketplace. Aviation has replaced shipping as the means of securing this trading position.

1.2 The value of aviation to the UK economy was estimated in 2006 to be £11.4 billion per annum, according to Oxford Economic Forecasting’s study “The Economic Contribution of the Aviation Industry in the UK” published that year. The study also found that in 2004, the industry employed 186,000 people directly and supported a further 337,000 jobs indirectly, totalling 523,000 jobs.

1.3 The industry also facilitates business links and trade, and is a significant driver of tourism. It carries large volumes of freight for export and import. More than 50% of the UK’s exports of manufactured goods by value to countries outwith the EU are shipped by air, and a slightly larger proportion of imports by value are airfreighted. Heathrow Airport accounts for half of this cargo value. It is also estimated that three quarters of all visitors to the UK arrive by air.

1.4 In 2008, 73% of business surveyed in the City of London considered air services to be either critical or very important to their businesses. From the City’s perspective, Heathrow is key to its success because of its route network and frequency of services. (Source: “Aviation Services and the City”, a City of London report by York Aviation published in December 2008)

1.5 The roles of London and regional airports differ greatly. The UK’s premier international hub airport, and gateway to Britain, is London Heathrow. It has a unique role in the country’s transport infrastructure, and its connectivity attracts businesses to the UK and offers UK businesses and residents an extensive range of direct flights to many key markets and destinations around the world. It is also the primary operating base of UK carriers British Airways, Virgin Atlantic Airways and bmi. British Airways alone operates to five continents from Heathrow, and 90 airlines fly to 180 destinations in total.

1.6 Eight UK regional airports have direct links with the Heathrow as the nation’s hub airport. These airports give passengers in the UK regions direct access to the long-haul route network at Heathrow. On British Airways domestic flights typically between 30%-50% of passengers are transferring onto long haul flights at Heathrow. This inter-relationship between Heathrow as the UK’s hub airport and regional airports allows passengers and businesses access to both worldwide destinations and the UK regions. This in turn helps to generate economic growth and maintain strong British businesses with access to global markets.

1.7 The four other London airports serve different and complementary markets. Gatwick is the second largest airport, serving a mainly point-to-point scheduled airline market, both long- and short-haul, as well as charter flights for London and the South East. Luton and Stansted are primarily used by low-cost carriers offering short-haul point-to-point services, as well as significant cargo aircraft operations at Stansted. London City is constrained by its location but has created a successful niche offering business flights for the commercial heart of London.

1.8 Following the imminent break-up of BAA’s common ownership of the London and Scottish airports it is anticipated that competition between these airports will increase substantially with associated benefits for both passengers and airlines.

1.9 Regional airports are predominately privately owned. They contribute to the prosperity of the UK economy in general, but are particularly vital to local and regional economies. Manchester Airport is the only UK airport outside London with a major long-haul route network, although this has reduced as result of the global economic slowdown. Birmingham, Edinburgh and Glasgow airports offer a limited number of long-haul routes, and together with Newcastle, East Midlands and others, serve mainly domestic and short-haul intra-European routes that provide important connectivity for these large UK regional markets.

1.10 The UK aviation industry faces growing competition from overseas, primarily from airports and airlines in Europe, but increasingly from the Middle East. The main competitors are Frankfurt, Amsterdam, Paris and Dubai, which are the main operating bases for Lufthansa, Air France/KLM and Emirates airlines. These rival hubs have invested in additional runway capacity for many years, as highlighted in our response to question 2.

1.11 Without improved infrastructure and capacity increases, the UK will damage its successful aviation industry and as a nation, much of the success its connectivity brings to the economy of UK Plc.
Question 2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

2.1 The current aviation infrastructure is not adequate for the needs of UK business and individuals. As mentioned previously, Heathrow is Britain’s premier international hub airport and primary gateway to the UK. It currently handles 477,000 flights and 68 million passengers annually. However, Heathrow is operating at 99% runway capacity and the airport urgently requires additional runway capacity to improve its operating performance in the short-term and to grow and regain its pre-eminence in the long-term.

2.2 Whilst an increase in terminal and airfield capacity is planned by 2014, which should improve the airport experience for passengers and airlines, this does not address the key constraint which is lack of runway capacity. Heathrow requires new capacity to increase the operational resilience of the airport and to allow for growth in movements as well.

2.3 Heathrow’s main competitors have invested for many years in additional capacity to increase the number of flights and destinations served. In Europe, Amsterdam Schipol airport now has five runways; Paris Charles de Gaulle has four; and Frankfurt has three with recent approval given for a fourth. None of the airports operate at more than 75% capacity, compared to Heathrow’s 99%. In Dubai, a completely new 6 runway airport is under construction, a vital component of the Emirate state’s strategy for future economic prosperity.

2.4 These airports are growing at Heathrow and the UK’s expense. Heathrow currently serves 180 destinations, down from 227 in 1990. By contrast, Amsterdam serves 260 destinations; Paris 223; and Frankfurt 265. This disparity is set to continue.

2.5 Today, Heathrow handles 477,000 flights. Amsterdam has 440,000; Paris 541,000; and Frankfurt 490,000. By 2010, the forecast number of flights at Heathrow is 480,000, the maximum cap. At the same time, Amsterdam is expected to handle 600,000 flights; Paris 710,000; and Frankfurt 660,000.

2.6 British Airways welcomes the approval given by the Secretary of State for construction of a third runway at Heathrow on 15 January after extensive consultation and consideration following the 2003 Aviation White Paper. We are disappointed that the decision to expand the airport did not include mixed mode operations, which in the short and medium term would have provided operational resilience and improved performance through more efficient use of the existing runways.

2.7 However, we welcome the rescinding of the Cranford Agreement which will allow for more flexible use of the existing runways than at present, and the Government’s request that BAA implement measures to increase operational resilience as soon as practicable. The responsibility for operational resilience at Heathrow is shared between BAA and NATS, and initiatives such as Collaborative Decision-Making will allow the current airport infrastructure to work better.

2.8 There have been no new runways built in the South East of England since 1945, and only Manchester Airport has built a major runway during this period. The expected growth in demand in the South East can only be met if more capacity is provided, as recognised by the Government in 2003 when it proposed the building of two new runways at Heathrow and Stansted. We note that potential new owners of Gatwick have indicated that they may press for the development of a second runway.

2.9 The UK aviation industry pays for its own infrastructure but the speed of development has been slow due to the protracted the planning process (Heathrow Terminal 5 took 8 years to approve from the initial planning application). We welcome the commitment in the 2008 Planning Act to introduce National Policy Statements and to set up an Independent Planning Commission to oversee projects of national significance.

2.10 Elsewhere in the UK, British Airways does not consider there to be a shortage of runway or terminal capacity at other airports. Short- and long-term growth can be accommodated within the existing framework.

2.11 Another area of infrastructure that requires improvement is Air Traffic Management (ATM). British Airways believes that better ATM capacity is essential to manage current and future demand, as the Committee’s current inquiry into the ‘Use of Airspace’ will highlight. For example, the London Terminal Management Area needs to be restructured as part of the development of Heathrow’s third runway. At a European level, the Single European Sky II package will bring benefits that include reduced delays, faster flight times and fewer emissions across Europe.

2.12 The infrastructure for surface access to airports is improving. A number of airports have direct rail access and almost all have regular bus or coach services. The development of Crossrail and the proposed AirTrack rail link to Heathrow in addition to existing Heathrow Express and Connect services is welcome, as is the retention of the dedicated London—Gatwick rail service. British Airways notes the Government’s decision to investigate the possibility of connecting Heathrow to a high-speed train network and we look forward to developing this work in the future.

2.13 To date, global aviation passenger trends have been positive over the long-term, despite some notable setbacks to the industry. We expect this to continue, albeit with a slower rate of recovery following the current economic downturn. Airlines and airports must plan for growth, given the long lead times for aircraft orders and development of airport facilities.
2.14 The advent of EU-US ‘Open Skies’ has brought increased competition on key routes across Europe, especially between London Heathrow and the US. At Heathrow, two airline alliances are operating as ‘hub carriers’—oneworld and Star. Both provide domestic, European and intercontinental routes, offering greater choice for the customer. The third major global airline alliance, Skyteam, also has a significant presence at the airport.

2.15 It is likely that airlines will continue to merge, eg Lufthansa with Austrian Airlines and Brussels Airlines and Air France/KLM with Alitalia, given the current economic pressures and harsh operating conditions. British Airways continues to pursue a merger with Iberia, and a joint business agreement with American Airlines.

Question 3. To what extent can rail provide an alternative to short-haul flights?

3.1 British Airways believes rail travel is complementary to air travel, but not an alternative. It does not provide a practical or viable alternative for all short-haul flights in the short or medium term, and its long-term future is as yet unknown.

3.2 Rail does not provide an alternative where short-haul flights to and from Heathrow allow passengers to transfer onto connecting long-haul services. As previously stated, between 30-50% of all passengers on British Airways domestic short-haul flights are transferring onto long-haul flights. If those flights to Heathrow were not available, passengers would simply fly from UK regional airports to another mainland European hub such as Amsterdam, Frankfurt or Paris and connect onto a long haul flight from there instead of London.

3.3 Where a point-to-point journey can be made by train in three hours or less, then it is natural that rail should compete effectively with air transport. On certain routes, for example London to Brussels and Paris, flights and air passenger numbers have reduced following the introduction of high speed rail services between these cities. However, 25% of the total passenger market between London and Paris choose to fly, demonstrating the demand for both forms of transport and the need to travel between airports and their catchment areas as well as between city centres.

3.4 For journeys in excess of three hours, air transport is seen as the preferable mode of transport. This is confirmed by the number of domestic flights to London from airports beyond a 200 mile radius, eg those in Scotland, Northern Ireland, the North of England and Cornwall (and by multiple intra-UK routes between these various regions). These flights have a combination of high transfer volumes connecting through Heathrow as well as point-to-point traffic.

3.5 For point-to-point traffic, particularly for business, it is difficult and impractical to undertake a return journey in a single day on many of these routes without flying. The geographical limitations of Britain, combined with a lack of efficient road and rail infrastructure, limit the possibilities for rail providing an alternative to air travel.

3.6 We welcome the announcement by the Secretary of State on 15 January of the formation of High Speed 2 and plans for an integrated rail transport hub at Heathrow. Currently, rail travel does not provide adequate access from the regions of the UK to Heathrow and other major airports. Local access can be good, but passengers travelling, for example, from Manchester to London by train must change stations or modes of transport in central London if they are to arrive at Heathrow or Gatwick for onward flights.

3.7 Regional UK passengers choosing to fly from Heathrow or Gatwick should be able to have a journey as easy and smooth, including baggage transfer, convenient connections, security and interline facilities, as that to one of the continental hubs. A Heathrow integrated rail hub station on a high-speed rail line would enable this capability to be developed. Until such a station is built with appropriate connections to Central London and to the West and North, this will not achievable by rail.

Question 4. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

4.1 British Airways recognises that aviation, as with most forms of transport, imposes costs on society and the environment. These include climate change impact, noise and local air quality issues associated with its operations, in addition to airport-related activities. The industry is committed to meeting its external costs through continued investments in technology, sustainable biofuels, performance improvements, and cost-effective market-based mechanisms.

4.2 In the Aviation White Paper 2003, the Government proposed that air quality and noise impacts are best addressed by ensuring environmental limits are strictly maintained. Indeed, the building of the third runway at Heathrow is conditional on stringent environmental conditions at local levels being met. We are confident this can be achieved within the current limits, with investment in better technology to improve noise and air quality impacts.
4.3 Aviation’s CO₂ emissions and its impact on climate change is the most significant environmental cost. The industry acknowledges this and is determined to be part of the solution. Airlines are working with manufacturers and air traffic management providers to improve their fuel efficiency and operating procedures.

4.4 In 2005, the industry launched “Sustainable Aviation”, a comprehensive strategy for the long-term sustainability of the UK aviation industry. Sustainable Aviation brings together the UK’s leading airlines (including British Airways), airports, aerospace manufacturers and air navigation service providers.

4.5 Signatories to the strategy are committed to delivering significant improvements in the carbon dioxide, oxides of nitrogen and aircraft noise performance of new aircraft by 2020. Longer-term, overall absolute levels of CO₂ from UK aviation have been projected to return to 2000 levels by 2050 as a result of several initiatives planned by the industry.

4.6 The Committee on Climate Change is responsible for setting the UK’s carbon budget. It is too early to comment on the impact of the Climate Change Act 2008 as the details relating to aviation are yet to be worked out. The Committee is currently evaluating how aviation will play its part, and its contributions to the UK target published in the Act. The Committee is also considering the new target announced by the Secretary of State on 15 January that CO₂ emissions must not exceed 2005 levels by 2050, and how this will affect the sector.

4.7 In 2005 British Airways established a carbon offset option for its passengers. The scheme was revised in January 2008 to include “one-click” easy use functionality and investment in UN approved Clean Development Mechanism (CDM) credits. From 2012 all flights arriving and departing the EU will be subject to the EU Emissions Trading Scheme.

4.8 British Airways believes aviation emissions should be dealt with internationally, not nationally or regionally. A global sectoral approach that addresses international CO₂ effects is the best way to internalising aviation’s climate costs, meeting tough environmental targets whilst avoiding competitive distortion between carriers. National and regional policies will simply lead to competitive distortions and leakage of emissions, reducing environmental effectiveness.

4.9 Market-based instruments such as carbon trading provide a cost-effective way to address the climate change costs of aviation. The external costs of noise and air quality will be met through investment in technological solutions.

Question 5. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

5.1 In the UK, passenger transportation by air is taxed by Air Passenger Duty (APD) for all passengers departing UK airports for domestic, other European Economic Area (EEA), and third-country destinations, with the exception of international transfer passengers.

5.2 The general effect of taxation is that it reduces the revenue available to carriers in the market. Overall, there is a market price for airline services and fares are pitched at this level. If tax is introduced, as with APD, it has the effect of removing revenue that would otherwise be available to airlines for return or investment in new products for example. This is particularly salient because of the planned increases in APD and the new banding structure in both November 2009 and 2010.

5.3 APD distorts regional traffic markets differentially in national traffic markets. These distortions are between modes of transport over short distances, and for longer flights are related to the boundary effects at each rate-band thresholds.

5.4 On shorter journeys, the application of APD to domestic mainland air journeys gives an advantage to competing modes of transport such as private car use, bus and rail operations. The £20 economy (£40 premium) APD charge for a return flight on mainland UK journeys is a tax uniquely paid by airlines. This tax effect is exacerbated by Government subsidies for coach fuel and railway infrastructure that are not matched in the aviation sector, which pays for all its infrastructure costs.

5.5 For flights to destinations beyond the EEA, there are major concerns with the three new bands of APD rates set for introduction in November 2009. The market effect will be to inhibit the profitability and viability of services from the UK to less-popular far-distant destinations. This will happen because airline ticket prices do not rise in direct proportion to distance travelled, thus threatening some routes in the higher tax bands.

5.6 British Airways believes that there are sufficient mechanisms in the market place to protect passengers from airline failure. Passengers travelling on tour operator packages under the ATOL scheme receive full protection should the airline fail. For those travelling on scheduled operators, passengers can protect themselves with insurance or by making payment by credit card above a specific value.
5.7 Furthermore, when airline failures have occurred in recent years, other airlines have voluntarily assisted with the repatriation of passengers overseas. British Airways and others have also offered special repatriation fares. This happened following the demise of Maxjet, Eos, Silverjet, Zoom and XL Airways etc.

5.8 British Airways believes it is wrong and disproportionate to make the majority pay for protection that only applies to a minority of travellers. British Airways does not support a levy on all airline passengers to fund passenger protection for scheduled airline failure.

Question 6. What is the impact on the aviation sector of changes in the security environment?

6.1 British Airways’ primary objective is to provide a safe and secure operation at all times for its customers and employees. We recognise the need for a robust security regime but believe this must be proportionate and reasonable.

6.2 In theory, there is a common security policy, EU Regulation 300/2008 on ‘common rules in the field of aviation security’, and a level playing field for the European aviation industry. UK airlines and airports are governed by both Regulation (EC) 300/2008 and legally enforceable Directions issued by the UK Department for Transport.

6.3 In practice, the DfT’s Directions represent a significant increase in regulation over and above the EU requirement. For example, a passenger screened at an EU airport is accepted across all other EU States except the UK and France, where they must be screened a further time. Also, the EU and the US are currently trying to conclude an agreement to “single screen” passengers travelling through both areas. Unfortunately, this is highly unlikely to apply to passengers flying through the UK in either direction who will require rescreening, thus putting UK airlines and airports at a major competitive disadvantage.

6.4 Furthermore, there is a lack of justification for additional measures on a risk basis. The UK is deemed to be a ‘higher threat’ level than other EU countries, but the aviation industry is given little justification of this level beyond the fact that UK aviation is at high risk. Specifically there is no assessment of what the measures will or will not provide in light of the threats posed.

6.5 UK provisions are often over-complex and raise confusion about additional security measures the UK requires, especially for non-UK carriers. Compliance would be improved if the regulations applicable in the UK were simplified.

6.6 British Airways is concerned that the UK does not have an aviation security strategy that encourages airports to invest in new technology that would benefit customers, security and the industry. There is no long-term incentive for the UK industry to employ these developments that improve the security environment at airports, and which the DfT has not appeared to support. Technological advances, such as advanced technology baggage screening machines and personal body scanners can offer faster progression through the security processes, as well as providing enhanced levels of detection and protection.

6.7 In the UK, trials of both these developments have ended without further extension or evaluation and the benefits of the trials and technology have been lost. Consequently, customers, airports and airlines will continue to experience delays in the security process. It is worth noting that other countries, such as Russia, the United States and the Netherlands have applied the use of body-scanners, but the UK now has none in use.

6.8 In addition, national security concerns worldwide have create a myriad of border control regulations with which airlines must comply. British Airways flies to 19 countries that require specific passenger details. Within the 19 countries, there are five fundamentally different types of systems for gathering this data, all of which have been developed by the airlines. The most widely used is APIS (Advanced Passenger Information System), which is relatively standard but different countries demand different types of transmission, reducing consistency.

6.9 Currently, the acceptance of national Identity Cards for travel within the EU is causing further problems for airlines. APIS development was based on passport information, and the UK will soon accept data from European nationals using their ID cards, some of which is proving difficult to collect. Airlines also have to develop, at their own cost, systems and processes to deal with the very small number of passengers who are targeted by the various Government requirements.

February 2009
Memorandum from 2M Group (FOA 54)

SUMMARY OF RESPONSE

The 2M Group comprises 23 councils in London and the South East who are opposed to Heathrow expansion. Our policy is to seek a better Heathrow with more effective surface access links.

In this response we have concentrated on what we believe is a major gap in government policy—the failure to properly evaluate and compare the impacts of aviation growth with the benefits to the UK economy of investment in a national high speed rail network.

If the number of short haul flights from Heathrow can be reduced by the availability of competitive rail alternatives, this will enable the airport to address demand for long haul traffic while improving its operational performance.

1.1 What is the value of aviation to the UK economy?

In an increasingly globalised world, the UK’s international links will be ever more important to the functioning and eventual growth of our economy. For intercontinental and longer-haul journeys within Europe, aviation represents the only practicable means by which these journeys can be made, and aviation might therefore be considered vital to our economy.

However, it is not aviation that is the fundamental requirement, but communication. On shorter haul journeys surface transport, in particular high speed rail, can offer a practicable and superior alternative to aviation. This is evidenced by the strong growth of the London-Paris/Brussels Eurostar service, which has become the dominant mode on this corridor, at much reduced environmental cost and enhanced service levels.

Given these advantages, the 2M Group believes that a clear distinction must be made between “essential” longer haul aviation, and shorter haul routes for which alternatives appear to exist. Short haul services cause greater environmental impact than competing modes such as rail (conventional or high speed) and compromise limited capacity particularly at hub airports such as Heathrow.

1.2 Role of London and Regional Airports

All UK airports function as the local airport for their region, offering mostly short-haul routes to domestic and European destinations for business and leisure purposes. Manchester and Gatwick offer a greater range of longer-haul services, as befitting the enhanced status of the cities they serve. But only Heathrow functions as a hub airport, with significant numbers of passengers transferring between flights.

Much of Heathrow’s hub function entails international passengers landing at Heathrow, and then continuing their journeys to other UK regions by domestic flights. While there is a strong level of service to Scottish airports (17/18/13 daily to Glasgow, Edinburgh and Aberdeen respectively), the service to the English regions is at best patchy, neither regular nor frequent. There are no connecting services to destinations closer than Manchester.

From this it can be inferred that the classic airline “hub and spoke” model does not work well within the UK, where most population centres are within 300km of London. With little worthwhile connectivity either by air or by rail—note Heathrow’s poor surface access, with all routes channelled through central London, necessitating Tube journeys—much of the UK is denied effective public transport access to its national airport. The result of this is that, with or without a third runway, residents of cities such as Leeds or Birmingham are likely to choose to fly to Paris CDG or Schiphol to make their long-haul connection.

The 2M Group considers that (aside from the major local environmental concerns) any further development of Heathrow in line with current plans (ie third runway and only limited surface access improvements) will not enable Heathrow to fulfil its proper role, as Britain’s principal international gateway. The 2M Group believes that, with appropriate developments to Heathrow’s rail links and wider development of a UK high speed network, Heathrow can achieve superior performance as a hub airport with a wider range of international services better connected to its UK hinterland. This is in line with the recommendations of the Eddington Transport Study.249

The 2M Group also supports integration of smaller regional airports within a national integrated transport strategy.

1.3 What competition do UK airports face from abroad?

Much of the case for Heathrow expansion centres around the proposition that its local continental competitors (ie Paris CDG and Amsterdam Schiphol) have the capacity to develop into more attractive hub airports, offering a greater range of destinations; and as capacity constraints force international carriers to abandon Heathrow, the UK’s international connectivity will decrease, thus imperilling national prosperity.

Heathrow’s situation amidst west London suburbia makes expansion an enormously difficult and controversial proposition, with no certainty of ultimate realisation in a viable timescale, while Paris CDG and Schiphol are not similarly constrained.

Heathrow is just one of a group of London airports, it should not be viewed in isolation. It would however compete more effectively if it developed its surface access, coupled with wider development of UK and European high speed rail, to eliminate the congestion caused by short haul flights. In this way it could function better and offer a superior hub and spoke model based on surface transport “spokes”.

2.1 Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

The UK’s major airports in particular are already running at or near capacity. Journey times are increasing as aircraft become stacked up in queues. Addressing capacity concerns at our busiest airports is essential; but airport expansion (and thus more flights) should only be contemplated when all lower-emitting surface access/high speed rail solutions have been considered, and deemed impracticable.

Furthermore, additional infrastructure to meeting growing demand is only a finite resource, and is likely to be followed by further demands for airport expansion in the future. The aviation sector must begin to operate within limited capacity.

Access to our major airports is also in need of urgent attention. Most journeys to and from airports are by car, with limited access by other means. The inadequacy of rail access to Heathrow (comprising the prohibitively expensive Heathrow Express or the overcrowded Piccadilly Line, only offering effective connections to central London) has serious adverse consequences in the intense road congestion in west London, and also on the M25 and M4 corridors. The 2M Group wants to see significant improvement to surface access, with improved rail links and bus services and reduced impacts on the communities around Heathrow. The presumption should be against the private car and in favour of public transport.

Most importantly, the 2M Group would also like to see aviation, particularly short haul, included within a national transport strategy that unequivocally demonstrates how the government intends to meet growing demand whilst reducing aviation’s impact on the environment.

2.2 What are the implications of future passenger trends and possible mergers in the airline industry?

No comments.

3. To what extent can rail provide an alternative to short-haul flights?

The ability of rail to provide an attractive alternative to short-haul aviation is contingent upon the railway network being able to offer the following:

— Good quality services between city centres, with journey times not exceeding three to four hours.
— Connections to hub airports for intercontinental flights.

In the UK, with Edinburgh/Glasgow to London journey times of more than four hours by rail, aviation has come to dominate these routes. Even on shorter routes such as Manchester to Edinburgh or Glasgow, where no worthwhile direct intercity rail service exists, aviation also tends to dominate. And with Heathrow lacking efficient connections to the national rail network, particularly for the critical routes to the North, passengers en route to international destinations have little alternative but to take the often infrequent flights from their local airport to make the connection at Heathrow or other European hubs.

Within a radius of circa 300km of Heathrow, it should be noted that there are no English regional airports with connecting flights to Heathrow.

The ability of high speed rail to compete effectively with short-haul aviation is amply illustrated by the success of the Eurostar service on HSI to Paris and Brussels. It is clear that a high speed link from London to Edinburgh and Glasgow offering sub three hour journey times could achieve similar success, converting the vast majority of Anglo-Scottish air flows to rail, and in the process achieving a major reduction in emissions.

Eurostar claim that a typical London-Paris journey by high speed rail produces only 10% of the emissions of an equivalent short-haul flight. This 90% saving is only achievable through the very high proportion of non-CO2 producing nuclear power that is available in France; within the UK, the much greater proportion of fossil fuels in the power generation matrix would result in a smaller saving, of the order of 80–85%. This would still make high speed rail an attractive proposition in environmental terms.
The development of a high speed rail system within the UK is beyond the precise remit of this Inquiry. However high speed rail can offer alternatives to short haul flights, congestion relief to the existing rail network, further modal shift from road transport and regenerative benefits throughout the UK.

It is therefore vital that these potential gains are not compromised by insisting that high speed rail in the UK should include direct access to Heathrow. This is the philosophy that has driven the planning for the “High Speed 2” and the “Heathrow Hub” proposals. Before these schemes are developed further, the following issues must be determined:

- Does routing a high speed line via Heathrow facilitate the development of a genuine (ie not just London-centric) UK high speed network, achieved in an incremental and inclusive manner without unduly favouring either North-West or North-East?
- Does a high speed line to the North via Heathrow involve excessive cost and environmental impact, when compared with other potential routes?
- Is a uniaxial high speed line the best means of achieving the required step-change in surface access to Heathrow?

The 2M Group believes that the questions of improved surface access to Heathrow and the development of a high speed intercity network are separate, albeit linked issues. If the necessary improvements are made to Heathrow’s surface (ie rail) access, commensurate with its status as the UK’s international airport and the principal local airport for London and the SouthEast, then it becomes possible to create efficient links to all existing radial main lines from London, including any high speed line to the North (or to the West). This high speed line can then be set on its optimum alignment as an intercity railway.250

With such a model of “hub and spoke” operation, whereby rail acts as spokes to a long-haul hub, rail can work in harmony with aviation. The need for short-haul flights can be eliminated through the combination of improved intercity links between all principal conurbations, and efficient connections to hub airports (ie Heathrow).

This principle extends beyond domestic aviation to short-haul flights to any European destination potentially within doue hours’ (or around 1,000km) range of the UK originating point. For London, cities as far afield as Hamburg, Frankfurt, Lyon and Geneva are feasible high speed destinations. For Northern cities such as Leeds and Manchester, through services to Paris and Amsterdam appear viable, thus potentially eliminating short haul flights from these regional airports. All this will become possible as high speed rail develops northwards into the UK, and beyond Paris and Brussels (note the forthcoming termination of the Eurostar monopoly on High Speed One).

4.1 What costs does aviation impose on society and the environment?

Although domestic aviation contributes less than 2% of all carbon dioxide emissions produced by UK transport, this figure rises to over 20% when UK-based international aviation is taken into account. Aviation represents the fastest-growing source of CO₂ in the entire spectrum of UK emissions. This trend is in line with other developed nations.

As emissions from aviation are predicted to grow when emissions for all other sections are predicted to shrink, they will constitute a significantly increased proportion of the UK’s total emissions by 2050. In UK Air Passenger Demand and CO₂ Forecasts the DfT predicts that, taking radiative forcing into account the 9% contribution of aviation in the 2005 to total UK emissions will have grown to around 15% in 2020 and 29% in 2050.

Within the EU, aviation is to be included within an emissions trading system (ETS). This will work by setting a price per tonne of emitted CO₂, and allowing industries (such as aviation) whose emissions are rising to buy permits for the extra CO₂ from other industries where emissions are falling. This is all to take place within a general framework of a decreasing overall EU budget for CO₂ emissions. Currently, international aviation (ie outside the EU) is not proposed to be covered in the scheme.

The 2M Group does not believe that the ETS will prove effective in reducing emissions, either from aviation or in a wider global sense. It is not comprehensive, covering only EU aviation and excluding intercontinental flights. Current projections indicate that the ETS will do little to stem aviation growth even within the EU. There is no consensus as to how the price of a tonne of CO₂ can be fairly, or realistically established. Possibly the biggest criticism of expansion within the ETS is that it is predicated upon aviation’s ability to exploit declining CO₂ emissions from industry; but this decline is only possible through the relocation of manufacturing industry to the Far East (and elsewhere).

250 2M Group has advanced proposals for a radical development of the existing Heathrow Express system into a comprehensive local network connecting to strategic main lines radiating from London. This is combined with “High Speed North”, an optimised inter-city high speed rail network connecting London with all major Midlands, Northern and Scottish conurbations. Together, these two proposals would allow virtually all domestic aviation within mainland UK to be superseded in favour of more environmentally-friendly surface transport. These proposals are documented in the pamphlets: Getting to Heathrow: A Train for every Plane (2M Group, January 2009) and High Speed North: Joining up Britain (2M Group, July 2008). The 2M proposals are radically different from the Heathrow Hub scheme in that they are predicated on high speed rail links from city centre to city centre with the airport acting as a hub for local rail services . . .
The 2M Group is concerned that the failure of the DfT to manage the ANASE project efficiently and the government’s hasty willingness to distance itself from the conclusions of the study will result in the assessment of noise impacts being understated both in terms of the economic cost. This is despite the announcement from the Chief Economist to The Treasury to the effect that the Government accepts the main findings of ANASE—Ministers gave Parliament and the general public assurances over a number of years that the ANASE study (which cost taxpayers £1.5 million) would ensure that future aviation policy would be framed having regard to the best available evidence. In the view of 2M it is utterly unconvincing for the government to claim that the study (which took over five years to complete) is so fundamentally flawed that it must be disregarded, when the project was overseen at every stage by senior DfT officials who themselves had access to an external expert steering group. The Government’s “fall back” position of costing aircraft noise using its economic model for roads is untested. The Government’s policy of disregarding any effects so far as noise is concerned outside of the 54 dB16 hour average mode leq contour (on the basis that the noise is not sufficiently bad as to have a significant cost effect) flies in the face of the ANASE study findings.

4.2 What are the implications of climate change policy— in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

Considering projected carbon emissions levels and predicted passenger growth, the outlook is bleak. The DfT projects a three-fold increase in aviation passengers by 2030. Current demand is approximately 180 million air passengers, while the mid point forecast of national demand for 2030 is 500 million passengers per year.251

This level of growth does not seem compatible with the commitment to an 80% cut in UK CO2 emissions, enshrined in the Climate Change Act.

One aspect of sustainability that has not been given adequate consideration is that of security of future fuel supplies, given the clearly finite nature of global oil reserves (indeed, this issue is not even mentioned in the Government’s recent Towards a Sustainable Transport System). “Peak oil” projections vary, but it is likely that within 10 or 20 years, restrictions in supply, coupled with rising world demand, will lead to rapidly escalating prices. All transport modes, with the single exception of electrified railways, are dependent upon oil; but aviation is the most profligate in its use of oil, and has no practicable alternative fuel source.

In the face of the massive challenges that the “peak oil” scenario will cause for modern civilisation, the Government must rethink its traditional approach to aviation expansion.

As well as the implications for climate change, on a local level aviation brings severe costs to society through increased local pollution, congestion on the roads around airports and exposure to noise.

The 2M Group believes that government policy should be directed to supporting whichever transport mode delivers the particular journey specification (eg intercity journeys within 3-4 hours) with the lowest emissions. In this context, short haul aviation cannot be justified if the same journey can be achieved in a similar time by rail.

5.1 What is the impact of taxation on the aviation sector nationally and regionally?

It should be noted that no tax is levied on the fuel used by the aviation industry. This has been estimated as worth around £5 billion in lost revenue to the Exchequer.

5.2 Are passengers adequately protected from the collapse of airlines?

No comments.

6. What is the impact on the aviation sector of changes in the security environment?

No comments.

About 2M

The 2M Group is an all-party alliance of local authorities concerned at the environmental impact of Heathrow expansion on their communities. The group, which took its name from the two million residents of the original 12 members, now represents 23 authorities with a combined population of 5 million people and is supported by the Mayor of London.

The full membership comprises the London Boroughs of Brent, Camden, Ealing, Greenwich, Hammersmith and Fulham, Haringey, Harrow, Hillingdon, Hounslow, Islington, Kensington and Chelsea, Kingston, Lambeth, Lewisham, Merton, Richmond, Sutton, Southwark and Wandsworth, the boroughs of Slough, Windsor and Maidenhead, Wycombe and South Bucks District Council.

Recent 2M publications include “High Speed North” and “Getting to Heathrow”. You can download these from www.2MGroup.org.uk

February 2009

Memorandum from the Public and Commercial Services Union (FOA 55)

INTRODUCTION

1. The Public and Commercial Services Union (PCS) represents over 300,000 workers predominately in the civil service but also increasingly in the private sector, particularly where those jobs were once in the public sector. This includes around 2,500 workers in three distinct areas of operation within the aviation industry:
   — the regulatory area—Civil Aviation Authority (CAA);
   — the airport operators area—British Airports Authority (BAA Airports Limited) and Highlands and Islands Airports Ltd; and
   — the air traffic control area—National Air Traffic Services Ltd (NATS).

2. In recent years, PCS has accumulated a body of policy on environmental issues such as climate change, energy and transport. PCS is opposed to the building of a third runway at Heathrow on environmental grounds. PCS campaigns alongside green NGOs and is also an active participant in the Trade Union Sustainable Development Advisory Committee (TUSDAC)—the main contact point between the government and the trade union movement on environmental issues.

3. We welcome the House of Commons Transport Committee inquiry into the future of aviation and can provide timely further oral evidence if required.

What is the value of aviation to the UK economy?

4. The aviation industry in the UK is a complicated structure of competing markets. Global and domestic air travel has grown significantly and is projected to continue to grow in the coming decades. In 2006 BAA’s seven Airports252 alone handled 144 million passengers, a figure forecast to double by 2025. In the foreword to the 2004 Future of Air Transport White Paper it is estimated that the aviation industry directly employs 200,000, and a further 600,000 depend on it indirectly. Whilst the current recession and world economic downturn has significantly hit the current traffic levels, the industry does not consider that this will halt growth in the longer term.

What competition do UK airports face from abroad?

5. PCS believes that whilst the Competition Commission mistakenly takes the view that more competition is required through the breakup of BAA, while at the same time UK airports fall significantly behind their real competitors. Heathrow Airport is a major hub airport and a gateway to Europe for the transfer passenger. It competes directly in this regard with Schiphol Airport (Amsterdam), Charles de Gaulle Airport (Paris) and Frankfurt-am-Main Airport (Frankfurt) rather than other UK airports.

Is the current infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

Defragmented infrastructure

6. The current defragmented infrastructure is damaging to the industry in the UK both in terms of quality and as providing a means to promote alternative modes of transport. Privatisation of BAA took place in 1986. It has subsequently been sold to Spanish company Grupo Ferrovial. The Competition Commission, soon to make their final report, are proposing the sale of three BAA airports. BAA has already put Gatwick Airport up for sale. We oppose the sale of any of BAA’s airports and do not believe the alleged benefits will be seen by the paying passenger. Airlines, particularly low-cost ones, do not focus on quality of travel but merely the price of travel, often at the expense of comfort, terms and conditions of staff, and the environment.

252 BAA’s seven Airports are Heathrow, Gatwick, Stansted, Edinburgh, Glasgow, Aberdeen and Southampton. PCS does not have members at Southampton.
Passenger decisions

7. Passenger decisions are often based on price. Passengers do not pay airports directly for the services they provide, as charges are hidden within the overall ticket prices, similar to charges related to air traffic control. By comparison with other costs these represent a very small percentage of the overall cost of the ticket and therefore, very little scope for reducing the cost to the passenger. By contrast, passenger expectations of the airport including comfort, security, baggage handling and other infrastructure remains rightly very high.

8. The development of the low-cost airline model has given access to air travel to a much wider group in society and the almost cut-throat competition between so-called “cheap” airlines has driven prices down even further. Whilst this development has provided opportunities it has also placed strains and burdens on airport operators. Low-cost airlines operate on quick turnaround times and fast operations which is in direct contrast to airport responsibilities in relation to issues such as security. PCS believes in many cases airlines have little or no interest in the pressures under which airports operate, merely on the costs that they charge. Low cost airlines operate their own cost-saving practices (for example limited hold baggage) that place additional burdens on the security operation of an airport.

Developments in air traffic control

9. In terms of air traffic control the UK is embarking on major new developments that will impact on the industry both in the UK and across Europe. The second package of Single European Sky legislation is before the European Parliament. This looks to accelerate the growth of a single European sky including the implementation of Functional Airspace Blocks (FABs) and integration of systems. Unlike the rest of Europe, the UK model is one of privatisation. NATS was privatised (Public Private Partnership) in 2001 and, like BAA’s major airports, is subject to financial regulation by the CAA. The pressures to meet the growth of the industry whilst dealing with the most complex skies anywhere in Europe and maintaining the highest levels of safety are naturally stretched when placed in the competitive market. NATS has met the challenge of growth and maintained some of the highest standards of safety whilst developing new infrastructure systems as well as moving to the two-centre strategy completed in 2010.

10. The SESAR (Single European Skies Air Traffic Management (ATM) Research) initiative will change the look of air traffic control in Europe over the next 25 to 30 years. It has potential but the question remains whether UK air traffic management is the best place to meet this challenge when it remains the only privatised air navigation service provider in Europe and in the only competitive ATM market place that is, intrinsically, disadvantageous to it.

Heathrow expansion

11. Heathrow’s importance to the UK’s economy is significant—it employs over 100,000 workers in and around the west London area. Whilst it maintains extensive links to other UK, European and worldwide airports it has limited links to other modes of transport that encourage alternative means of travel, eg rail, particularly for short journeys.

12. Although the busiest airport in the world, Heathrow has the least available capacity for expansion. By contrast its main competitors are way ahead with Frankfurt having three and now permission for a fourth runway, Paris four and Amsterdam six. Extensive debate and argument continues in relation to a third runway at Heathrow, and PCS national conference 2008 passed policy to opposed and campaign against the building of a new runway. We believe that market forces should not be allowed to determine the most environmental viable means of transport.

13. A third runway would have a devastating environmental impact with the airport having the potential to become the biggest source of carbon emissions in the country, producing emissions equivalent to 57 of the least polluting countries put together. The latest forecasts from the Department for Transport (DfT) released in January show that if the expansion of Heathrow were to go ahead, the only way to reduce CO2 emissions would be if no other UK airports expand. According to the forecasts, CO2 emissions in 2005 were 37.7 million tonnes, expected to grow to 53–65 million tonnes by 2050. By 2030, Heathrow alone is expected to emit 23.6 million tonnes of CO2.

14. As well as the contribution to global greenhouse gas emissions there are also local environmental impacts. The EU Environment Commissioner has said that if the expansion of Heathrow goes ahead, the UK will breach EU legal limits on nitrogen dioxide that become legally binding in 2010. Expansion will also create more noise and pollution for local residents. Air pollution levels in London are already up to four times the legal limit and reducing life expectancy: there are more than 1,000 premature deaths a year in London because of poor air quality. The Environment Agency says expansion at Heathrow “will result in increased morbidity and mortality impacts”. Two million people in West London already suffer excessive

253 Source: The Energy Information Administration – http://www.eia.doe.gov/pub/international/iealf/tableh1co2.xls
254 UK Air Passenger Demand and CO2 Forecasts, Department for Transport (January 2009).
noise as a result of Heathrow with severe sleep deprivation and other health problems. Increasing flights over existing flight paths will increase noise pollution for these residents. The education of 100,000 pupils across 114 schools in West London will be severely impacted by proposed new flight paths. In addition over 1,000 people who live in the area will be removed from their homes.

15. We believe the short term economic benefits of expanding Heathrow will be outweighed by the social and economics costs of climate change in the long term. The Stern report on the economics of climate change estimates that business as usual will mean the climate change cost to the economy will be between 5% and 20% of global GDP.256

16. We also recognise however, that if no expansion takes place at Heathrow then the airport must look to reposition itself within the market, and business must take account of the potential financial impacts as well as the impact on both direct and indirect employment.

To what extent can rail provide an alternative to short-haul flights?

17. Short haul flights are the most environmentally damaging flights, contributing a disproportionately large amount of greenhouse gas emissions per passenger kilometre travelled compared with long haul flights. According to the CAA domestic flights increased by nearly 42% between 1998 and 2007; around 22% of UK flights in 2006 were domestic. Furthermore, according to the Department for Transport (DfT), a quarter of air travel movements in 2006 were for business purposes.

18. It therefore makes sense, in environmental terms, to consider the potential for alternatives to short-haul flights. Research shows that on routes between London to Paris and Brussels, for example, air travel produced between 8 and 11 times more CO2 than rail travel.257

19. A recent Campaign for Better Transport (CBT) report258 looked at alternatives to Heathrow expansion. It found that over a third of flights using Heathrow are short-haul and that more than 20% serve destinations already served by a viable rail alternative. A further 20% are to places where rail is a potential alternative. The report also shows that where high-speed rail links are in place there has been a significant switch from air to rail, and that the UK is in danger of being left behind as countries such as Spain reap the benefits of massive rail investment.

20. A study carried out by the campaign group HACAN showed that of a total of 473,000 flights which used the airport in 2006, 100,000 served 12 destinations where there was already a viable rail alternative such as Edinburgh, Manchester, Glasgow, Newcastle, Paris and Brussels. A further 100,000 flights were to places where an improved rail service could provide an alternative—for example, Frankfurt, Milan, Munich.259 Apart from New York the most popular destinations from Heathrow are all in Europe. If a substantial number of these flights were replaced by rail, this could free up space at Heathrow to bring in more long-distance flights without any need to expand the airport.

21. Further research commissioned by CBT in October 2008260 looked at the potential for alternatives to short haul air travel and to the use of telecommunications to reduce the need to travel. This found that the potential to substitute the need for short haul flights through travel by rail was “strong”. A survey of organisations found that many already use teleconferencing facilities and all agreed that is was convenient, can save time and money, is less stressful than air travel and can enhance an organisation’s corporate social responsibility (CSR) credentials.

22. PCS believes that an integrated transport system is crucial and that further fragmentation of the aviation industry will not assist this already troubled process. The current rail infrastructure is inadequate to encourage transfer between air and rail. This is an opportunity missed and one that would require significant investment and development. A passenger arriving at any of the three London airports owned by BAA who wishes to travel to Scotland, for example, may well need to travel by train into London, change to London Underground before taking a train to Scotland. The links are expensive and inconvenient with heavy baggage. A mainline station at Heathrow connecting directly with high speed main, national and international rail links would encourage alternative transport methods and lessen the need for so many short haul flights. A new direct rail link to Edinburgh airport was abandoned in September following many millions of pounds of investment in its feasibility. These decisions and their potential impact on the UK economy and on jobs cannot be left to a fragmented industry with competing objectives that do not align.

23. There is currently however no incentive to privately owned airports or competing airlines to encourage such development. In mainland Europe a high speed rail network is being put in place, which our rail system could connect with via the Eurotunnel. We believe this European connection should be exploited, along with a domestic high speed network. Instead, however, the government is leaving it to so-called market forces to decide what to do. PCS believes the government should introduce incentives to encourage a more integrated and environmentally friendly transport network.

258 PCS believes that an integrated transport system is crucial and that further fragmentation of the aviation industry will not assist this already troubled process. The current rail infrastructure is inadequate to encourage transfer between air and rail. This is an opportunity missed and one that would require significant investment and development. A passenger arriving at any of the three London airports owned by BAA who wishes to travel to Scotland, for example, may well need to travel by train into London, change to London Underground before taking a train to Scotland. The links are expensive and inconvenient with heavy baggage. A mainline station at Heathrow connecting directly with high speed main, national and international rail links would encourage alternative transport methods and lessen the need for so many short haul flights. A new direct rail link to Edinburgh airport was abandoned in September following many millions of pounds of investment in its feasibility. These decisions and their potential impact on the UK economy and on jobs cannot be left to a fragmented industry with competing objectives that do not align.
260 Alternatives to aviation, TRL limited (October 2008).
24. Other measures that CBT argues the government should invest in that would make rail a more attractive alternative to business travellers and that we support include:

— a north-south high-speed rail line connecting central London, Heathrow and the Channel Tunnel with the Midlands, the North and Scotland;
— making other rail lines that compete with domestic flights faster, more reliable and more frequent;
— improving the accessibility of rail stations and the integration of rail services with airports;
— providing financial incentives to enable business-friendly facilities such as Wi-Fi and power points to be rolled out across the rail network;
— working closely with businesses to raise awareness of the benefits of alternatives to aviation, especially teleconferencing, and disseminating best practice;
— setting non-mandatory targets for businesses to reduce their flights and providing formal recognition for those who achieve them;
— making financial support and training available to support the increased uptake of teleconferencing; and
— working with developers of teleconferencing technology and investing to improve that technology.

What costs does aviation impose on society and the environment?

25. Aviation has huge environmental costs. According to the respected Tyndall Centre for Climate Change Research at Manchester University, aviation is the fastest growing transport contributor to greenhouses gases. It is also the fastest growing source of emissions of any sector in the economy. To work out the full impact of flying— including the effect of emissions at altitude (“radiative forcing”)— it is estimated that CO₂ emissions need to be multiplied by around 2.7. Aviation is responsible for 13% of the UK’s climate impact. The Tyndall Centre for Climate Change Research predicts that the UK’s aviation emissions alone could exceed the government’s target for the country’s entire output of greenhouse gases in 2050 by up to 134%— thus making it impossible for the UK to meet the legally binding targets enshrined in the Climate Change Act 2008.

What are the implications of climate change policy and the Climate Change Act 2008 for the aviation industry and infrastructure?

26. Although the Climate Change Committee set up under the Climate Change Act has recommended that emissions from aviation should not be included in the new climate budgets, it has said there must be “clear strategies” in place to cut emissions from aviation, otherwise any cuts made in other sectors will be wiped out. Over the past 10 years the UK has seen a dramatic rise in the number of domestic and international flights, which is widely acknowledged as being unsustainable. Improvements in energy efficiency and the introduction of renewable fuels will not be sufficient to offset the impact of the growth in demand for aviation.

27. PCS believes that the aviation industry must take seriously its role in addressing the effects of climate change on the environment. The projected growth in air travel will increase levels of CO₂ emissions associated with the aviation industry well above current levels. Across the developing world there is the potential for huge growth in air travel and this is most reflected in the huge projected growth in China and India. The aviation industry can meet that challenge but will be less able to so if it is itself fragmented. Decisions about extra runway capacity or an additional terminal should be made not just for the benefit of a single airport operator but “in the round” in terms of region, passengers etc. Aircraft manufacturers must develop the technology, airlines must buy new aircraft, airports must accommodate them; air traffic must provide more direct routes to shorten flights, and so on.

28. Reducing our dependency on fossil fuels is not, however, limited to the aviation industry. The need to have cleaner airplanes, more efficient routing of aircraft in the air and continuous descent through even more efficient air traffic management, as well as a more integrated transport system and better and more efficient access to airports and other transport hubs, is crucial. The airline manufacturers have a huge responsibility to meet this challenge both in terms of emissions and noise.

29. The government also has a responsibility to take the lead in the fight against climate change, including addressing the environmental impacts of the aviation industry and creating a more integrated and socially and environmentally friendly transport system.

30. We call on the government to:

— cancel plans to build a third runway at Heathrow;
— carry out a full independent review of its 2003 Aviation White Paper;
— produce a new transport strategy for the UK including a publicly owned high speed rail network that will create jobs and contribute to the transition to a low carbon economy and the fight against climate change;
— put in place a clear strategy for reducing emissions from aviation to 1990 levels in line with other sectors of the economy;
— implement measures to address the environmental impacts of the aviation industry—there are widespread concerns that the aviation industry is not accountable for these impacts and is effectively subsidised. Taxation should be commensurate with environmental impact and aviation tax revenues earmarked for investment in more sustainable alternatives;
— help people to make informed decisions about travel by providing information about the environmental impacts of different modes of transport through running travel awareness campaigns that encourage more sustainable behaviour; and
— engage with the public and businesses when formulating policy so that it is based on a clear understanding of the needs and perceptions of users.

February 2009

Memorandum from London Councils (FOA 56)

INTRODUCTION

London Councils Transport and Environment Committee (TEC) is a statutory joint committee representing all 32 London boroughs and the City of London. It is the main voice of the London boroughs and of their electorates on a wide range of issues relating to transport and the environment in London and related matters of concern to Londoners. It also carries out a number of statutory functions and works closely with the Local Government Association and with many private, voluntary and public sector bodies.

London Councils has concentrated on responding to only one of the Select Committee’s questions as we believe this is where we have the most evidence to offer.

Q4—What costs does aviation impose on society and the environment?

Summary

— London Councils believes that the aviation industry imposes significant costs on society. 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.
— While it is accepted that air travel is important to business, and to the UK economy as a whole, the need to provide additional capacity at airports must be balanced against the needs of those whose quality of life is severely affected by aviation and its operations.
— London Councils believes aviation places a number of costs on society and the environment, in particular: noise and air quality impacts, potential harm to health, quality of life issues, the security and safety implications for local communities living near to airports and a financial burden placed on local authorities for providing unfunded services to support airport operation.
— London Councils has been particularly concerned about the impact that expansion at Heathrow airport will have on London and believes that the costs that an expanded Heathrow will impose on society and the environment are so great that they make expansion of the airport totally unacceptable.

Noise and Air Quality

1. London Councils believes that the environmental impacts of aviation have not been given proper consideration by the Government. The Institute of Public Policy Research has suggested that the Government’s use of classification of unacceptable levels of noise to 57dBA is too high. However, in the recent DfT consultation on Adding Capacity at Heathrow, London Councils was very disappointed that the Government failed to take into account the findings of the Attitudes to Noise from Aviation Sources in England (ANASE) survey, which the Government itself commissioned in 2001 following on from the Terminal 5 enquiry, and was supposed to underpin any future Government policy on airport expansion.

2. The key finding of ANASE was that the onset of significant community annoyance, previously assumed to be at 57dBA in the 1985 United Kingdom Aircraft Noise Index Study (ANIS) study, is actually a much lower level of 50 dBA. If these proposals were applied now, this would result in a 16 hour noise contour at a 50 decibel limit and the new noise contour would include 2 million people within the vicinity.
of the airport, as opposed to the 250,000 people currently included. This would have prevented the Government from meeting its environmental limit for noise established in the 2003 Future of Air Transport White Paper and would not have allowed expansion at Heathrow to take place. It has never been made clear why the Government refused to accept the findings of a six year old study they had commissioned themselves which was carried out by international experts and why this was felt to be less reliable than a 23 year old study.

3. A number of studies have directly linked airport operations to a range of health problems. The Hypertension and Exposure to Noise Near Airports (HYENA) study, published in 2007, identified a link between long term exposure to aircraft noise at night and hypertension, a major risk factor for coronary heart disease and strokes. The impact of noise levels on children’s development has also been identified as a concern. The Road Traffic and Aircraft Noise exposure and children’s cognition and Health (RANCH) study, published in 2005, found a clear link between aircraft noise and delays in reading age, with a 5dB increase in aircraft noise resulting in a two month delay in reading age. The World Health Organisation believes that exposure to noise at 55 dB and above has a harmful impact on children’s learning.

4. There remains very little research which enables the Government to effectively quantify the impact of various levels of noise pollution on health and well being, or the economic disbenefits that may arise as a result of sleep disturbance affecting performance at work. In addition, the effect of exposure to low levels of noise pollution over a prolonged period of time has not been properly considered. Furthermore, little has been done to mitigate the negative impacts of noise. No requirement has been placed on airline operators to seek to reduce levels of noise as part of a condition of the expansion of Heathrow airport. In addition, the Government has not demonstrated how it will meet its commitment, set out in the 2003 Future of Air Transport White Paper, which stated that: “The Government recognises that noise from aircraft operations at night is widely regarded as the least acceptable aspect of aircraft operations. We will bear down on night noise accordingly, but we must strike a fair balance between local disturbance, the limits of social acceptability and the economic benefits of night flights”. However, the Government’s review of night noise restrictions in 2005 actually permitted an increase in the size of the night noise contour at Heathrow airport.

5. London Councils is also concerned about the air quality impacts of aviation and its related operations and believes that insufficient attention has been paid to this by the Government. Work carried out by the Environmental Change Institute of the University of Oxford in 2006 has calculated that carbon dioxide emissions from UK aviation have doubled in the ten years between 1990 and 2000. During the same period the combined emissions of carbon dioxide from all other UK activities fell by approximately 9%. The Government has stated that it believes that expansion of Heathrow airport can take place within air quality limits set out in the Future of Air Transport White Paper because of expected reductions in vehicle emissions. This entirely undermines the “polluter pays” principle as it is permitting the aviation industry to pass on its emissions to other sectors. Furthermore, compliance with the air quality targets also requires a significant effort from airport operators and the Government has not placed any requirement on BAA to improve the environmental performance of its ground operations as a condition of expansion.

6. London Councils believes that the impact of airport operations on health has not been given proper consideration before policy decisions have been taken by the Government regarding providing additional capacity at airports. The long term effects of this decision are still unknown. However, a 1999 Study of “Public Health Impacts at Large Airports” which was carried out on behalf of the Dutch Government found evidence to suggest that exposure to air pollution at levels observed within an airport operations system was linked to an increased mortality rate, increased frequency of hospital admissions as a result of aggravation of respiratory and cardiovascular diseases, decreased lung function and an increase in chronic respiratory conditions. Poor air quality is a major contributory factor to premature deaths in London and more work needs to be carried out to understand the impact that permitting a large increase in the number of flights at Heathrow airport will actually have on the health of Londoners.

Security and Safety

7. London Councils is concerned that the location of Heathrow airport within a densely populated area with flight paths crossing London places communities at risk. In the current security climate, airports and airlines remain a terrorist target and it is questionable why Heathrow airport, which is situated in close proximity to such a major concentration of the population, has been allowed to expand further. In addition, the incident in January 2008 where only the skill of the BA crew prevented an aircraft crash landing before it arrived at Heathrow airport illustrates again the risks posed to communities living near to airports.

Financial Costs

8. London Councils would also like to highlight that, although aviation contributes to the national economy, it also creates significant costs for local authorities where airports are situated which must be borne by the local authority as the airport operator provides no funding for these services. Figures provided by the LB Hillingdon in 2008 regarding the unfunded costs of providing services to support Heathrow Airport calculated an overall cost of £7.2 million for providing services to support a four terminal Heathrow and an estimated additional £0.3 million to support Terminal 5. This breaks down as:
Shortfall on unaccompanied asylum seeking children care leavers grant—£6 million (£3.7 million in 2008–09 budget).

Non-unaccompanied asylum seeking children and looked after children referred from Heathrow—£0.6 million.

Failed habitual residents returning from abroad via Heathrow—£0.25 million.

Environmental Protection Unit—£81k.

Trading Standards work at Heathrow—£10k.

Imported Food/Port Health/Environmental Health—£292k.

**Total**—£7.2 million

Extra unfunded costs of Terminal 5:

Business rates collection (extra four staff)—£120k (funded by extra cost of collection grant from 2009–10 onwards).

Trading Standards—£36k.

Imported Food/Port Health/Environmental Health—£120k.

**Total**—£0.3 million

February 2009

**Memorandum from Lydd Airport Action Group (FOA 57)**

**CLEARER DEVELOPMENT POLICIES REQUIRED FOR SMALLER AIRPORTS**

— Policies for small regional and local airports in the Aviation White Paper are too ambiguous leading to confusion and wasted expense for airport operators wishing to expand, and local communities opposed to development.

— The lack of clear direction given to smaller airports in the Aviation White Paper is leading to mixed interpretation in land use policies adding to the lack of clarity and expense to airport operators and local communities.

— Any revisions to the Aviation White Paper should include a rigorous site selection program for smaller airports, similar to that conducted for the nuclear power industry.

— If suitability for development is established in principle, this conclusion about an airport could be carried to land use plans as a starting point for consultation.

— If the assessment yields the conclusion that the airport is not suitable for further development this could also be translated to the land use plan for consultation, but any development would be restricted to the airport’s existing infrastructure ie there will be no runway extensions, new runways or new terminals other than replacement terminals.

— Lydd Airport in Kent provides a casebook example of an airport that should have been eliminated in a site selection process as it is located (a) adjacent to nuclear power stations and military ranges, (b) on, and surrounded by, highly sensitive protected natural habitats and (c) under the main migratory bird route in the South of England.

— Lydd Airport’s current development proposals graphically illustrate (a) the shortcomings of the Aviation White Paper in not giving clear direction over future development and (b) how this lack of clarity has been translated to land use plans.

— The ambiguous planning framework has resulted in unnecessary expenditure for Lydd Airport as the Aviation White Paper has provided sufficient inducement to the airport to submit ambitious expansion plans. On the other hand the Aviation White Paper has also provided “hooks” for opposition groups, as has the airport’s poor location. As a result the planning process has been—and will continue to be—highly protracted and expensive to both the operator and tax payers.

1.0: Lydd Airport Action Group (LAAG) would like to propose that any future amendments to the Aviation White Paper (*The Future of Air Transport, December 2003*) should improve the clarity of the development policies for smaller airports by introducing a rigorous site selection assessment. Criteria should be introduced which determine which local or small regional airports have suitable sites and site suitability should be a pre-requisite for development.

2.0: Local and regional airports in the UK today have been established at random during an era when air transport was less developed and its adverse implications not properly appreciated. They are located where they are, because of history, not because they are situated in the most efficient/environmentally acceptable location.
3.0: The Aviation White Paper failed in this respect. The background work for this White Paper only looked at the overall capacity of the existing airports over the next 30 years, taking into account local constraints (see second table in Appendix 1). The preparatory work did not look at the suitability of the airport sites.

4.0: In the Aviation White Paper the projected capacity of an airport is not embedded in policy statements—it merely gives an indication of the development potential of the airport. This means that if an airport wishes to submit development plans which exceed its forecast capacity it is free to do so (see example of Lydd Airport below).

5.0: The Aviation White Paper fails to give a precise framework for development for small regional and local airports. The only direction given to smaller airports in the Aviation White Paper is the support of development of smaller airports in principle. The Paper fails to provide any framework. By contrast, the Aviation White Paper provides a clear framework for development for all the international and large regional airports across the UK, setting out whether or not additional runways will be permitted and sanctioning additional terminal capacity where necessary. This lack of clarity at the smaller airport level in the White Paper leads to ambiguity and the possibility that unsuitable airports could be developed.

6.0: Since land use plans take direction from the Aviation White Paper this lack of clarity is translated to them. Since there is a high inclination to support foci for employment in the preparation of all land use documents this can lead to these documents supporting the large scale development of airports that are patently not suitable for development due to their location.

7.0: A site selection process similar to that for nuclear power stations should be introduced as a precursor to providing a clearer development framework for smaller airports. Once suitability for development is established in principle this conclusion could be carried to a land use plan as a starting point for consultation. If the assessment determines that an airport is not suitable for further development, this could also be translated to the land use plan for consultation, but any development would be restricted to the airport’s existing infrastructure ie there will be no runway extensions, new runways or new terminals other than replacement terminals.

8.0: The criteria for determining the suitability of sites should not give priority to low population density as a development criterion as many airports are located in areas which have other important constraints. The site selection criteria should include proximity to sensitive nature conservation areas, dangerous installations such as nuclear power plants and large chemical processing plants and migratory bird routes, as well as suitable access.

9.0: To illustrate the point we have chosen the proposed large scale development of Lydd Airport in Kent. Lydd Airport is a small local airport mostly used by light aircraft (< 5.7 tonnes) mostly from the local flying club. The airport has a small passenger service to Le Touquet and this combined with its fly and dine passenger service in the summer generates < 3,000 passengers per year. The airport has submitted a planning application (planning application Y06/1647/SH and Y06/1648/SH) to lengthen the runway and provide a new terminal to allow the airport to grow to 500,000 passengers per annum—phase 1 of a longer term strategy to grow passengers numbers to 2mpppa as set out in the airport’s Master Plan.

10.0: Had there been a site selection process as a precursor to allowing development, we believe this airport would have been eliminated as a development possibility for the following reasons.

   (1) Lydd Airport is located within three miles of the Dungeness Nuclear Power Complex.

   (2) Lydd Airport is located within two miles and eight miles respectively of the important Lydd and Hythe military ranges.

   (3) Lydd Airport is surrounded by protected habitats—the Dungeness Special Area of Conservation (SAC) runs along one side of the runway and the Dungeness to Pett Level Special Protection Area (SPA) is located on one its boundaries. These, and the proposed nearby Ramsar site, are European designations. The nationally designated Dungeness, Romney Marsh and Rye Bay SSSI surrounds the runway and envelopes the airport’s site.

   (4) The RSPB’s oldest, and one of its most important nature reserves borders the airport.

   (5) The airport is under the main migratory bird route in the south of England.

11.0: Lydd Airport was estimated in the background work to the Aviation White Paper to have a capacity of 125,000 passengers per annum by 2030 yet it has submitted a planning application for 500,000ppa with the clear intention to grow to 2mpppa. The rated capacity of the airport is not included in policy statements in the White Paper so the airport is free to submit plans that exceed its rated capacity.

12.0: The relevant land use plans have generally translated the Aviation White Paper’s “in principle” support of development—the Kent and Medway Structure plan and the Shepway District Local Plan (soon to be replaced Local Development Framework) both support development of Lydd Airport subject to vague environmental constraints. The South East Plan withdrew its support of Lydd Airport following consultation, accepting it was of local rather than regional significance. But in the latest draft, some of the ambiguous phrases of the Aviation White Paper have been introduced to support the development of all smaller airports in principle. This gives the signal to all smaller airports—no matter how unsuitable—that there is a possibility that they could become regional airports. This recommendation to support the development of all smaller airports was against the Inspectors recommendation. This was a lost opportunity.
for the South East Plan to give clearer direction to smaller airports in the region. The final version of the South East Plan has yet to be published so we have yet to see whether this opportunity to clarify the status of smaller airports in the region has been lost. Appendix 1 taken from LAAG’s submission to the South East Plan highlights the problems caused by the Aviation White Paper’s lack of clarity and the problems which arise when this is translated to land use policies.

13.0: The lack of clarity in the Aviation White Paper leads to wasted time and expense for local authorities, the airport operators and the local community since the Aviation White Paper gives fodder to both sides—the airport that wants to develop, and its detractors who want to stop them. The Aviation White Paper has provided enough inducement to the airport to submit ambitious expansion plans. On the other hand those opposing the expansion plans can also take “some comfort” from the Aviation White Paper to support their cause—for example the logic of 125,000ppa peak capacity versus the planning application for 500,000ppa and a final objective of 2mppa. In addition, the airport’s poor location has provided sufficient “hooks” for opposition—LAAG has taken legal opinion over infringements to the Habitats Directive and has submitted a complaint to Brussels over Shepway District Council’s infringement. There is an unprecedented situation where British Energy/EDF the operators of Dungeness B and the proposed new Dungeness C nuclear power station, have opposed the planning application yet the regulator, the Nuclear Installations Inspectorate, has given the application “its blessing”. We believe we have sufficient evidence to mount a legal challenge over the latter’s decision. We have also organised referendums, and along with other opposition groups and statutory consultees, such as the Environment Agency and Natural England, forced Shepway District Council to obtain additional rounds of information from Lydd Airport in support of its planning application and this has resulted in additional consultations and extra expense for Shepway District Council due to the need to employ expensive consultants. LAAG alone has raised over £50,000 from the local community to oppose the planning application. This is a poor area and the money would be better spent supporting local charities or schools.

APPENDIX 1

EXTRACT FROM LAAG’S SUBMISSION TO THE LATEST SOUTH EAST PLAN CONSULTATION

SECTION C

To help us process your response effectively please summarise why you support or oppose the Proposed Change:

The South East Plan provides a regional framework which should provide clarity to assist all stakeholders. Although this is achieved in Policy T9 which clearly sets out the role of the two major airports Heathrow and Gatwick and the regional significance of Southampton and Kent International Airport (Manston)—through enhancing the role of the existing regional airport Southampton and elevating the status of Kent International Airport—the revised wording of the supporting text to T9 lacks clarity and the ambiguous message given will lead to costly and unnecessary legal challenges. The last two sentences of Para 1.28 are at fault: “In addition to the potential previously identified for Southampton Airport smaller regional airports, such as Kent International Airport, could play a valuable role in meeting local demand and contributing to regional economic development. Subject to relevant environmental considerations, their development should be supported, and regional and local planning frameworks should consider policies which facilitate growth at these airports.” The wording should be changed.

SECTION D1

If you wish to expand your response please use the space below, and attach additional sheets if necessary with your name on.

Para 1.28 should be changed for the following reasons.

(a) Policy T9 section (i) supports the development of the larger international/national Heathrow and Gatwick airports while T9 sections (ii) an (iii) clearly set out the role of Southampton and Kent International (Manston) as airports of regional significance. By implication the remaining airports in the south east must be of local significance. Policy for these airports should be covered by Local Development Frameworks and Local Authorities will be required to conform to the Aviation White Paper (The Future of Air Transport, December 2003) when they are produced.

(b) The sentence: In addition to the potential previously identified for Southampton, smaller regional airports, such as Kent International Airport, could play a valuable role in meeting local demand and contributing to regional economic development—implies that there are other airports of similar size to Kent International Airport (Manston) in the South East which could assume similar regional status ie become of regional significance. This is not the case.
The table below shows the airports within the catchment area of the Aviation White Paper’s definition of the South East. This area is larger than the area defined by the South East Plan. In the table the airports have been divided into Commercial Passenger Airports (covers passenger, freight, business/general aviation) and airports that are primarily used for business/general aviation as they are defined in the Aviation White Paper.

As the table shows only 11 of the 20 airports covered by the Aviation White Paper’s definition of the South East are located in the catchment area of the South East Plan—seven commercial passenger airports and four business aviation airports. Further, there are only five smaller commercial airports when Heathrow and Gatwick are excluded.

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<th>Airport Type</th>
<th>Airports both within the Aviation White Paper’s definition of South East &amp; within the Catchment area of the South East Plan</th>
<th>Airports outside the South East Plan’s catchment area but within the Aviation White Paper definition of South East</th>
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<td>Southampton</td>
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<tr>
<td>Smaller/Regional</td>
<td>Manston</td>
<td>Norwich</td>
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<td>Shoreham</td>
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<tr>
<td>Smaller</td>
<td>Southampton</td>
<td>London City</td>
<td>London City</td>
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<tr>
<td>Business/General</td>
<td>Farnborough</td>
<td>London City</td>
<td>London City</td>
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<tr>
<td>Aviation</td>
<td>Blackbushe</td>
<td>Norwich</td>
<td>Norwich</td>
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<td>White Waltham</td>
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In the preparation of the Aviation White Paper the government examined the capacity of established airports including the smaller airports (See Page 109 of the Second Edition February 2003: The Future Development of Air Transport in the United Kingdom: South East—A National Consultation). This analysis shows the airports potential passenger capacity in 2030, assuming that maximum use was made of existing runways in the major South East Airports and that no new runway capacity was provided in the region. The results for the smaller commercial airports in the catchment area of the South East Plan are shown below.

<table>
<thead>
<tr>
<th>Smaller Commercial Airports within the South East Plan Catchment Area</th>
<th>Potential Capacity in 2030 (passengers per annum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southampton</td>
<td>7 million*</td>
</tr>
<tr>
<td>Manston (Kent International Airport)</td>
<td>3 million (later raised to 4–6 million)</td>
</tr>
<tr>
<td>Lydd Airport</td>
<td>125,000</td>
</tr>
<tr>
<td>Shoreham</td>
<td>500,000</td>
</tr>
<tr>
<td>Redhill</td>
<td>** No contribution</td>
</tr>
</tbody>
</table>

* Southampton later questioned this figure and believes capacity to be 2–2.5mppa within its current boundary  
** Redhill dismissed as passenger airport due to conflict with Gatwick’s airspace  

Note: Farnborough was assessed as a passenger airport but dismissed due to “significant planning constraints surrounding the type, number and size of aircraft which can operate”. The White Paper supports its continued business aspirations.

These are the relevant facts:
(1) There are only four smaller commercial passenger airports in the catchment area of the South East Plan outside Heathrow and Gatwick since Redhill’s aspirations have been dismissed by the White Paper because of the conflict with Gatwick. As the above table shows the airports are Southampton, Manston, Lydd and Shoreham.

(2) Southampton and Manston Airports’ inherent capacities exceed the other smaller airports by a wide margin. Southampton is already an active regional airport and Manston has the infrastructure, but is heavily underutilised. The remaining two airports—Lydd and Shoreham—are of local, not regional significance with potential carrying capacities of 125,000ppa and 500,000ppa respectively. Lydd Airport’s local significance has already been confirmed by the South East Plan. The airport was removed as a regional growth focus (from Policy EKA4) in the earlier consultation due to the airport’s unsuitable location and natural capacity constraints. This leaves only Shoreham Airport of the smaller passenger airports and its capacity limitations suggest it is of local, rather than of regional significance. Had it been deemed suitable as a regional growth focus it would have been identified and nominated along side Southampton and Manson Airports in Policy T9.

The remaining smaller airports are business/general aviation airports and the White Paper has not designated any of these airports as major growth focuses and only supports their continued expansion in the business/general aviation fields. (“We support the adoption of policies which encourage the continued provision of these services.” 11.101 page 132, The Future of Air Transport, December 2003.)

There are therefore no airports outside Southampton and Manston which could become regional hubs. These two airports primacy is further underpinned by the Aviation White Paper’s policy to first make best use of existing airport capacity.

**Environment Tax Needed**

— An environment tax is required for all air departures from the UK.

— Taxes could be applied to reducing council tax in areas close to airports, helping to compensate for the adverse impact of airport development on local communities while the tax imposed would curtail demand for airport resources.

— The UK government should champion a Europe wide scheme.

1.0 An Environment Tax should be applied to all air departures from the UK. This should be applied at a relatively low rate at the outset—say a flat £20 per head and increased when other European countries adopt the scheme. The UK Government should champion a Europe wide scheme.

2.0 A flat fee would penalise short haul journeys relative to long haul where there are fewer transport alternatives. The longer term aim should be to increase the tax to £100 per head per departure (current value basis) and introduce a European wide bonus point scheme whereby users of public transport could reduce their airport tax depending on the number of points generated. This would be possible when Oyster Cards become standard for train journeys as well as the tube. The maximum discount would be 50%.

3.0 Since people in rural areas could be disadvantaged the points system would need to include—use of electric cars and participation in car pooling arrangements which could be monitored by local taxi firms.

4.0 The tax should be applied to reducing council tax in areas affected by the airports—areas near Heathrow for example, would receive the largest discount. This council tax reduction would mitigate the impact of airport development on local communities while the tax imposed would curtail demand for airport resources.

*February 2009*

**Memorandum from VLM Airlines (FOA 58)**

**Key Points from Submission by VLM Airlines**

A. Business Travel, VFR and Holiday Leisure Travel contribute significantly to the UK economy. However, the environmental impact of exponential growth in PIP Travel at limited economic benefit outbalances the equation.

B. London and regional airports, including London City and Manchester, are essential ingredients in the UK’s infrastructure as a global trading nation, and in VLM’s international planning. They also provide essential competition for revenue-driven privatized rail.

C. London and regional airports face severe competition from abroad, and particularly from mega-hubs in near-Europe. Underinvestment will see international business migrate, and UK regional economies suffer.

D. Current aviation infrastructure in the UK is woefully inadequate for a global trading nation with international responsibilities. Considerable investment is needed just to catch up with our near-Europe competitors, and enable airlines such as VLM to provide necessary and efficient business-focused air travel.
E. Low-cost airlines have skewed passenger trends. The onset of recession will hit them hard, as discretionary incomes suffer. Add in the inevitable consolidation into mega-groups, and the UK is set to suffer from previous misdirected investment and lack of Government commitment to aviation infrastructure.

F. Rail and air as operated by VLM should co-exist on short-haul routes within the UK and into near-Europe. The creeping monopolies in the hands of revenue-driven fossil-fuel-powered private-sector high-speed rail operators do not benefit the environment, and are bad for pricing, for the reliability of our communications, and for our international competitiveness.

G. Aviation has an environmental cost. So do high-speed rail, ferries, cruise liners and other elements of transport infrastructure. All should be properly audited, and pay their related enviro costs—and all should be fiscally encouraged by Government to improve their environmental efficiency.

H. The implications of climate change are that travel must be differentiated into degrees of necessity and economic contribution. Unnecessary or non-beneficial travel (whether on road, rail, sea or air) must pay more than beneficial travel, such as business and VFR travel. And government must encourage by taxation and investment the development and manufacture in the UK of more enviro-friendly transport, including airliners.

I. VLM and aviation in general have been harmed by the iniquitous and discriminatory impact of ill-judged taxation applied on unsubstantiated and inaccurate environmental grounds, and most damagingly against UK domestic and near-Europe aviation. Cleaner aviation alternatives such as Turboprops and Next Generation jets should pay commensurately less than heavier polluters, and the development of even cleaner aircraft encouraged.

J. Passengers are adequately protected from the collapse of airlines, although the imminent rationalization and consolidation may put severe pressure on current systems and those banks that sponsor credit cards.

K. Changes in the security environment cause uncomfortable delays at airports, and have damaged VLM’s UK domestic and near-Europe air travel business. That an equally-exposed high-speed rail system does not have similar security checks remains a mystery.

Detailed Submission from VLM Airlines

A. What is the value of aviation to the UK economy?

A.1 Aviation provides travel opportunities to Business Travel, VFR (Visiting Friends and Relations) and Leisure Travel. Leisure splits into traditional Holiday Travel and PfP (Purely for Pleasure), where recent growth is facilitated by massive increases in capacity and resulting low fares from dedicated low-cost airlines, with operations characterized by “Fly for a Pound” advertising.

A.2 VLM’s niche is Business Travel, contributing to UK inter-regional and international trade, and fulfillment of its international roles on a global stage. VLM also provides VFR travel (eg facilitating inter-family links within Orthodox Jewish fraternities, and expatriate groups such as the Netherlands community in England). VLM provides limited opportunities for “Leisure Holidays”, as cities it serves are primarily commercial centres, providing tourism as a secondary focus. VLM does not operate in the PfP market, believing that low cost air travel brings few real economic and social benefits, while costing the environment dear at little gain to regions it serves.

B. What are the roles of the London and regional airports?

B.1 VLM uses London’s ‘city centre’ airport at London City, linked to key business districts Canary Wharf and The City as well as central London and beyond by fast public transport (Docklands Light Railway). London City’s integrated rail station enables passengers to board within minutes of disembarkation from aircraft, and brings them within the airport for seamless swift departure. VLM at London City offers 15 minute check-in, one of the world’s shortest. London City is a vital contributor to our international trade and partnerships.

B.2 VLM also uses Manchester Airport, the UK’s premier regional airport—and the major business access point for the UK’s prime economic region, dependent on links with its capital and international trading partners. Key regional airports are vital contributors to our international partnerships, commercial and geo-political.

B.3 It is vital that regional capitals such as Manchester have transport alternatives to monopoly revenue-driven private rail operators, for operational availability (eg during rail close-down, through fire, accident or repair) and to maintain the multi-supplier competition that acted to restrain rising rail fares of recent decades within UK domestic and near-Europe rail travel.

B.4 This need for competition to UK and under-Channel high-speed rail links was brought into focus by the 19th February 2009 Passenger Focus Report on “Rail value for money and comparisons with European fare levels”, which found UK intercity high-speed flexible fares exorbitantly high.
B.5 In 2004, VLM launched the London City link petitioned by Liverpool’s business and political community. Following initial success, a downturn in demand caused VLM to withdraw the route in 2007—despite considerable investment from VLM and regional partners. Key reasons are the iniquitous Aviation Duty, unsubstantiated anti-aviation environmental claims, and massive community subsidies in upgrading rail.

B.6 This has left Merseyside’s business community at the mercy of a revenue-driven privatized rail operator, with the result that travelers between Liverpool and London at the peak travel times and flexibility demanded by the business community now endure return prices in over-congested Standard at £231—and in the business-friendly comfort of First at an extraordinary £370. Eliminate competition, and such peak-time flexible travel becomes unaffordable—inhibiting healthy development of regional business within the UK and internationally.

C. What competition do they face from abroad?

C.1 London’s airports face sustained investment by major capital and regional airports across near-Europe. Terminal 5 and the proposed if heavily-challenged Runway 3 only enable Heathrow to play catch-up with more capacious and integrated near-Europe competition including Paris CDG and Frankfurt.

C.2 A strong example of the economic dangers of underinvestment in UK aviation is the recent announcement by Air France KLM of a high-frequency daily link from Liverpool to Amsterdam. This new route is not primarily aimed at “point-to-point” traffic, but at the considerable international travel on which Liverpool as a business city and the North West England region depend. Marketed as an antidote to regional perception of London Heathrow as a customer-ferocious hellhole, it is the ideal access point to KLM’s vast international network based on Amsterdam Schiphol. A drum-hammered Chinese dragon dance at the route launch in Liverpool Town Hall underlined KLM’s ambitions to link Merseyside via a super-efficient 6-runway-and-climbing Amsterdam airport to world centres such as Shanghai, Tokyo, Delhi, Los Angeles and Sao Paulo.

C.3 UK regional businesses aiming internationally, and unable to swiftly and seamlessly access international airline networks within the UK, will either fail—or spend their travel budgets with overseas airlines providing the links they need, and overseas airport hubs whose customer appeal they appreciate.

C.4 UK companies unable to access regional airline links to the primary airports of its capital city will suffer, or transfer their loyalty elsewhere. The same applies to overseas business partners and inward investors who see the UK as an inaccessible series of regions, poorly connected and disinterested in investing in international travel infrastructure.

D. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

D.1 The current UK aviation infrastructure is inadequate for businesses and individuals. As a once world-leading international trading nation, we are now let down by our air access, and our internal air and surface travel links. That costs us international trade, incoming investment, jobs—and national income. Other countries do it better, and gain accordingly.

D.2 Piecemeal development of Heathrow and Gatwick has left them unable to cope with today’s travelers—and inadequately served by local and regional public transport links, a shortcoming shared by most regional airports, including Manchester, Liverpool, Bristol, Leeds/Bradford, East Midlands and the rest. Few airports in the UK compare with the best in Europe. Even exceptional London City has now outgrown its clothes, and (despite again-piecemeal development) is no longer a comfortable or punctual option for intercity travel.

D.3 European airports such as Amsterdam, Frankfurt and Cologne-Bonn established years ago the models of integrated terminals, with local and regional transport easily accessed onsite. Beijing and Tokyo Narita have UK-designed excellence built-in. Chicago O’Hare, the new Dallas Fort Worth complex and even that monster in Atlanta showed what could be done decades ago.

E. What are the implications of future passenger trends and possible mergers in the airline industry?

E.1 Future passenger trends are not driven by the business travel in which VLM specializes. They are driven largely by PfP, that Purely for Pleasure travel dependent on ultra-low pricing and purchasers with substantial discretionary incomes. Both those factors are in doubt in these recessionary times, so the exponential growth curves which built low cost airlines such as Ryanair and easyJet will not continue.

E.2 Low cost operators already show the need to meet growing overheads, although largely hidden as “add-on” charges for extra luggage, speedier boarding or booking travel extensions such as hotels and car hire. Pressure on them will grow, between the press of growing overheads and reductions in discretionary demand. This will lead to increasing airline consolidation and closure in the low cost sector, as predicted by Ryanair’s Tony O’Leary. Unfortunately for low cost airlines, lack of brand value means they are rarely attractive contenders for consolidation. So, many will disappear, as the steep climb of recent demand falls.
E.3 Major groups with well-found businesses and multi-product strategies based on experience and proper marketing planning will grow, with groups such as Air France KLM and Lufthansa leading the way. Mergers will emerge, but more accurately termed takeovers. Profitable niche brands like VLM will be attractive to those mega-groups, as recent experience showed. On the other hand, even major airlines lacking appropriate partners and value-enhancing merger potential could suffer as mega-groups grow in influence and purchasing power. With such recent developments as British Airways’ failure to progress mergers with Qantas or Iberia, they must be concerned at a future without close partnerships or participation in a major group.

F. To what extent can rail provide an alternative to short-haul flights?

F.1 That is a poor question. Rail has always provided an excellent alternative to short-haul flights, from the moment Louis Paulhan flew from London to Manchester in 1906—with a train as support for the journalists.

F.2 It is where competition between air and rail is prohibited, as proposed for UK domestic and near-Europe routes by misguided party politicians, or discouraged on environmental grounds that are misinformed, misleading and grossly out-of-date, that the situation is skewed. We have already noted the misleading damnation of air travel on such routes as Manchester to London by train operators using grossly-incorrect data in misinformed enviro support of their indirectly fossil-fuel powered trains, and bending inadequate and unrelated data to unfairly criticise airliners whose enviro performance has improved so significantly over recent years.

F.3 The results are simple.

F.4 Alistair Darling, planning to attend the Cabinet Meeting in Liverpool in January, was booked onto Virgin Trains. It was either an accidental line blockage, adverse weather, or overhead powerline damage that closed the line. Whichever it was, he was swiftly rebooked onto VLM Airlines—an alternative welcomed by thousands, both through the West Coast Main Line’s lengthy rebuilding, and recent line closures. He got to his meeting.

F.5 Our Managing Director recently enjoyed flying with VLM from Brussels to London City, in conversation with a gentleman in the adjacent seat. Lord Mandelson was due to travel on important EU business by Eurostar, the monopoly rail operator providing the UK’s only international rail links. Yet another unfortunate fire in the Channel Tunnel closed it for weeks, and inhibited efficient operation for months. Lord Mandelson was swiftly rebooked onto VLM Airlines—again an alternative welcomed by thousands in the international worlds of business and politics. He got to his meeting.

F.6 For business travelers requiring peak time travel, swift journey times, punctuality and flexibility to adapt their travel times according to unpredictable meetings schedules, intercity rail is becoming a frighteningly expensive option. As noted, rely on morning and evening peak timings for your meeting-accommodating day return, travel by First for room to work and a little less over-congestion, and you will pay £387 for your return journeys between Manchester Piccadilly and London. Standard is an eye-watering £248 alternative. And that’s with air competition to keep prices down. Reduce competition from air travel, install a premium-priced ultra-speed rail alternative, or even worse encourage a series of rail intercity monopolies, and watch those unregulated peak and fully-flexible rail prices climb through the roof, to feed those revenue-hungry private sector investors in short-term rail franchises.

G. What costs does aviation impose on society and the environment?

G.1 Aviation imposes significant costs on society and the environment, and must shoulder its share of these costs. The social impact of aviation via airports, and the carbon and other emissions related to aircraft and airport operation, must all be recognised.

G.2 Similarly, other forms of transport must accept their responsibilities, and shoulder their shares.

G.3 The perceived environmental costs of aviation are based on misinterpreted, inappropriate and often-outdated emissions data, mainly in the form of EU-sponsored and DEFRA endorsed EEA Corinair emissions statistics. Often inaccurate, it does not accurately record the environmental performance of the most modern jets. Its audited aircraft list stops its timescale at the Boeing 737-400 and other “Old Classic” aircraft models. It does not record more modern models, such as latest Airbuses or “Next Generation” Boeing jets such as the 737-800, which make up the modern fleets of Ryanair and easyJet.

G.4 Over recent years, increased oil costs forced airlines to require more fuel-frugal aircraft. These burn less fuel, producing less emissions. These newer-technology aircraft have not been factored into the outdated calculations of anti-air lobbyists, and supporters in anti-airline competition such as the high-speed rail operators. More modern fuel-frugal Jets are also far quieter than old-technology jets—a factor helping counterbalance the social impact of airports.

G.5 At the same time, the economic advantages of highly fuel-efficient Turboprop aircraft help improve the environmental credentials of regional air routes while minimizing noise footprints at airports they use.
G.6 By using fiscal and taxation encouragements to airlines, and enhancing the appeal of more fuel-frugal lower-emissions “Next Generation” Jets and Turboprops, Government can move a long way towards improving the environmental performance of the UK airline sector—and reduce its socially-affecting noise footprint. That will significantly help minimize the costs of aviation to society and the environment.

H. What are the implications of climate change policy/in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

H.1 Compared environmentally with cruise liners and cross-channel ferries, modern aircraft are paragons of per-passerger cleanliness. However, aviation must still pay its fair share for its environmental impact. No less than its fair share, and no more.

H.2 Travel by air, like travel by rail, by car or by ship, is a privilege in a world where unsustainable growth could have significant impact on the safe and permanent enjoyment of our unique world.

H.3 There must therefore be constraints on unnecessary or non-beneficial travel—and carbon charges of the type suggested within climate change policy, and the Climate Change Act of 2008, appear at least one sensible way forward. The principle that the polluter pays is sensible, and sustainable.

H.4 Where we differ is in the exact format of constraints proposed. Airlines and their related infrastructure do not want to pollute, any more than they want to spend more than is necessary on costly fuel.

H.5 We therefore strongly recommend that current climate change policy is modified to encourage airlines and related infrastructure to invest in newer and more environmentally friendly aircraft and support systems. That the UK, once the home of advanced airliner design, is now totally bereft of complete commercial aircraft manufacturing remains a matter for great sadness.

H.6 Investment by Government in green airliner and engine design, and parallel encouragement of airlines serving the UK to update their fleets to minimise their carbon and other impacts, is by far the best way forward, and a potential exercise in proper partnership.

H.7 We support the stick of carbon emissions limitation proposed under the Climate Change Act, where costs are imposed equally and sensibly on all forms of land, sea and air travel.

H.8 Perhaps the Government can benefit our country and enhance our international status by growing the carrot of encouragement of greener aircraft technologies, and its adoption by our aviation industry and infrastructure.

I. What is the impact of taxation on the aviation sector nationally and regionally?

I.1 Nationally, it has had little effect. International travel continues, although the exponential growth of low cost airlines’ passenger numbers may have been even higher (and its environmental impact even larger) had such aviation duties not been in place.

I.2 Regionally, where air travel competes against high-speed and other forms of rail as well as car travel, it has been an unnecessary and disproportionate burden. Aviation Duty contributed to the additional costs which helped close our key route from Liverpool to London City, Liverpool Airport’s only air link to the capital.

I.3 To impose a supposedly-enviro-related tax on air routes on the same per-passenger level whatever the length of the flight (eg same for Manchester to London as Malta to Glasgow), and whatever the actual per-passerger enviro impact (ie same whether it’s a gas-guzzling old-style jet or a more fuel-efficient Turboprop) goes against fair principles of taxation—and needlessly disadvantages provision of economically-beneficial and socially-desirable regional air links.

I.4 The misapplication of unfairly-discriminatory and falsely-based aviation taxation has inhibited and damaged regional aviation, whether UK Domestic or near-Europe. For minimal national fiscal gain, and unidentified benefits to the environment, a great deal of regional damage has been done.

J. Are passengers adequately protected from the collapse of airlines?

J.1 Over the coming months of consolidation and cauterization, this will feature heavily, as well-known but financially-weak airlines go to the wall.

J.2 The dependence of low cost airlines on a toxic combination of up-front ticket payments, delayed payment aircraft purchase programmes, over-commitment to increased aircraft capacity, over-competition and a fickle traveling public with reducing discretionary incomes makes for a risky airline scenario through our growing recession. That many are financed through non-traditional methods adds to that concern.

J.3 There is currently good protection from Credit Card support systems, primary choice for customer payment. Nonetheless, Credit Card owners such as banks may be forced to look closely at their terms and conditions. Where one or more major low cost airlines cease to operate, and doubt over the sustainability of their model creeps in to bank thinking, there will be concern in this area.
J.4 Where the purchasing public cares to check out the viability of their chosen airline, and recognises low cost airlines are just as likely to go bust as banks, there is less of a problem. Unfortunately, the general traveling public, the media and many other opinion-leaders believe that the normal standards of business economics can be suspended when they deal with airlines. As may appropriately be said of Alitalia, caveat emptor.

K. What is the impact on the aviation sector of changes in the security environment?

K.1 In a time-conscious niche like business travel, the added inconvenience and delays caused by stringent airport security caused major problems to the customer appeal of our routes, and passenger satisfaction at airports. It has hit UK domestic and near-Europe airlines hard.

K.2 We find it curious that similar security controls have not been applied to high-speed rail travel, an equally-attractive terrorist target, as the appalling Madrid bombings demonstrated. Repeated pictures of 9/11 achieved a far greater long-term impact on the airline business than the perpetrators could have imagined.

K.3 Nonetheless, the vigilance and efficiency of the security operations at most airports has been commendable. The impact on our business, and enjoyment of our brand and routes by our customers, have been massive. In this world of the unexpected, we must accept that impact, and learnt do deal with it until more peaceable attitudes returns to our world of international travel.

February 2009

APPENDIX A

(not printed here as copy of Transport Committee press notice)

APPENDIX B

BACKGROUND TO VLM AIRLINES

VLM is a niche airline, focusing on the efficient transport of business passengers between primary business cities within the UK and in Benelux. Its main operational base is London City, from where it provides swift high-frequency air links to a range of key European and UK commercial centres. VLM also provides key niche regional flights from Manchester within the UK and near-Europe. VLM organizes charter flights to various European destinations, and also a summer scheduled link between Rotterdam and Hamburg.

<table>
<thead>
<tr>
<th>Scheduled Routes from/to London City</th>
<th>Scheduled Routes from/to Manchester</th>
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<tbody>
<tr>
<td>International</td>
<td>International</td>
</tr>
<tr>
<td>UK Domestic</td>
<td>UK Domestic</td>
</tr>
<tr>
<td>Amsterdam Schiphol</td>
<td>Antwerp (via London City)</td>
</tr>
<tr>
<td>Antwerp</td>
<td>Eindhoven (via London City)</td>
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<tr>
<td>Brussels international</td>
<td>Luxembourg (via London City)</td>
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<tr>
<td>Eindhoven</td>
<td>Routes from Isle of Man</td>
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<tr>
<td>Luxembourg</td>
<td>London City</td>
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<tr>
<td>Rotterdam</td>
<td>Amsterdam (via London City)</td>
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<tr>
<td>Manchester</td>
<td>Antwerp (via London City)</td>
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<td>Isle of Man</td>
<td>Rotterdam (via London City)</td>
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<td>Jersey</td>
<td>Routes from Jersey</td>
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<td>Manchester</td>
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<td>Isles of Manx</td>
<td>Luxembourg (via London City)</td>
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<td>Jersey</td>
<td>Rotterdam (via London City)</td>
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In 2008, VLM Airlines recorded its tenth consecutive year of profitability. VLM Airlines currently employs over 425 people. In 2007 the number of passengers on VLM Airlines’ flights rose by 9% compared to 2006 to over 745,000.

VLM’s focus on time-conscious business travelers makes it one of the world’s best-appreciated airlines, winning regular international plaudits as Regional Airline of the Year, Best Business Airline Europe and Best Regional Airline Europe. Its punctuality and passenger satisfaction levels are amongst the best in the world.

VLM Airlines flies a one-model fleet of low-emissions 50-seater Fokker F50 turboprops, whose economics and low noise footprint make them an ideal choice for short-haul aviation, and high-frequency operation from airports within urban areas.

VLM is in competition with other airlines operating parallel routes within the UK and near-Europe, and with high-speed rail monopoly operators in the UK, near-Europe and internationally.
After 15 years’ independent operation, VLM Airlines was proud to become a member of the Air France KLM Group in 2008. Air France KLM Group is the world’s leading international airline group, with passenger numbers, revenue and market capitalization significantly higher than competitors such as British Airways and Lufthansa Group. As part of Air France KLM, VLM Airlines is a member of the SkyTeam international airline alliance.

Memorandum from Nestrans (FOA 59)

1. Nestrans is the statutory Regional Transport Partnership for the North East of Scotland covering the geographic areas of Aberdeen City and Aberdeenshire Councils. We are charged with setting a Regional Transport Strategy for our area and supporting our constituent authorities in implementing that strategy.

2. Due to the peripheral nature of our area and the global nature of our economy air transport is of vital importance to our region. We are therefore grateful to the House of Commons Transport Committee for this opportunity to highlight a number of issues that we believe are at the centre of our economic wellbeing both now and in the future.

Peripherality, Our Global Economy and Need to Access Heathrow as a Hub

Global Economy

3. The economy in our area is one of the few truly global economies in the UK. Our area has been the home to the UK’s oil and gas industry for the development of North Sea reserves. As such our region has a vast wealth of knowledge and expertise in the energy sector that has developed and grown over the last 40 years or so. It has an enviable record of innovation and implementation. The successes in our area are transported throughout the world as oil and gas fields are developed elsewhere and our region has become one of the world’s centres of excellence in this field. We have the greatest concentration of sub-sea expertise in the world.

4. Our economy is also a major exporter in the food and drink sector with our region accounting for one-third of all Scotland’s food and drink exports.

5. Our local authorities are keen to embed this success into our area and develop from an oil and gas centre of excellence into an all energy global centre of excellence as well as building on our more indigenous food and drink industry export successes.

6. The energy companies are also interested in maintaining and developing the expertise that exists in our area, building on the record of innovation, success and export that already exists, keeping and expanding the critical mass needed for our region to support and drive the energy industry throughout the world as North Sea developments begin to contract. In doing so we hope to continue to contribute greatly to the Scottish and UK economies and continue to bring in and grow export revenue at a time of reducing North Sea income.

7. We have the people, the knowledge, the existing business, the global outlook and the linkages with other parts of the world where energy industries exist. This base provides us with a good chance of success in developing our economy for the benefit of Scotland and the UK. We are, though, far from the centre of the UK and the main world hub for UK travellers at Heathrow Airport.

Peripherality

8. Because of the distance involved in getting to Aberdeen on arrival into the UK at Heathrow, flying is the only practical option for today’s and tomorrow’s business passenger. Taking the train is not a practical option at 7½ hours journey time on the train alone never mind the time taken to get from Heathrow to Kings Cross and only three trains per day with the last at 1600 hours. Replacing short haul flights with train journeys is the right thing to do but the longer short haul journeys cannot be replaced in this way and should have a policy priority over those that can be served by alternatives.

9. With an existing global economy and a will and desire to increase that economy air travel from Aberdeen to various parts of the world is extremely important to us. Our regional Transport Strategy in support of the developing Structure Plan recognises these important external links. A copy of what our Regional Transport Strategy says in respect of this is included as an appendix.
Heathrow as a hub

10. Whilst we recognise that developing direct flights from Aberdeen would be helpful, particularly for the reduction of carbon emissions, we also recognise that access to many parts of the world will only be viable from a hub airport.

11. It has therefore been with concern that we have watched Heathrow becoming more and more busy over the years, until this year, when we have been advised it has reached capacity. The Nestrans Board were therefore pleased to take part in the consultation on the third runway where we discussed the strategic context of the proposal rather than the details of the local planning issues.

12. The recent trading of landing slots at Heathrow for considerable sums also highlights the pressures that now exist at the airport. The Nestrans Board are concerned that with no slots available and with slots trading for such high sums, there will be considerable pressure to maximise profits from these slots resulting in pressure to use bigger aircraft at each slot for long haul services rather than the more local internal UK links.

Maintaining access to Heathrow

13. We recognise that our peripherality is not unique being shared by other airports such as Inverness and Belfast. We do believe though that the global nature of our economy and our desire to increase that global interaction combined with the peripherality makes it more important to us that our connections with Heathrow are maintained and if needed in the future enhanced.

14. The Board considered with interest the possibility of the Government relaxing the planning conditions on use of the existing runways and the possibility of mixed use resulting in the creation of new landing slots. As these slots do not currently exist, they do not belong to anyone and nobody would lose out if a proportion of the newly created slots were kept back for future use by implementation of a PSO if a case were to be made. The Board are therefore keen to see that should any new slots be created, the Department of Transport should allocate a proportion of these slots to the UK Director General for Civil Aviation to be used for regionally important services should an adequate case be made to the Department.

15. This wouldn’t be an immediate interference in the market as the generation of the other proportion of slots would enhance the existing landing capacity at the airport and of course in the longer term a third runway would create even more slots to address market force issues.

16. It would however give a measure of assurance that as we continue to expand our global connectivity through Heathrow as we anticipate in our structure plan, investing heavily in our region, that the global connectivity can and will be maintained even if in the future Heathrow again comes under pressure for landing slots.

Economic regulation panel

17. We are aware that the Department of Transport are reviewing the Economic Regulation of Airports. Our interest in this regard is to ensure that our regional airport, Aberdeen Airport is fit for purpose for today’s and tomorrow’s level of passenger numbers. To this end it is important that the economic regulation should take into account the need for investment to ensure the infrastructure meets current and future needs. It is also important that the airports importance to the region as a vital piece of infrastructure is recognised.

Competition Commission

18. The Competition Commission have been investigating the BAA airports and their impact on the markets. We have already discussed the importance of Aberdeen Airport to the North East of Scotland, to Scotland and the UK economies. It is important therefore that any proposals from the Competition Commission don’t disadvantage our regional airport (disproportionately important to our economy due to peripherality and global economy) with respect to other regional airports. It is also important that the Competition Commissions proposals match the emerging regulation proposals from the Department of Transport’s review.
APPENDIX

EXTRACT FROM NESTRANS REGIONAL TRANSPORT STRATEGY

CONNECTIONS BY AIR (EC5)

Aberdeen Airport is one of the busiest regional airports in the UK and one of the fastest growing. It plays a key role in supporting the economy of Aberdeen City and Shire, both through providing connections for business and acting as a gateway for in-bound tourism. It is also the base for many lifeline services to Orkney and Shetland. The Aberdeen Airport Masterplan, published by BAA in December 2006, sets out a strategy for the airport’s development to 2030. This focuses on expanding the airport infrastructure, extending the runway and increasing the number of direct flights to international destinations.

Aberdeen’s geographical location makes aviation a crucial element of the transport system. Journey times by other modes are generally not competitive with air services and accessing alternative airports involves a surface journey of over two hours. Direct domestic and international services, as well as frequent links to hub airports, are therefore essential in supporting the place competitiveness of the north east. To sustain Aberdeen City and Shire’s role as a centre of excellence in the energy sector, services are needed to major cities, continental hubs and other energy centres such as Houston.

Aviation is known to be a growing source of carbon emissions and it is therefore important that airlines are encouraged to adopt more modern, efficient aircraft which emit less CO₂ per passenger than older aircraft. Direct flights to other destinations can help to reduce the need for making multiple flights or travel to other airports, contributing towards reducing environmental impacts.

Aberdeen Airport—Air Routes and Frequency of Services

Nestrans will continue to work through the Airport Business Development Forum to support the important role that Aberdeen Airport plays in the north east. This work will focus on the following:

— establishing new direct routes to European and international business destinations;
— maintaining the frequency of services to international hubs—London Heathrow, Amsterdam Schiphol, and Paris Charles de Gaulle; and
— improving the availability of leisure travel, especially to encourage inward tourism.

Aberdeen Airport—Runway Extension

A key infrastructure improvement that is required to facilitate the development of transatlantic and other long haul routes is the extension of the existing runway at Aberdeen Airport. BAA has been granted permission by Aberdeen City Council to extend the existing runway by 300 metres, which will enable airlines to use larger, more fuel-efficient aircraft, and allow aircraft to operate non-stop direct services from Aberdeen Airport without payload restrictions or costly and inconvenient en-route stops. A further extension, currently proposed for the longer term, would bring destinations in North America and the Middle East within non-stop range of Aberdeen Airport.

Aberdeen Airport—Support for Key Aviation Routes

Nestrans will seek to ensure the continuation of services to major hubs, including Heathrow and Gatwick (London) by protecting slots and interlining opportunities. Nestrans will explore the most appropriate means for ensuring routes which are critical to the economic and social well-being of the north east are retained—if need be through the use of Public Service Obligations.

February 2009
Memorandum from Mr J Russell (FOA 60)

Question 3—Inadequacy of available evidence on relative impact on climate change of rail and air on contestable short haul routes

SUMMARY

— Evidence previously put to the House of Commons Transport Committee does not provide a sound evidence base for the widespread assumption that transfer of short haul travel from air to rail would reduce adverse effects on climate change because significant rail related emissions were not included in the quoted study. Other published figures make the same omissions.

— Rail industry publications provide some evidence that the effect of the omissions may eliminate any climate change related advantage in the use of rail.

— In the absence of comprehensive studies, it is not safe to assume that modal transfer from other modes including air, to rail will have the intended affect on climate change.

DISCUSSION

1. At a previous inquiry the attention of the Committee was drawn to a press release by Eurostar to the effect that air travel to Paris involved emissions of greenhouse gasses per passenger ten times greater than travel by Eurostar. Eurostar have not published the research on which this conclusion was based but they confirm that the study ignored; the impact of their electricity demand on the fuel mix used in electricity generation, the greenhouse gases generated by line construction and the greenhouse gases generated by maintenance, operation, renewals and enhancements of the line. These omissions are common to other studies publicised by the rail industry and to the DEFRA guidelines on greenhouse gas emissions for company reporting. As discussed below published evidence from rail industry and government sources indicates that it is likely that correction of the omissions eliminates significant differences between air and rail and in the short term may change the balance so that rail is significantly more climate change adverse.

2. All electrically powered European railways impact adversely on the greenhouse gas intensity of electricity generation; the RSSB quotes the relevant Norwegian argument that the impact of changes in rail electrical demand is to change the proportion of coal in the fuel mix for electricity generation. This is true even when railways purchase their electricity from low-carbon generators because their purchase means that the low-carbon electricity output is not available to displace generation from high-carbon coal burning generation. It follows than any consideration of changing the amount of electric traction should assume greenhouse gas emissions relevant to coal burning. The DEFRA figures for greenhouse gas reporting are not suitable for assessing the impact of changing the amount of electric traction because as noted they ignore the impact of changing the volume of electric rail traction on generation fuel mix. Using figures from the Parliamentary Office for Science and Technology the necessary correction is sufficient to double the figures given.

3. Eurostar has not released the generation mix their study used but discussion with them confirms that their calculations are based on the emissions from low carbon generators like nuclear and renewables. The sources of supply available to Eurostar suggest the assumption may have been 90% from renewable and nuclear sources. If this is correct, the emission figure needs to be much greater than for the DEFRA figures. It might be understated by a factor of 10. Without resolution of this point, the advantage claimed for Eurostar over air may be misleading.

4. Where line construction is involved there is a very, very high upfront emission of greenhouse gas. This impact may be small over the century or more life of a railway line, but over the first two decades of operation the impact is high and there is no comparable emission required for air service even where new runways are required. Studies for the rail industry confirm the relatively high cost levels associated with providing increased capacity through new rail lines and high cost implies high greenhouse gas emissions.

5. The Department for Transport identifies other adverse issues consequent on increases in rail service to attract demand from other modes. It says “Policies which result in an increase in demand for rail travel that require an increase in rail capacity may actually lead to an increase in overall CO2 emissions” and estimates that the additional emissions due to the latest HLOS divided by the additional passenger kilometres will yield emissions of 319gCO2/pax km. This figure is greater than given in the same paper for air.

6. Air has no equivalent to the emissions required to maintain operate renew and enhance the rail right of way. Network Rail publishes its expenditure in this area and if this expenditure is converted into emissions using the carbon intensity of the British economy as a whole the result is a substantial portion of the emissions due to traction energy.

7. The emissions used for air often make assumptions that may not be appropriate to routes contestable by rail. In some cases the impact of aircraft’s consumption of fuel is increased by application of a Radiative Forcing Index (eg reference 3) despite the fact that the aircraft need not attain the 9km attitude at which
such increase may be justified. Aircraft emissions are also sometimes increased by 10% (see reference 5) to allow for air traffic delays that may not be relevant to the route or that may be avoidable at far less cost than transferring demand.

8. Analysis has not progressed to the point that there is a sound evidence base for any climate change advantage from providing rail rather than air or road capacity over distances where all three modes are viable. In the USA improved analysis being developed in response to a view that the pressure for increased use of road electric traction is only viable if it does not prolong dependence on coal burning.

9. The decarbonisation of coal burning is the subject of research. In the UK HMG is committed to demonstration of carbon capture from coal burning generators around 2020 but substantial implementation seems likely to lag demonstration by some decades. During these decades it is essential to have more detailed carbon accounting for the different modes of travel in order to make wise choices when creating capacity.

10. In the absence of new evidence the sources cited suggest there is a risk that action to induce such a transfer would have unintended adverse effects.

REFERENCES
1 Tenth report of the House of Commons Transport Committee.
3 Traction Energy Metrics Issue 2 Rail Safety and Standards Board.
4 Carbon Footprint of Electricity Generation Parliamentary Office of Science and Technology Postnote 268.
7 Network Rail business plans.

Memorandum from the West Windsor Residents’ Association (FOA 61)

The West Windsor Residents’ Association is a formally constituted body that represents approximately 1000 households located to the west of the town centre. Residents’ homes lie directly below the flight path for flights approaching Heathrow from the west.

The Association wishes to make the following submission to the “New Enquiry into the Future of Aviation” being carried out by the House of Commons Transport Committee. This submission has been prepared by Mr Mike Sullivan on behalf of the Association and responds to the questions posed in the Terms of Reference and Call for Evidence.

1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from aboard?

(a) The value of aviation is well documented and may well have been understated once proper allowance is made for the considerable increased demand for air travel that will arise from regions with emerging economies, particularly China and India. By the same token, the operational and environmental costs related to aviation have been significantly understated. It is obvious from the various documents issued by DfT and other bodies that competition from abroad is significant and that the major competitor cities already have airports with greater current capacity than Heathrow, with the capability to expand further if needed. It is also probable that the environmental impact of operations at those airports is less than at Heathrow. This may explain why recent consultative documents have given comparative figures only for operational capacities and not for the environmental impact of those operations.

(b) Since the original white paper, there has been no business plan for the development of Gatwick and, at no stage, a detailed business plan to make a proper comparison of Gatwick’s potential with the addition of a third runway at Heathrow. However it is important to note that the original white paper showed clearly that Gatwick offered a better capability for development and with far less environmental impact. At that stage, the problem appeared to be the inability to construct another runway at Gatwick until 2019. However at the time of the original white paper, an excessively optimistic view was taken that the third runway at Heathrow was capable of operating at full capacity. Since that now seems unlikely until well beyond 2020, there should be more active reconsideration of Gatwick. Apart from anything else it would make that airport a more attractive proposition to buy.
(c) This raises the question of whether having so much of the capacity of Gatwick dedicated to charter and non scheduled flights is the most appropriate use of that airport, given the currently limited airport capacity available to serve London. If the charter and non scheduled flights could be moved to another airport such as Manston (there are other possibilities), it would provide added capacity for scheduled flights not far short of the currently proposed, limited use of a third runway at Heathrow.

2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

(a) The development of airline alliances already give clear indications of the manner in which airlines will merge, albeit it will require a considerable change in philosophy on the part of many governments to allow it to happen.

(b) Since the main profits for airlines is governed by the load factors in the front of the aircraft (first class and business), there is a clear need for more point to point travel rather than the overdependence on hubs. Overdeveloped Heathrow hub operations inhibit the ability of airports such as Manchester to provide improved point to point capacity.

(c) By considering all the airports serving London acting together as the hub serving the UK economy, we would have more capacity for connections to and from London than any of our competitors and more capability for sensible expansion. Obviously good surface connections between the various airports would be absolutely necessary, together with high speed rail connection between Heathrow and Gatwick being a priority and similarly between Gatwick and the Eurostar terminal at Ebbsfleet.

(d) It is often claimed that adding a third runway at Heathrow will mean a more efficient operation. However, as the plan is to increase the number of movements from 480,000 to 702,000, it is difficult to see how that number of movements will in fact be handled more efficiently because approximately the same number of movements per runway will occur. Furthermore, in the event of disruption resulting from weather, security of other operational concerns, the recovery periods will be considerably inhibited by the fact that the heavier aircraft will be limited to the two longer runways, thus restricting flexibility to allocate those movements.

3. To what extent can rail provide an alternative to short haul flights?

(a) The various plans put forward for extended rail routes would provide an excellent alternative to short haul flights. However if one looks at the inadequacy of the current rail facilities to handle existing passenger requirements, bringing that up to standard should be a priority before adding to the demand.

(b) The present proposals for rail routes have been developed only in relation to the use of Heathrow as the only hub. Alternative proposals are needed if all the airports serving London act together as the hub for the UK.

(c) The demand for increased airport capacity is likely to remain, on account of the increasing flights originating from the emerging economies.

4. What costs does aviation impose on society and the environment?

(a) In 2001, the public was promised a noise study in which we could all have confidence. It was further promised that there would be no increase in air traffic movements at Heathrow until that study was available.

(b) The study took six years to complete and concluded, as had the Planning Inspector who conducted the Fifth Terminal Inquiry, that the present method of assessing noise was inadequate and paid insufficient regard to environmental impact of the number of air traffic movements. The government deemed that this study had inadequacies and it has been basically disregarded.

(c) Consequently, the electorate has no method of measuring noise that has the confidence of anyone other than those causing the noise. All the indications are that a similar approach will be adopted for air pollution.

(d) The Government should, without delay, recommission a further study of the environmental impact of noise arising from air traffic movements, thus fulfilling the commitment made in 2001 for recommendations that would command public confidence. It should also seek harmonisation with Europe on the measurement and the environmental impact assessment of airport operations.
5. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?
   (a) No comment.

6. What is the impact on the aviation sector of the changes in the security environment?
   (a) Obviously the present security environment adds enormous strains on the aviation sector. It would also impact on having large number of train connections to airports and on the increased security procedures required in relation to high density hub operations.
   (b) The current approval for a third runway at Heathrow raises major security concerns in relation to the A4 trunk road that is presently routed between the current North runway and the proposed third runway. Will it continue to be routed through the middle of the airport together with the numerous hotels and other buildings, some of which are dwellings, and is this considered appropriate in a high security environment?

February 2009

Memorandum from the Fresh Produce Consortium (FOA 62)

SUMMARY

— Around 60% of fresh produce is imported into the UK.
— Air freight allows UK consumers to enjoy a wide variety of fresh produce throughout the year.
— Air freighted imports of fresh produce account for 0.2% of total UK greenhouse gas emissions. Sixty percent of air freighted fresh produce is brought to the UK in the bellyhold of passenger aircraft.
— In some circumstances importing outdoor-grown produce may produce less greenhouse gases than growing the same commodity in UK greenhouses heated by fossil fuels.
— Trade is a valuable tool that is recognised by the European Commission for its role in aiding development.
— The UK’s Department for International Development (DFID) acknowledges that action is necessary to tackle climate change, but believes that restricting airfreight in order to reduce GHG emissions will have negative economic impacts on the least developed countries which export horticultural produce to the UK.
— With rising obesity levels across Europe we need to encourage consumers to eat 5-a-day. To achieve this, consumers must have access to a wide variety of fresh produce regardless of origin.

1. The Fresh Produce Consortium (FPC) is the trade association for the fresh produce industry in the UK. We represent importers, food service companies, wholesalers, packers and processors, retailers, exporting third countries and many more organisations that have an involvement with the industry. We welcome the opportunity to provide evidence to the Select Committee’s inquiry into the future of aviation.

2. Around 60% of fruit and vegetables are imported into the UK, providing produce outside of the UK season as well as varieties which simply cannot be grown in the UK. Both government and the food industry are making vast efforts to encourage higher consumption of fruit and vegetables among the proportion of the population who still find 5-a-day a daunting prospect, and air freighted fresh produce allows us to enjoy a wide variety of fruit and vegetables throughout the year.

3. Air freighted imports of fruit and vegetables account for 0.2% of total UK greenhouse gas emissions and air freighted food is responsible for 11% of all UK food-chain greenhouse gases. Sixty percent of air freighted fresh produce is brought to the UK in the bellyhold of passenger aircraft and there is no evidence to suggest that fewer planes would fly if less imported fruit and vegetables were eaten. Air freighted fresh produce on dedicated cargo planes accounts for 0.12% of total UK greenhouse gas emissions.

4. There is growing evidence that in some circumstances importing outdoor-grown produce may produce less greenhouse gases than growing the same commodity in UK greenhouses heated by fossil fuels. On the other hand, in some cases and for social and economic reasons, buying local may be more advantageous. However, Manchester Business School, in their 2006 report to Defra, concluded that “evidence for a lower environmental impact of local preference in food supply and consumption when all food types are taken into consideration is weak…. So, while there are no grounds from the available data to argue ‘local good—global bad’ as a general statement, this could be true for certain foods, as could the reverse.”

5. Furthermore, the idea of food miles looks simply at the distance the item of food has travelled from farm to retail outlet and there are clearly many other factors relating to fossil fuel use and emissions along the food chain which must also be taken into account.
6. Indeed, Defra’s 2005 Food Miles report concluded that “a single indicator based on total food kilometres is an inadequate indicator of sustainability”. The FPC believes that not only would the use of food miles-based labelling or trade restrictions lead to unconstructive discrimination, it would also lead to consumers developing a false sense of “eco-security” in the belief that foods with low food miles are always good, and foods with high food miles are bad.

7. The Food Ethics Council’s report “Flying food: Responsible retail in the face of uncertainty” states that: “air freighted food makes a much smaller contribution to total UK emissions than other aspects of farming and food. Compared with the 0.3% of total UK emissions associated with food air freight, fresh fruit and vegetables in total account for 2.5%, refrigeration for 3.5%, alcoholic drinks for 1.5%, and meat and dairy for 8%.”

8. Much of the world’s economy is built on trade and reducing barriers to trade in a considered and proportionate way can often have significant benefits both to the suppliers and consumers of commodities traded on world markets. Trade is a valuable tool that is recognised by the European Commission for its role in aiding development. According to the Commission, trade policies can provide opportunities for promoting economic development and tackling poverty (EU DG Trade 2005).

9. The Soil Association’s decision not to impose a ban on organic certification of air freighted produce was welcomed by the FPC in 2008. The Soil Association originally proposed a ban on air freighted organic fruit and vegetables unless farmers carried out bureaucratic, expensive, time consuming measures; a move which would have mislead UK consumers, limit consumer choice, and threatened the livelihood of farmers in developing countries. However, the decision is somewhat fudged as the Association states that it will “monitor” the situation.

10. The International Institute for Environment and Development (IIED) claims that the inclusion of sub-Saharan African (SSA) nations in the high value horticulture and flower markets has been a success story for those countries (MacGregor 2007). According to the IIED, the UK imported over £200 million of fresh fruit and vegetables from SSA in 2005, and the quantity of exports from this region continues to grow. These exports are worth £100 million to Kenya alone, and this trade provides employment for about 135,000 people directly. One million people also benefit indirectly through support and employment in ancillary industries. Forty% of all air freighted FFV comes from SSA and the vast majority of this (32,500 tonnes) comes from Kenya, with the next biggest source of fresh fruit and vegetable exports by air being Ghana, with 8,000 tonnes. Kenya is the single biggest airfreight exporter in SSA, exporting 91% of all their fresh fruit and vegetable exports to the UK by air.

11. The Department for International Development (DFID) is responsible for a vast amount of work in the developing world which is helping to alleviate poverty and stimulate sustainable development. When the Soil Association’s proposals to remove accreditation from air freighted organic produce were first publicised in October 2007 the DFID responded by saying: “We are worried about the livelihoods of the African farmers who don’t meet these extra standards and we’re worried about the costs of additional certification for the farmers that do meet the standards. We know from our support to the Fairtrade Foundation that certifying new products can take from six months to several years and costs between tens and hundreds of thousands of Euros.

12. While the quantity and economic value of organic fresh produce imports arriving in the UK are small they nonetheless represent increasingly valuable income streams to those involved and placing restrictions on such trade could have serious consequences for rural economies in developing countries. More importantly, however, the impact of Soil Association policy on other elements of the industry and on consumers’ consciousness should also be considered. Moves by the Soil Association to restrict air freighted organic imports could set a dangerous precedent for other food and fresh produce sectors which would have a far larger impact on developing countries.

13. The UK’s Department for International Development (DFID) acknowledges that robust action is necessary in order to begin to tackle climate change, but the Department believes that restricting airfreight in order to try to reduce GHG emissions will have negative economic impacts on the least developed countries which do export horticultural produce to the UK. DFID argues that policies aimed at reducing emissions should also acknowledge that:

— Agricultural growth is essential to economic development.
— Increased productivity means cheaper food, more jobs and higher incomes.
— Agriculture is the most likely source of growth in Africa—70% of the poor work on the land.

14. Carbon footprints of and carbon emissions associated with the production, trade and distribution of fresh produce are issues which the industry takes extremely seriously and the FPC is actively engaging with the Carbon Trust and other bodies to look at ways in which this sector can identify sources of emissions and reduce the carbon footprint of companies and products. We believe that focusing solely on the method of transport of imported food as a basis for determining whether it is “good” or “bad” from an environmental perspective is short-sighted and misleading to consumers. Transport accounts for only one element of the carbon emissions of a particular product and therefore looking at the carbon footprint of the whole product supply chain—through the use of life cycle assessment—would be a far better way of determining its environmental impact.
15. Aviation is a vital means of transport to enable developing countries to trade, a preferred option to receiving charitable aid, in order to fight poverty and meet development objectives.

February 2009

Memorandum from the Board of Airline Representatives in the UK (FOA 63)

INTRODUCTION

The Board of Airline Representatives in the UK (BAR UK) is the industry association for scheduled airlines in the United Kingdom, and is pleased to be invited to submit its response to the Transport Committee.

The remit of BAR UK is to represent its members in its dealings with, government, government departments, regulators, airport operators and other prime points of industry contact.

Membership is open to scheduled airlines of all nationalities. Currently, our membership consists of 92 airlines: 3 prominent UK airlines (bmi, British Airways and Virgin Atlantic) and 89 others. A full membership list is provided at the end of this response.

In addition to a large majority presence at Heathrow, BAR UK member airlines are very active at London Gatwick, London City and Manchester airports. Various members also operate to London Stansted, and a range of other airports within the UK.

Our responses to the Committee’s questions are set out below.

1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

The United Kingdom is an island nation, for which well-developed and sophisticated air links are vital to its well-being.

The value of aviation to the nation is well set out in “The Economic Contribution of the Aviation Industry in the UK” published by Oxford Economic Forecasting in late 2006.

In brief, this report stated that aviation provides direct employment for 186,000 workers, and a further indirect employment for 337,000 workers a grand total of 523,000. (Table 2.4—figures for 2004)

The total value to the UK economy was estimated to be £11.4 billion per annum.

The Committee’s attention is also drawn to the fact that airport productivity is not based on passenger throughput only; cargo imports and exports are a highly valued part of the scenario, and essential to the UK as a trading nation.

By value, 30% of exports are transported by air, and Heathrow accounts for more than half the freight handled by UK airports. Other prominent freight-handling airports for the UK economy are East Midlands, Gatwick, Manchester and Stansted.

The London and regional airports are all outside of state ownership.

Regional airports play a significant role in the prosperity of the UK economy overall, but especially in respect of local economies. They provide the wherewithal for direct point-to-point flights to a wide range of destinations including a number of long-haul destinations.

However, and very significantly, BAA own the three largest London airports—Heathrow, Gatwick and Stansted, plus the three major ones in Scotland, a situation currently being addressed by the Competition Commission. BAA, in the interim have announced the sale of Gatwick but may also be required to dispose of Stansted and one of either Edinburgh or Glasgow.

In theory, they should all compete with each other but the BAA ownerships muddy this aspect, hence the Competition Commission inquiry.

It would be easy to concentrate on the air travel patterns generated from the UK, and forget the great number of inward travellers to this country.

Amongst them, several types of travellers can be recognised: business, holiday, Visiting Friends and Relatives, ships crews, conferences and meetings to name a few. This highlights the diverse nature of the UK, both economically and ethnically.

Collectively, they provide an impetus to the UK economy that extends beyond the airlines and their airports; it extends to hotels, sightseeing, general holiday purchasing, internal travel within the UK and so on.

Think of the streets of our major cities and towns without foreign visitors and the picture could be stark indeed.
UK airports face well-recognised competition from abroad. In addition to airports in mainland Europe, such as Amsterdam, Frankfurt and Paris, other more distant countries, such as Dubai in the UAE, are also now competing.

They now compete for the connecting passenger and cargo traffic that would historically use London and other European airports. Two main factors now make this possible for them: (i) modern airport infrastructure and (ii) new longer-range airliners.

Without the ability to improve capacity and infrastructure, the UK stands to lose a substantial part of its productivity from aviation.

2. *Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?*

Infrastructure covers many areas. For the purpose of this response, it has been taken to include, but not limited to, airspace capacity and capabilities, runway capacity, taxiway and stand aircraft parking stand capacity, passenger terminal capacity, and road and rail connectivity. These aspects apply to all airports, not least in their future development.

In the context of the UK’s gateway airport, Heathrow, the infrastructure is certainly not adequate. Infrastructure development features prominently in the plans for added capacity at that airport.

It is a key hub airport, but it is overcrowded more ways than one.

Without wholesale changes, Heathrow will be a most unworthy gateway airport for the UK.

It is operating to almost total capacity, not only in respect of runways, but also taxiway and stand capacities as well. Without the opening of Terminal 5, it would have continued to burst at the seams in passenger terminal capacity as well.

Operational resilience capacity right now is tiny, resulting in delayed arrivals and, therefore, delayed departures; these then tend to accumulate for at least the rest of the operational day.

A third runway, with its associated additional terminal, is vital for its future success.

Together, and operating to the strict environmental criteria that will apply, they will provide much-needed space and resilience.

To anyone who asks why a hub airport is necessary or valuable, then perhaps they should also ask the question why airports like Amsterdam, Frankfurt, Paris and Dubai have strategies of hubbing at their airports, and doing so very successfully.

The chart below illustrates how Heathrow lacks runway capacity; its two runways have been in use since 1946. The competing airports shown have added runway capacity, so making Heathrow far less competitive.

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<tr>
<th>Airport</th>
<th>Passengers (mppa)</th>
<th>Number of Runways</th>
<th>Destinations served</th>
<th>Current ATMs (arriv/deps)</th>
<th>2010 ATM capacity</th>
<th>% full</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heathrow</td>
<td>67.5</td>
<td>2</td>
<td>180</td>
<td>477,000</td>
<td>480,000</td>
<td>99</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>52.8</td>
<td>3</td>
<td>265</td>
<td>490,000</td>
<td>666,000</td>
<td>74.2</td>
</tr>
<tr>
<td>Paris (CDG)</td>
<td>56.8</td>
<td>4</td>
<td>223</td>
<td>541,000</td>
<td>710,000</td>
<td>76.2</td>
</tr>
<tr>
<td>Amsterdam (SPL)</td>
<td>46.1</td>
<td>5</td>
<td>260</td>
<td>440,000</td>
<td>600,000</td>
<td>73.3</td>
</tr>
</tbody>
</table>

*Table Key*

- Mppa = million passengers per annum
- ATMs = air traffic movements (arrivals and departures)
- % full = Current ATMs as a proportion of 2010 capacity

In a globally competitive world, standing still is not an option. If the UK does not meet the evolving needs of business, then business will simply move elsewhere, with other European airports eager to provide the destinations denied at Heathrow.

As a result of a two-runway system that is used to capacity, the number of UK domestic destinations linked to Heathrow has fallen from 21 in 1995 to just eight today. Conversely, Amsterdam has direct flights to 22 UK destinations.

Enhanced passenger transport capacity to Heathrow, especially rail, will be vital. Potential rail schemes include the “Airtrack” link to the rail network south and west of Heathrow via Staines and its associated link, Crossrail and/or the recently-discussed Heathrow Hub. All are welcomed and supported by BAR UK.

Other airports such as Gatwick, Manchester and Stansted, all have rail connectivity as part of their transport infrastructure.

Looking ahead to the medium and longer terms, it is generally accepted that air travel will continue to grow. This will not be restricted to airlines but also apply to business aviation in its various forms and, quite possibly, to general aviation as well.
Mergers in the airline industry are expected to continue. However, operationally and politically, constraints do apply.

International aviation is generally predicated on bilateral agreements. So, whilst airlines may merge in ownership terms, they are often obliged to still continue flight operations in the guises of separate airlines, e.g., KLM and Air France.

3. To what extent can rail provide an alternative to short-haul flights?

In isolation, and using London-Manchester as an example, short-haul rail should be able to provide an alternative to short-haul flights provided:

— Travel is city centre to city centre.
— Travellers live close to that city centre.
— Fares are competitive.
— Travelling times allow a good working day for a day return journey.
— Travel schedules are convenient.

However, still using Manchester as an example, the majority of air users classified as London-Manchester, are making direct connections between their domestic flight and an international one. Many, whilst from the North of England, many of them also live well away from the centre of Manchester. A rail service, even if connected directly to Heathrow, might not be a viable alternative.

In the context of international rail, there is no doubt that Eurostar has had an effect on air travel between London and Brussels/Paris. This is a genuine high-speed service that operates at high-frequency between three capital cities, and is seen as a viable alternative to air travel.

In a similar vein, BAR UK reiterates its support for rail services direct to airports, after which market conditions will determine if those rail services are also a viable alternative to flying.

4. What costs does aviation impose on society and the environment? What are the implications of climate-change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

Aviation, like other transport modes, imposes costs in respect of emissions and noise.

However, the aviation industry has actively addressed noise and emissions for many years; the result is a constant decline in both, a trend that is expected to continue in the years ahead.

It is recognised that aircraft themselves are not the sole generators of emissions at airports; a sizeable percentage is due to the traffic and operation of the airport itself, and private transport for passengers and their friends and families.

It is in this last regard that greater access to airports by all forms of public transport is to be welcomed, and is why this aspect forms a significant part of airports’ master plans.

The Climate Change Act of 2008, if enacted in full, will place a heavy burden on the aviation industry in respect of emissions, by 2050.

This is a complex arena, not least when the UK’s obligations under this Act are intermingled with the European Emissions Trading Scheme. The great majority of emissions from UK flights are outside of British airspace, and involve a wide range of foreign airlines as much as those from the UK.

Aviation is well aware of its environmental responsibilities, and has set itself tough, but achievable targets. Under its ACARE (Advisory Council for Aeronautics Research in Europe) programme. By 2020 these targets include (relative to year 2000 aircraft):

— 50% reduction in CO2;
— 50% reduction in perceived noise; and
— 80% reduction on NO2.

These objectives are jointly shared by “Sustainable Aviation”, as part of its long term strategy for the sustainability of the UK aviation industry.

5. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

There is an increasing burden on aviation that is not limited to direct taxation.

Direct taxation is best recognised in the form of Air Passenger Duty (APD). This was doubled, at just a few weeks notice, in February 2007, at which point it was generating revenues of approximately £2 billion per annum for the Treasury. It is worth noting that, by the Department for Transport’s own estimates, aviation was exceeding its environmental costs by over £100 million per annum.
Since then, as announced in the November Pre-Budget Report, APD is being restructured, with effect from November 2009, to produce even more revenue for Treasury, and will be increased again from November 2010.

In discussions with Treasury, it has become a lot more overt that APD is as much a revenue-raising system as a tax with so-called green credentials.

The new APD structure, because of its new distance charging bands, disadvantages certain destinations, thereby impacting certain markets. No tax should do that.

The revised APD looks to be disproportionate to certain product types, notably Premium Economy. The relatively small increase in fare will be blighted by a huge increase in APD, quite possibly rendering the Premium Economy defunct. No tax should be interfering with any airline’s product range in this manner.

Furthermore, and highlighting Treasury’s revenue-generating objectives, rather than green-tax credentials, they have made it clear that APD will be continued after the introduction of the EU Emissions Trading Scheme (EU ETS) in 2012.

This will be a blatant double-taxation measure of the same set of emissions; it will be patently inequitable and airlines are not going to accept this situation passively.

Apart from the political and diplomatic options available, foreign airlines have the commercial option of assessing the viability of using their aircraft to operate flights to the UK; it might be better to use them elsewhere.

In economic terms, an airliner is a mobile asset providing seat capacity. It has the flexibility to be used wherever the airline flies to. The discontinuation of some services to the UK, not least to regional airports, is one realistic option that has already been expressed to BAR UK.

Indirectly, aviation taxed through the burden of various security regimes, discussed in Q6 below. Additionally, aviation, with the rare exception of some Public Service Obligation services, aviation in the UK is unsubsidised, unlike other forms of public transport. All user charges, be they to airports or air navigation service providers, are passed on to users at the full commercial rates.

In respect of consumer protection, the situation is complex.

Passengers are of UK and non-UK nationality, and of UK and non-UK residency, with a mixing of both classifications.

In respect of purchases by credit card made in the UK, for which the value is £100 or more, then credit card companies are the first line of protection as per Section 75 of the Consumer Credit Act followed by the protection of ATOL provisions, where they apply.

Direct sales made by airlines are not covered by ATOL; however, it is understood that a large proportion of such sales are made by credit card and thus covered by Section 75 of the Consumer Credit Act. Whilst not so obliged, airlines also have a good record of providing favourable repatriation capacity and facilities when airlines have previously failed.

6. What is the impact on the aviation sector of changes in the security environment?

The aviation sector has a lot of regulatory burden placed on it by the security environment.

In brief, these can be broken down into:

— Airport passenger security.
— Airport cargo security.
— Hold baggage screening.
— Airport policing.
— Provision of free accommodation for government agencies.
— Carrier Liability charges.
— Detention costs on arrival for inadmissible travellers.

Changes to the security regime are placing additional costs on this sector through the introduction of:

— e-Borders, requiring the provision of data related to ALL passengers and crews.
— Changed airport policing regimes leading to higher costs.
— National ID Cards for airside workers.
— National ID Cards for foreign nationals.

Collectively, these obligations cost the industry are additional tens of millions of pounds per annum. E-Borders alone is estimated to cost the airlines over £245 million in the first ten years.

As yet, and this is common to much of the regulatory burden, 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.
CONCLUDING REMARKS

The continued development of aviation is sustainable within the environmental needs of this country. It continues to remain a vital element for the prosperity of the UK.

Without that growth, not only will the aviation industry decline, but so will the economic capacity and performance of the United Kingdom.

Aviation is a global industry, without which most countries would suffer economically. The UK is no exception. It is another form of public transport, capable of moving several hundreds of people at the same time.

Good infrastructure is vital, but for which recognition must be given to the environmental circumstances that face the country and the world. That infrastructure places no liability on the public purse, as it is fully paid for by industry stakeholders eg airports and airlines.

In environmental terms, the aviation industry has a great record of past performance, and has set itself exacting environmental targets for the future.

It is also a high-cost industry, and government must ensure that any changes to the regulatory burdens it places on industry are equitable and offset by benefits and efficiencies.

BAR UK will be pleased to provide further information or views as may be required by the Transport Committee.

February 2009

Memorandum from the National Union of Rail, Maritime and Transport Workers (FOA 64)

The National Union of Rail, Maritime and Transport Workers (RMT) welcomes the opportunity to respond to the Transport Select Committee inquiry into the future of aviation. The RMT organises 80,000 members across the transport industry and is the largest of the rail unions. Our support for a publicly, owned, integrated and environmentally sustainable transport system is well documented.

SUMMARY

— RMT does not support the building of a third runway at Heathrow.
— High speed domestic rail services can provide an environmentally sustainable alternative to domestic and short-haul flights.
— Workers currently employed in high polluting transport sectors should be offered work in “greener” transport sectors as transport priorities are changed.

HEATHROW EXPANSION

The Climate Change Act sets challenging statutory targets to reduce UK carbon emissions by 2020 and 2050 respectively. In the context of the changes in transport choices that will have to be made to secure those targets, RMT does not believe that the economic or environmental case has been made for the third runway at Heathrow.

We are therefore extremely disappointed that Government has pressed ahead with the decision to back the expansion which in addition to increasing carbon emissions from the extra 125,000 flights a year, will also see around 14 million more passengers a year accessing Heathrow by road. Furthermore, the decision will increase noise pollution and see the village of Sipson effectively wiped off the map.

The Sustainable Development Commission (SDC) has described the decision to build a third runway as “highly irresponsible”. Additionally, we endorse remarks by SDC Commissioner Hugh Raven who explained “It is clear that even the most optimistic estimates for cleaner aircraft technology will not be enough to allow aviation to grow in line with DIT predictions without resulting in increased emissions, and meanwhile the Committee on Climate Change describes current scientific understanding of aviation’s other effects on climate change as only ‘fair to poor’. And locally, there are serious questions over whether we can meet obligations on air quality and noise pollution, which must not be shirked. Convincing the public that the government takes climate change and environmental issues seriously will be even harder given this decision”.

RMT would also point out that despite the claims made by supporters of Heathrow expansion, including the Secretary of State for Transport, for the environmental advances made by the aviation sector the February 2009 House of Commons research paper: Expansion of Heathrow Airport explains “Aircraft designs do not at the moment incorporate many of the features highlighted by the Secretary of State. The average life of civil aircraft can be up to 30 years. This means that unless there are some very rapid improvements in technology it will be some time before more environmentally friendly aircraft are in widespread operation.”
At Heathrow the sheer volume of domestic flights is simply environmentally unsustainable. On 16 February 2009 there were almost 200 flights arriving and departing the airport for British destinations. RMT believes that the vast majority of these journeys should be taken by a less polluting form of transport.

We therefore support the construction of high speed rail access to Heathrow as part of an overarching transport strategy which is committed to reducing greenhouse gas emissions. Sadly, Government support for a high speed link to Heathrow seems to be primarily concerned with moving passengers quickly to the airport in order that BAA can fly an ever-increasing number of passengers to an ever-increasing number of destinations.

RMT REPORT

In June 2008, RMT published: *Who says there is no alternative? An assessment of the potential of rail to cut air travel*.

The report made RMT the first national trade union to look for an environmentally acceptable alternative to expansion at Heathrow. It found that a domestic high-speed rail link is not just more environmentally friendly but also contributes much more to the UK economy and the creation of jobs than Heathrow expansion.

Work carried out by WS Atkins for the Strategic Rail Authority in 2001/03 makes clear that a high-speed rail line would cut journey times to two and three-quarters hours between Glasgow/Edinburgh and London.

A reduction in travelling time on this scale would mean that high speed rail journeys would be comfortably within the recognised four hour threshold, over which passengers have in the past chosen to travel by short-haul plane rather than by rail.

Findings in the report also confirmed the results of the YouGov poll commissioned by Eurostar previously referred to in this submission. Where passengers are given the option of high speed rail over short-haul aviation modal shift is the result:

- Eurostar now captures over 70% of the market between London and Paris: and over 60% between London and Brussels.
- The air service between Paris and Brussels has ceased since the train journey was reduced to about an hour.
- Rail held only 22% of the combined Paris-Marseille air-rail market before TGV Mediterranean went into service in 2001. By 2006 rail market share was 69% and EasyJet abandoned its Paris-Marseille flights.
- Recent improvements to the West Coast Main Line have seen rail market share on the route increasing to 60%.

RAIL AS AN ALTERNATIVE TO SHORT-HAUL FLIGHTS

In 2007, the Department for Transport published data which confirms high speed rail’s clear environmental advantages over short haul aviation. Clearly, modal shift from aviation to rail will play an important part in the transport sector’s contribution to achieving the carbon emissions reduction target.

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Intermodal comparisons of CO2 emissions

As the following table indicates, research published by Paul Watkiss Associates and AEA Technology Environment for Eurostar in 2006 found that travelling by high-speed train was ten times more carbon efficient than travelling by plane.

<table>
<thead>
<tr>
<th>Trip/Mode</th>
<th>Kg CO2 per return passenger trip</th>
<th>Kg CO2 per passenger km</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>London-Paris (return)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short haul air Heathrow (average)</td>
<td>122</td>
<td>168</td>
</tr>
<tr>
<td>Eurostar</td>
<td>10.9</td>
<td>11</td>
</tr>
<tr>
<td><strong>London-Brussels (return)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short haul air Heathrow (average)</td>
<td>160</td>
<td>219</td>
</tr>
<tr>
<td>Short haul air Gatwick (average)</td>
<td>222</td>
<td>322</td>
</tr>
<tr>
<td>Eurostar</td>
<td>18.3</td>
<td>24.3</td>
</tr>
</tbody>
</table>

Concerns have been raised about the additional carbon emissions that will be produced when the high-speed Eurostar fleet travels at speeds greater than those achieved in 2006.

The PWA research considered this issue and found that by 2010 emissions between London-Paris and London-Brussels would increase per return passenger trip to an estimated 17kg of CO2 and 23kg of CO2 respectively. However targets to increase the percentage of renewable sources in the electricity generation mix would have the effect of reducing the 2010 emission figures.

At the time that the research was published, Eurostar commissioned a YouGov opinion poll which found that 39% of people had changed their travel choices due to concerns about climate change. Furthermore, having been made aware of the results of the research, 41% of respondents were “much more likely to take the train” in the future.

**The Economic Benefits of High-speed Rail**

Engineering consultants WS Atkins reported in March 2008 that high-speed routes would cost £31 billion to construct and deliver over £60 billion in benefits to the UK economy over a sixty period.

In terms wider economic benefits, RMT endorses remarks made by the Greengauge 21 partnership that a high-speed rail link is not simply just another rail line “but a means to support the development of the British economy in the decades ahead in a way that meets the wider sustainability challenge” 264

In August 2007, the Northern Way explained that the economic benefits of a high-speed link are substantial. “Research for the SRA in 2002–03 for example identified total benefits of a new high speed network linking London to the North West and North East and Scotland of £89.9 billion giving a benefit

264 Modern Railways August 2007.
ratio of over 2:1. The benefits comprised £20.6 billion in additional revenue, £64.4 billion in non-financial benefits (welfare gains by users and non-users) and £4.8 billion in benefits from freeing up capacity on the existing network.\textsuperscript{265} The extra capacity could be utilised by rail freight further encouraging modal shift.

Furthermore, the building of the line will create thousands of jobs in construction and engineering. A new high-speed line will also require a dedicated fleet of trains, providing an ideal opportunity to breathe life into the domestic train manufacturing and maintenance sector with new manufacturing and maintenance sites being constructed across the country.

Many of the jobs created by the high-speed line will be highly skilled and will provide for “Just Transition” opportunities for members of the aviation work-force who may have to transfer their skills following a reduction in the demand for short-haul domestic flights. RMT would not want to see these workers lose their livelihoods or move from high-skilled work to low-skilled employment. It is therefore essential that the transport trade unions are involved in planning and delivering a transport plan that delivers the modal shift from plane to train.

\textit{February 2009}

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**Memorandum from Mr J. Strickland (FOA 65)**

**MY BACKGROUND**

A graduate of the University of York, I am an air transport consultant with over 26 years experience in the airline business. My particular expertise has been developed in network planning—the analysis of how and where an airline decides to operate services and in revenue management—the manipulation of seat inventory to determine price and capacity levels. I have worked for bmi, British Caledonian Airways, British Airways, Air UK, KLMuk and buzz. This gives me an unusually broad experience of the industry as these companies range in nature from smaller regional operators to low cost, to global network airlines. This has given me an in depth understanding of the different methodologies and strategies pursued by different types of airlines. It has also given me an extensive network of contacts across the industry. For the last 6 years I have run my own consultancy practice and my clients now include a number of airports, particularly in France and Scandinavia, for whom I provide advice on airline route development, market place performance and strategic issues. I have also worked with a number of airline clients and third party businesses that need to understand and work with the airline community. I am a regular chairman, moderator and presenter at industry conferences and my in depth experience means that I am regularly sought after by the media to provide informed, articulate and impartial comment on the industry for their global audiences. These include the BBC, ITV, Channel 4, Sky, CNN, Reuters TV, Bloomberg Television and CNBC Europe (the latter 2 being specifically business channels).

**SUMMARY OF COMMENTS**

— Aviation provides enormous economic value to the UK economy both in direct and indirect job creation but also as an enabler to business, commerce and tourism.

— The London airport system serves London and the South East but also provides global access to many UK regions.

— Regional airports offer a range of short haul services to their immediate communities but also some limited long haul services.

— Both London and regional airports face competition from Continental and Middle Eastern hub airports.

— Infrastructure, particularly in London is struggling to handle current demand and if not addressed will damage future growth potential and the competitiveness of the UK economy as a whole.

— The industry is going through rapid consolidation catalysed by difficult market conditions, there is a risk that the UK may not be able to play its proper role in this and may be left behind or marginalised.

— Rail services could complement or replace some short haul air services but this must realistically be seen in a limited context and taking account of the value and importance of connecting passengers who currently rely on some of these air services.

— Aviation contributes to the issue of the environment but must be viewed in the context of its essential economic role. The industry takes its responsibilities seriously but must be listened to and assisted in fulfilling them.

\textsuperscript{265} Northern Way: North-South Connections August 2007.
Aviation is of enormous value to the UK economy. It generates significant direct and indirect employment that has been documented elsewhere. This embraces airlines, airports, support industries and aircraft, engine and component manufacturing. In addition it is an essential element in the support of business and commercial activity and in the delivery of substantial numbers of tourists to the UK economy.

I have worked in the air transport field for 26 years and in that time have personally witnessed enormous evolution both at a technical and commercial level. Whilst other technological developments such as the Internet and video conferencing have changed patterns and methods of doing business, there can still be no substitute for face to face meetings between colleagues and with clients. If anything this has become more important as the world economy becomes increasingly global. Air travel remains an essential facilitator for this. Similarly there can be no substitute for the opportunity to visit a country as many millions of tourists do each year in the UK. Air travel is frequently the most efficient, competitive and often the only way to travel.

It is worth stating that the industry is highly competitive and profitability is minimal. Both these factors require it to operate efficiently with regard to its customers and taking into account its environmental obligations.

The London airports serve both the immediate Greater London and South Eastern air transport market. Within this they cater to different market segments: the point to point market, composed of both business and leisure passengers, using a range of product offerings from full service to low cost and the transfer market, with passengers making connections through London (mainly Heathrow) to and from other flights.

Luton and Stansted airports (and increasingly Gatwick) are dominated by low cost short haul services. Heathrow serves as a point to point (non low cost, short and long haul) and hub airport. London City Airport is a much more niche operation focussed more on business orientated point to point services largely catering to the financial community and some leisure traffic.

The point-to-point market has grown strongly in recent years thanks largely to the emergence of low cost carriers. Whilst there is much debate about how much of this traffic is discretionary, low cost carriers have significantly facilitated price sensitive business traffic and the movement of worker traffic too (eg Polish workers recently meeting unsatisfied labour needs in the UK). There is also debate about the value of connecting customers through London. I know as a former airline network planner that without the revenue value generated by such passengers that many fewer destinations and frequencies would be viable from the London market. A number of passengers connect to/from the UK regions and without these services they would become economically much more isolated as there are no realistic alternatives by which to reach many global destinations. Inverness and Jersey are 2 examples of communities who have recently lost links to Heathrow. To sum up, London’s airports serve both the South East and to a significant extent, the UK regions.

Regional airports themselves address a more local market and in many cases have flourished in recent years, largely due to the growth of low cost carriers. This has enabled them to offer many more direct domestic and European services for business and leisure customers than would previously have been viable. Some have also secured a number of direct long haul scheduled services too, to the Middle East and USA. These bring enormous benefits to the local populations and economies and reduce the need to travel to London, by air or surface, to take a connecting flight. However airline economics are such that only a limited number of long haul routes can be operated successfully from smaller regional airports. There are two reasons for this, firstly the overall market is smaller and such services have to fill up by offering connections at the other end (eg the US domestic market or onward Asian destinations from Dubai), secondly there tend to be fewer of the more profitable business class travellers using these services than is the case for London.

Overseas competition for both London and regional airports comes largely in the connecting travel market. There are several major hub airports in Europe (Paris, Amsterdam, Frankfurt and Munich) and in the Middle East (Abu Dhabi, Dubai and Doha) through which customers can make connections. Non UK originating and destined passengers can simply miss out the UK altogether when making their travel plans whilst UK regional customers can make a travel decision to take a flight to a European or Middle Eastern hub to make a connection rather than using a direct flight from their local airport (if available) or travelling via London. In either case there is a significant risk of business being lost to UK airlines and airports. All European and Middle Eastern hubs have spare capacity and/or are planning growth in the next few years.

What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?
9. Competition also comes to UK airports when airlines decide where to place new aircraft when delivered. Pan European operators such as easyJet and Ryanair can allocate capacity to any market within the EU where a market exists and competitive capacity is available. This could be (and already is) at the expense of UK airports.

Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

10. Aviation infrastructure is inadequate for the needs of UK business and individuals. The problems of airport bottlenecks have been widely discussed and are extreme in the London area. Heathrow Airport is in effect at full capacity whilst other London airports are close to being so. The UK regions are generally better placed in terms of airport capacity but as a general rule all suffer from a number of generic problems.

11. Developments in security measures have placed all airports under more pressure and contributed to a worse experience for passengers and more flight delays. Similarly a lack of consistency in airport surface access and insufficient coordination of transport policy planning means that not all airports have optimal road and rail access. Lack of Air Traffic Control capacity and complexity in its management at a European level is creating unnecessary flight delays and there is an urgent need to expedite progress on the Single European Sky proposals. At congested airports lack of runway capacity and restrictions in its use (such as at Heathrow) are adding to further delays and cancellations.

12. Future growth trends indicate that the capacity bottleneck will worsen. For the reasons explained in paragraphs 7 and 8 above, it is not simply a matter of moving more flights to the regions. That will help, where viable regional services can be sustained, but does not solve the problem. Doing nothing is also not a solution whilst competition abroad continues to eat away at the UK aviation industry’s performance.

13. The industry is going through a phase of more rapid change and consolidation than I have previously seen in my 26 years in the business. We are seeing distinct groups emerging in Europe amongst the “legacy carriers”: Air France/KLM, Lufthansa and British Airways. However unless BA concludes its planned merger with Iberia and obtains Anti Trust Immunity for its alliance with American Airlines it would arguably be at a disadvantage versus the other two groupings who are building their own businesses through acquisitions and strengthening their hubs. This could have a negative impact on the UK economy. Similarly the UK’s other main long haul airline Virgin Atlantic, which has established a strong reputation for service quality, could see its own future independence influenced by the desire of 49% shareholder Singapore Airlines to sell and by its desire to become involved in the future of bmi which will shortly be majority owned by Lufthansa. In the low cost sector other failures or consolidation moves remain possible and the largest players, easyJet and Ryanair are by no means wholly wedded to the UK market.

To what extent can rail provide an alternative to short-haul flights?

14. The success of Eurostar on the London-Brussels and Paris markets and the growing market share of rail services between London and Manchester are indicative of the potential of rail to substitute for air services. However this must be put in context: not all travellers find a central London departure or arrival point convenient, rail pricing lacks much competitiveness compared to short haul air services (particularly from low cost carriers) and it is not wise to put all one’s eggs in one basket as the recent Channel Tunnel fire attests. Whilst some short haul services into Heathrow, as the primary example, are at best marginally profitable they are needed to feed passengers to long haul services. As explained in paragraph 6, without this feed many long haul services would cease to be viable. If certain short haul flights were to be replaced by rail then these services would need to be of sufficient frequency and speed and to operate directly into airports in order to be a realistic alternative for feeder customers. A good example of this working well would be to examine Air France’s use of TGV high-speed rail services in and out of their Paris Charles de Gaulle hub.

15. On the other hand a number of short haul destinations in the UK are too distant from London to be replaced by trains for feeder purposes and it has to be recognised that the regional rail network in the UK cannot replicate the travel opportunity which low cost carriers and niche operators have brought to the communities served by many regional airports around the country both in terms of speed and price for domestic and international services. Similarly not all regional travellers have the opportunity or time to take a train connection to London in order to catch a Eurostar to the Continent.

16. The way forward should be to take a multi disciplinary look at the ways that rail and air services can compliment each other having reference to both efficiency and practicality for end users.

What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

17. This is not an area of expertise for me but I do believe that most significant players in the industry take the issue very seriously. Aviation wishes to play its part (as per its willingness to take part in the EC Emissions Trading Scheme). However there has to be a political acceptance of the need to assist aviation in this, not simply to burden it with legislation and taxation. There has to be investment in the right
infrastructure at airports and in air traffic control to reduce unnecessary emissions caused by aircraft holding for take off, circling to land or having to follow unnecessarily circuitous routings. None of these things are good for airline finances either, so they do not do them out of choice!

What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

18. This is also an area on which I cannot offer expertise but I do observe from an industry perspective that the tax take is increasing, particularly via adjustments to Airport Departure Tax. In this challenging economic climate when airlines have to compete even more strongly on price, this has a damaging financial impact and can lead to some routes becoming uneconomic and hence being cancelled. Likewise there is little or no evidence of increased APD being actively reinvested in infrastructure or in research on new engines and fuel, which are essential to ensure sustainability for the future of the industry. This comment also applies to investments in improved Air Traffic Management such as Single European Sky.

19. Airline collapses—no comments to offer.

What is the impact on the aviation sector of changes in the security environment?

20. As outlined in paragraph 11, the changed security environment had had a strongly negative impact on the passenger experience of flying. However in addition to this it has added additional costs for operators, both airports and airlines. Some of these are hidden costs, in as much as security induced delays have caused lost revenue as passengers have decided not to travel or to travel via non UK airports, or where flights have been delayed, airlines have had to build in costly additional redundancy in terms of aircraft and crew scheduling in order to try and maintain adequate reliability and punctuality.

February 2009

Memorandum from the Royal Aeronautical Society (FOA 66)

Summary

— It is axiomatic that the UK needs broad and effective access to the world air transport system; this is a necessary function of maintaining a competitive national economy as well as encouraging economic growth in the British regions.

— London, centring on Heathrow, is a world hub, a major destination for international carriers and transfer traffic for both short and long haul routes. Improvements should be made to ensure that Heathrow is able to compete as a global hub. This includes allowing mixed mode on its existing runways in order both to increase operational efficiency and reduce emissions due to stacking.

— The UK has a good regional air transport infrastructure that has seen significant growth over the last decade. Regional airports are especially important where rail services are poor as well as providing direct access to European and other overseas hubs.

— Air transport should be viewed as a vital element in an integrated national transport system. Fast-rail can be an alternative to some short haul flights, offering rapid, centrally located stations.

— Growth in air traffic must be achieved in an environmentally sustainable manner; growth in UK originating air traffic should not be at the expense of increasing the UK’s carbon footprint beyond current values. Indeed, ideally this should over time move towards a reduction in that footprint.

— Government has an active role to play in maintaining the competitiveness and maximising the economic benefit of air transport. But growth must not be at the expense of the environment.

Introduction

1. The Royal Aeronautical Society (RAeS) is the Learned Society for the Aerospace community. Based in London, it has a worldwide membership of over 17,000, with over 13,000 in the UK. Through its various Divisions, Branches, Boards and Committees, it can draw upon considerable experience and expertise in aerospace and aviation matters. In addition, the Society has over 120 members of its Corporate Partners scheme.
Questions from the Committee

What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

2. It is axiomatic that the UK needs broad and effective access to the world air transport system; this is a necessary function of maintaining a competitive national economy as well as encouraging economic growth in the British regions. Airport, airline and associated support activities generate substantial immediate economic benefits, with substantial secondary induced effects. Employment tends to be of high value, but also caters for a wide range of skills and types of jobs.

3. The connectivity implied by access to the global air transport system has a significant tertiary effect. It is a key element in multinational company investment decisions, including head quarters’ location. Such quality access is especially for high technology companies and high value services industries. Air cargo is a vital component of global production systems operating on just-in-time principles, with the South Eastern groups of airports responsible for over half of the UK’s cargo traffic. Such benefits are difficult to demonstrate quantitatively and are subject to caveats and qualifications. However, IATA estimates that for a C$1.8 million investment in Vancouver Airport, Canada has received a 5.4% increase in connectivity, raising Canada’s long-term productivity by 0.04%, equivalent to an annual boost of C$348 million a year. The 2006 Oxford Economic Forecasting report estimated that the total value of Aviation to the UK economy to be £11.4 billion per annum.

4. The extent that the UK benefits from either leisure or business related air travel depends on the structure and shape of the UK economy. A negative balance of tourist traffic implies a net loss of benefit from outbound passengers. However, without an adequate airport infrastructure, which includes improving inbound tourist access to the UK regions, the UK’s attractiveness as a leisure destination would deteriorate. Similarly, while transfer traffic directly benefits the airline and airport operator, there are important secondary benefits of improving the scalar economics and scope of the hub for UK originating and terminating passengers and cargo.

5. London, centring on Heathrow, is still a world hub, a major destination for international carriers and transfer traffic for both short and long haul routes. Although challenged in recent years by direct international flights from the regional airports and by other world hubs in both Europe (notably Schiphol, Paris Charles de Gaulle and Frankfurt) and further afield (for example Dubai), Heathrow remains the dominant hub for UK originating traffic generated in the South east and from that transferring from the regions. Heathrow, and to a lesser extent Gatwick, remains the most obvious transfer destination for long haul flights for the Southwest of England, South Wales and, of course the South East of England.

6. Improvements can and should be made to ensure that Heathrow is able to compete as a global hub, and to maintain its competitive position in respect of neighbouring European airports and emerging global hubs in the Middle East. Nevertheless, a substantial part of the UK is at least as well served through access to European hubs and increasingly more relevant, direct long haul access with, if required, onward transfer.

Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

7. Britain’s access to the world transport system must be robust, reliable and competitive, and capable of responding to predicted growth and to changes in both the UK economy and to innovation in transport technology. For some users, quality of service may be more important than maintaining a fully comprehensive service from either the London hub or from a regional airport.

8. In terms of regional distribution, UK has a good air transport infrastructure that has seen significant growth over the last decade. Manchester, with a second runway opened in 2001, has emerged as the UK’s fourth-placed airport behind the three London airports. Other regional airports have thrived. The UK’s regional airports have also benefited from the growth of direct services to European and world hubs. Regional airports are especially important where rail services are poor and for long cross-country routes such as Southwest England to Scotland.

9. However, the UK’s main hub airport, Heathrow is now constrained by operating capacity, in respect of runways, aircraft stands, and taxiways. There are proposals to improve access through the development of Crossrail, additional rail services via Staines (Air Track) and more ambitiously creating a high-speed rail hub. These would make a massive difference to terrestrial access, possibly reducing the need for connecting flights and increasing the use of public transport. This would both increase the competitiveness of Heathrow and reduce its environmental impact. However, better rail links to Heathrow are essential irrespective of decisions relating to a third runway or a sixth terminal.

10. An eastern solution to the location of a major London airport has the attraction that it would not require over flying London—as it has since 1944. An eastern location will be to the great disadvantage of passengers originating west or northwest of London. However, the initial costs of development (especially

266 IATA Economic Briefing Number 8; see www.iata.org/economics
267 Outline plans exist for a major London airport development located on the Thames Estuary submitted to the Brabazon Committee in 1944. It included rail and road access, but also a Flyingboat lagoon for long haul routes.
if at sea level it is to be proofed against climate change effects) will be substantial. There are also significant costs implied by moving London’s major hub to the east, including the additional congestion implied by users travelling through or round London from the west and northwest. The probable timescale of any new development is unlikely to improve the short to medium term needs of UK aviation and its customers. For an all-new solution to be relevant, work must be started to the same schedule as any Heathrow expansion.

11. The provision of a high quality, global air transport hub in the South East of England remains an integral part of the economic argument and that increasing the capacity at Heathrow, especially to improve its resilience and reliability as a global hub is recommended. This includes allowing mixed mode on its existing runways in order both to increase operational efficiency and reduce emissions due to stacking. However, any further development must be dependent on meeting stringent environmental targets that have been set down and ensuring that any increase in capacity is closely regulated.

What are the implications of future passenger trends and possible mergers in the airline industry?

12. The UK, as a result of its geographic position and history as a pioneer in aviation, has achieved an enviable place in the world air transport economy. Subsequent steps to deregulate the aviation industry have also encouraged the growth of competitive players in that industry. As a result, UK-owned airlines are well placed to lead rather than to follow the process of globalisation in the organisation and operation of the industry over the next decade. This applies both to the full-scope carriers such as British Airways and Virgin Atlantic, as well as the UK registered low fares and charter airlines.

13. The world airliner industry is increasingly dominated by three strong global alliances (Currently Oneworld, SkyTeam and Star) and, in so far as governments allow foreign ownership, these could in theory evolve into genuinely global companies. This may be a necessary development to improve the fundamental economics and profitability of international airline operation. British Airways is a leading member of one global alliance—Oneworld—and is seeking to deepen its links with Iberia and American Airlines. Given the state of the international airline industry, this is both desirable and necessary and should ensure that BA retains its position as one of the leading European and world airlines. However, alliance membership is fluid and airlines do switch from one to another, and carriers in competing alliances have their own bilateral marketing arrangements with each other. Many airlines refute the argument that alliances or global airline companies are necessarily the way forward.

14. As in the case of a large part of the UK airport infrastructure, the benefits of national control and ownership of airline assets have to be set against the value of inward investment, greater economies of scale and scope and generally improvements in competitiveness. In general the UK has benefited from an open approach to inward investment and commercially driven enterprise, as well as a commitment to commercial liberalisation of the air transport sector. However, it should be noted that other countries are seeking to maximise returns through a strategic coordination of airport, airline and tourism. This best exemplified by the Dubai-Emirates airport-airline linkage. The recent move to coordinate Schiphol and Paris CDG airports will also support Air France-KLM operations.

To what extent can rail provide an alternative to short-haul flights?

15. Air transport should be viewed as a vital element in an integrated national transport system. In principle fast-rail is an alternative to some short haul flights, offering rapid, centrally located stations. But as such it has to be quick, reliable and competitively priced. The latter factor is especially important where a low fares airline option is available. Nor should it be automatically assumed that rail is a greener alternative to air travel if the motive power diesel-powered or electrical generation sourced from fossil fuelled turbines. Improvements in the UK’s rail network will also necessitate substantial investment to expand capacity and to raise average speeds. Similarly, while many potential passengers would find rail attractive alternate to short haul flights, a rail service, even if connected directly to Heathrow or other major airport, might not be a viable alternative.

16. Investment in connectivity, either through a new fast rail hub as at the proposed Heathrow development or in the case of regional airports, such as Birmingham, Manchester and Southampton, should be undertaken as a national infrastructure priority irrespective of any airport expansion. There is now an opportunity to redress an historical failure properly to coordinate the UK’s transport system.

What costs does aviation impose on society and the environment?

17. Growth in air traffic must be achieved in an environmentally sustainable manner; growth in UK originating air traffic should not be at the expense of increasing the UK’s carbon footprint beyond current values. Indeed, ideally this should over time move towards a reduction in that footprint. The Aviation industry is aware of its environmental responsibilities, and schemes such as Flybe’s eco-labelling give passengers full transparency of the environmental costs of their flight. The “Aviation Emissions Cost Assessment, 2008” indicated that, on average aviation would cover its known climate impact costs for 2006 had the Air Passenger Duty rate been applied at the rate brought in February 2007.
18. A detailed analysis of trends in the UK Aviation carbon footprint suggests that the CO2 from UK aviation can be reduced to 2000 levels by 2050. This can be achieved through a combination of new technologies, operational efficiency gains and sustainable fuels, against a background where passenger numbers are projected to grow by a factor of three. This does not assess the impact of aviation’s inclusion in emissions trading, and its adoption on a European and global basis should further reduce the carbon footprint of UK aviation.

19. Beyond 2025, there is an expectation that continued technological innovation would further lessen the environmental impact of civil aircraft, with the possible introduction of novel aerodynamic shapes and powerplant designs. However, this must be placed outside the current planning horizons for the UK and as such no allowance is made for technological improvements beyond those known to be in hand.

20. Predictions made about environmental improvement have tended to underestimate both the rate and degree of such improvements. The A380, for instance, consumes less than three litres of jet fuel per seat and per 100 kilometres and has a roughly 50% smaller equivalent noise level footprint around the runway as compared to previous generation aircraft in its size range. Boeing’s 787 furthermore promises a substantial reduction in fuel consumption of 20% in comparison to previous generation aircraft in its size category. Boeing also claims that its noise footprint will be about 60% smaller than the respective figure for its predecessors.

21. However, meeting the planned expansion targets without exceeding the published limits implies the replacement of the international airline fleet, or at least in sufficient numbers and at a rate that meets the build up of new growth at UK airports. By 2020, fleet replacement by new aircraft types will be well underway, and by 2025, a range of new short to medium haul aircraft should also be replacing the current generation of Airbus A320s and Boeing 737s. Even without these new types, the continued replacement of 1980s aircraft by new airliners will undoubtedly reduce aviation’s carbon footprint. Even without new single aisle aircraft, a significant number of 1980s short-medium range aircraft in service will be retired over the next 10 years with a subsequent improvement in noise and emissions. The increased use of larger turbo-prop regional airliners, with virtually no high altitude emissions, should also mitigate some of the environmental impact of increased traffic.

What are the implications of climate change policy-in particular the Climate Change Act 2008-for the aviation industry and infrastructure?

22. Certain aspects of the Government’s climate change policy are already threatening the UK Aviation competitiveness without delivering an overall gain to the environment. In particular, the decision to double the Airport Passenger Duty (APD) will favour non-UK European hubs. Passengers who decide to fly long haul via other European hubs could save between £60–100 per head by splitting their ticket. Although some passengers, primarily business travellers, might still want the timesaving of a direct ticket, the potential saving on offer would attract a family party and increasingly cost conscious business passengers.

23. From 2012, UK passengers will be taxed twice for aviation’s environmental impact as the carbon-tax Emissions Trading Scheme (ETS) is implemented throughout the EU. This would add in the region of £19 per head to a flight originating in the EU.

What are the effects of security considerations on UK aviation?

24. The need for enhanced security both in the air and at major aviation centres has increased operational costs and created additional inconvenience to the travelling public. These are a necessary and unavoidable consequence of modern times. Nothing should impede steps to ensure the safety and security of air transport. Better terminal design and new sensor technology will help the processing of passengers through security. Where this is not feasible, priority should be given to improving flow through security. Similarly, resources should be directed to both improving the quality and numbers of staff employed to process passengers.

Final Observations

25. Government policy must ensure a wider UK access to the global air transport system. This has two interdependent components: ensuring adequate and appropriate provision of regional airports and air services; improvements in terrestrial modes and their integration with the air transport system. Despite all its problems, airport expansion in the South East of England, especially at Heathrow, remains an essential part of the future of UK Aviation. However, it should also be noted that regional access to the global network can also be effectively served through access to foreign hubs.

26. Government has an active role to play in maintaining the competitiveness and maximising the economic benefit of air transport. But this must not be at the expense of the environment—and holding to the status quo will not be good enough. Government should not allow the commercial interests of any single actor, or combination of actors, to determine the outcome of public investment in the air and other parts of an integrated transport system.

February 2009

Memorandum from Campaign for Better Transport (FOA 67)

**SUMMARY**

— Continued airport expansion is incompatible with the Government’s carbon-reduction targets.
— To tackle this problem, the number of short-haul flights should be reduced by transferring journeys to rail.
— High-speed rail alone cannot do this; cost is a major barrier to modal shift.
— The prices of travelling by plane and train do not reflect the carbon emissions that each produce.
— People are being priced off trains and priced on to planes.
— A tax on fuel used for domestic flights would reduce demand for short-haul flights and reduce carbon emissions.
— Regulating rail fares at RPI-1 would give people an incentive to switch to rail.

**Aviation cannot keep expanding**

1. Aviation accounts for 13% of the UK’s impact on climate change and causes noise, air pollution and road traffic around airports. The Climate Change Act includes an ambitious target to achieve an 80% reduction in carbon emissions by 2050 and Geoff Hoon recently announced a new Government target: emissions from British aviation must be reduced to below 2005 levels—37.5 million tonnes—by 2050.

2. However, Department for Transport (DfT) figures for the growth of aviation carbon dioxide show that, even assuming steady improvement in aircraft fuel efficiency, emissions will rise to 59.9 million tonnes in 2050. The DfT also forecasts that the expansion of Heathrow will result in its CO₂ emissions increasing from 17.1 million tonnes in 2005 to 23.6 million tonnes in 2030. This means that proposed expansion at regional airports around the UK cannot go ahead if Heathrow’s third runway does, because an expanded Heathrow would use two-thirds of British aviation’s carbon ration by 2050.

3. The DfT’s forecasts assume that annual passenger numbers will more than double from 228 million in 2005 to 525 million by 2050. But continued airport expansion is incompatible with the Government’s targets to reduce greenhouse gas emissions.

**Rail is the alternative**

4. We’ve published research showing how the Government could reduce business and other flights by boosting alternatives such as rail travel and teleconferencing. Business people are using teleconferencing more, and when they have to travel, they prefer rail travel to flying. They find stations easier to access and less stressful than airports, and trains more comfortable than planes. Train travel allows travellers to make more productive use of their time than plane travel.

5. A high-speed rail link needs to be considered, but many short haul flights can already be replaced with train journeys—for example, London to Manchester takes only two hours by train. One of the main barriers to modal shift from plane to train is cost.

**People are being priced off trains and priced on to planes; cost trends are driving growth in demand for domestic aviation**

6. We recently published research by Steer Davies Gleave (SDG) which shows that a package of pricing measures, involving cutting bus and rail fares and increasing motoring and aviation taxation, could reduce carbon emissions from transport by 13% by 2025. SDG suggest that the Government should rebalance prices to give people an economic incentive to choose low-carbon travel.

7. Geoff Hoon acknowledges in the foreword to Delivering a Sustainable Transport System that tackling climate change means “facing people with true carbon cost of (their) choices”. At the moment, this is not happening. The climate change impact of flying is eight times greater than taking the train (taking into account both CO₂ emissions and a radiative forcing factor of 2.7). Yet it is often cheaper to fly than to take the train.
8. Trains are the alternative to planes but people are being priced off them. The SDG research shows that if public transport fares had been reduced by 20% (to around the European average) in 2000, bus and rail travel combined might now be 120 billion passenger-km a year, an increase of 10 billion or around 9%. Reducing fares today by 20% could increase rail travel by 17% by 2015. Rail fares have risen by 5% in real terms over the last 10 years, and Government policy is to make passengers pay 75% of the cost of running the railway by 2014. This means above inflation fare increases every year—franchises have been negotiated on the assumption of increasing fares.

9. Meanwhile, the price of one-way flights from UK airports has, on average, halved in the last 10 years. This dramatic reduction in price has increased demand.

Government should tax domestic flights and reduce rail fares

10. The aviation industry as a whole receives a £10 billion subsidy. Although fuel cannot be taxed on international flights due to the Chicago Convention, it could be taxed on domestic flights. Other countries such as the US, Norway and the Netherlands already tax fuel on domestic flights. This would be an equivalency tax on domestic flights using pilots logs to determine the amount of fuel used, so that airlines wouldn’t have an incentive to refuel outside the UK. Calculating the tax required using an industry average would incentivise airlines to prove that they are more efficient than average, which would further reduce carbon.

11. The SDG research models the impact of taxing aviation fuel on domestic flights. This showed that a tax which increased the overall price of air travel by 50% and the fuel price by 200% would reduce CO₂ by 1.3 million tonnes a year by 2025 (a 45.5% reduction in passenger-kilometres relative to Government forecasts).

12. A tax on fuel used for domestic flights could be set at any level. If fuel were taxed at the rate currently used for motoring, around £460 million a year would be raised (based on 2006 figures).

13. Taxing aviation fuel on domestic flights could provide the extra funding needed to reduce rail fares, for example by regulating them at RPI-1. If the Government regulated rail fares at RPI-1 from 2010–11, the loss of revenue would be £142 million in 2014–15 and £339 million in 2019–20. (An increase in demand would mean some extra investment in capacity would be needed). This need not involve hypothecation; it could simply mean a higher budget for rail and new revenue to the Treasury from aviation fuel tax.

14. A reduction in domestic flights would also open up slots at airports for long-haul trips where there is little alternative—this would be a more efficient use of limited airport capacity.

*February 2009*

Memorandum from British Parachute Association (FOA 68)

INCORPORATION OF SPORT PARACHUTING ACTIVITY WITHIN UK CONTROLLED AIRSPACE

BACKGROUND

Sport Parachuting in the UK is a large, well organised sector of the recreational aviation spectrum. The British Parachute Association (BPA) has been in existence for nearly 50 years and its member clubs now perform in the region of 250,000 parachute descents every year which includes an average of over 30,000 participants each year.

The UK is a particularly busy parachuting nation. It is the most active of the European nations. This is illustrated by the fact that, apart from France and Germany (which are also very active), the UK performs more jumps annually than all the rest of the EU nations put together. It is now very strong in international competition and holds current world championships in several parachuting events.

The organisational structure of parachuting has changed considerably over the past few decades. Thirty years ago there were over forty parachute clubs in the UK. There are currently only 22, though these fewer number of clubs perform much more parachuting than previously. The main reason for the decline in club numbers is the difficulty which is now encountered in obtaining planning permission for locations at which to conduct parachuting. Very few new sites get planning permission. This means that existing sites must be regarded as immovable and when the locations come into conflict with the developing resource requirements of other agencies (e.g. NATS requirements for controlled airspace) then every effort must be made to incorporate parachuting activity within those developments.
Regulatory Structure

Sport parachuting is regulated in the UK by the BPA under the terms of an Approval issued by the CAA. The BPA therefore conducts the day to day regulation of parachuting but this process is overseen and audited by the CAA. Although it is possible, under CAA provisions, for a parachuting operation to be set up independently of the BPA, it would prove to be a difficult process. For this reason there are currently no independent organisations, so the BPA effectively controls all civilian and military sport parachuting.

Several BPA clubs currently operate within controlled airspace. These operations are usually conducted under the terms of a letter of agreement between a specific club and the relevant Air Traffic Service Unit (ATSU). The agreement will detail the precise way in which parachute operations will be conducted in that particular sector of controlled airspace and the terms under which the ATSU will provide a service to the club.

Current Situation

The decline in the number of locations at which parachuting can be conducted has resulted in a trend towards the acquisition of larger and faster climbing aeroplanes in order to cope with the increasing demand for the activity. This has provided a beneficial environmental spin off, insofar as the trend has been away from a large number of small piston engined aircraft towards a smaller number of turbine engined aircraft. In terms of ATC management this is also advantageous. The larger turbine aircraft are faster and service a set number of parachute jumps with fewer number of flights than their smaller piston engined predecessors. This makes it easier for ATC to incorporate a parachute operation within its routine activity.

The amount of airspace which parachuting activity takes up within the UK is also tiny. Each notified drop zone occupies a circle with a radius of 1.5 nautical miles and a maximum altitude of Flight Level 130. It is not permitted for parachute descents to take place outside of this area. Although the aircraft performing parachute drops will often fly outside of this area in the course of their ascents and descents, they do not need to move far from the area and can easily be directed to conform with immediate air traffic control requirements.

Future Requirements

It is clear that the need for controlled airspace is increasing and will continue to do so and that this increase will necessarily be at the expense of the finite area of uncontrolled airspace within the UK. This will inevitably mean that parachuting drop zones will become increasingly located within areas of controlled airspace. It is obvious that parachuting activity close to a major airport would not be desirable and this is reflected by the fact that drop zones do not exist close to them. They do, however, exist in wider areas of controlled airspace and have done so successfully for many years.

Future airspace planning policy should therefore incorporate provision to enable parachuting activity to be conducted within controlled airspace. There is perhaps a tendency for parachuting to be regarded as a nuisance factor within enroute air traffic control systems. This is simply a reflection of the fact that recreational aviation generally has come to be regarded as expendable when set against the sacred totem of commercial air transport. The only rationale behind this is that commercial air transport is a bigger industry. This does not, however, make it any more worthy and we believe that airspace planning policy should make provision for parachuting operations to be catered for within any airspace expansion plans.

The BPA wishes to ensure that it is closely involved with any planning procedures that are likely to affect its continued activity and would welcome assurances that it will be involved in this way.

Summary

1. Sport parachuting is well organised and thriving within the UK.
2. Some clubs currently operate successfully within controlled airspace.
3. Parachuting locations are few and planning restrictions make them immovable.
4. The total airspace required by parachuting activity is tiny and manageable.
5. Future airspace planning should therefore incorporate parachuting activity if necessary.
6. Parachuting should not be regarded as expendable in airspace planning but as a rightful user whose requirements can be managed within an ATC system.

The British Parachute Association appreciates being given the opportunity to make this submission and will be happy to expand upon any of the brief detail included here. Any request for further information will be given immediate attention to enable a rapid response.

February 2009
Memorandum from Gatwick Area Conservation Campaign (FOA 69)

Summary

The economic value of aviation, and its growth rate, is affected by the lack of fuel tax and VAT. The magnitude of this subsidy is assessed.

The flaws in the Department for Transport emissions cost assessment are exposed.

A request is made that the Select Committee should explore how the new Government target of no increase in aviation CO2 emissions is to be enforced.

— An explanation is given of why an additional runway at Gatwick is impracticable.

Submission

1. Founded in 1965, GACC is the main environmental group concerned with Gatwick Airport. We have as members over 100 councils and amenity groups, covering an area of roughly 20 miles radius around Gatwick.

What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

2. The value of aviation to the UK economy is greatly over-stated if no account is taken of the tax subsidy which the industry receives as a result of paying no fuel tax and no VAT. (See paragraphs 15–16 below).

3. Gatwick’s role is mainly bucket and spade. In 2005 Gatwick handled 4 million business passengers but 25 million leisure passengers. By 2030 the Department for Transport forecast 6 million business passengers and 33 million leisure passengers.1

4. Since the number of international transfer passengers is low, three million in 2005 falling to 2 million in 2030, there is little competition from airports abroad.

Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

5. The rapid growth in aviation is almost entirely due to its low tax status. When, in 2003, the Department of Transport re-ran their computer model on the assumption that by 2030 air travel would be paying the same rate of tax as car travel the result was that no new runways would be needed in the UK.2

6. We do not believe that any further expansion is compatible with the Government’s target of an 80% cut in CO2 emissions by 2050.

7. There has been some speculation that the sale of Gatwick may mean that a new owner may apply for permission for a new runway. For the reasons given in Annex A, any new runway is impracticable.

To what extent can rail provide an alternative to short-haul flights?

8. Paris used to be the main destination from Gatwick. Since the advent of EuroStar there are now no flights to Paris.

9. There can be no doubt that a high speed (or faster than at present), convenient and comfortable rail service to the Midlands, the North and Scotland would attract many passengers from London and areas south of the Thames who at present use flights from Gatwick.

What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

10. Since air travel is mainly used by the higher income groups, its tax exemptions cause injustice to society.

11. The costs to the environment, in particular climate change and noise, are well known. We consider the attempt by the Department for Transport to put a value on these impacts to be biased towards the aviation industry and seriously inaccurate. We attach a critique of the Emissions Cost Assessment as Annex B.

12. The Government have introduced a new “enforceable” target that aviation emissions should be no higher in 2050 than in 2005.3 According to the Secretary of State for Energy and Climate Change, aviation expansion is ‘conditional’ on the achievement of this target.4

13. Presumably this means that no airport expansion will be permitted until the Government is satisfied that the aviation industry is on course to achieve the target. We hope that the Transport Select Committee will explore how this is to be enforced.
14. At Gatwick we are particularly aware of the impact of aviation on the environment. The airport is surrounded on three sides by Areas of Outstanding Natural Beauty, and the noise and visual intrusion caused by the constant stream of aircraft arriving and departing causes great disturbance and annoyance.

What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

15. The Treasury have stated that: “Were the UK to charge a fuel duty and VAT on tickets, this could result in revenues of around £10 billion”.

That figure would appear to be on the low side since the Treasury have also stated that imposing fuel duty on aviation fuel, without VAT on the fuel or on air tickets, would yield £8.5 billion a year. VAT on the cost of all air tickets on flights departing from the UK was estimated at £4 billion in 2003 but will have increased since then. In addition duty-free and VAT-free sales at airports provide a further tax subsidy for aviation.

16. Against these figures needs to be set the revenue from air passenger duty of around £3 billion. Thus it appears that the frequently quoted fact that aviation benefits from a net tax subsidy of around £9 billion a year remains broadly correct.

What is the impact on the aviation sector of changes in the security environment?

17. No comment.

Annex A

WHY AN ADDITIONAL RUNWAY AT GATWICK IS IMPRACTICABLE

18. Gatwick at present has two runways, the main runway and an emergency runway, but they are too close to be used simultaneously.

19. There is a cast iron legal agreement that prevents the construction of any new runway before August 2019. The agreement could only be overturned by primary legislation, and the Government has decided that it should not be overturned.

20. The situation would not change with a change of government: the Conservative and Lib Dem Parties have stated that they are opposed to a new runway at Gatwick.

21. There is insufficient physical space for a new runway between the towns of Horley and Crawley. As BA has commented, the current plans show the runways so close together that the airport could not operate efficiently. A change in the ownership of Gatwick is not going to alter the topography of the area.

22. If concern about climate change goes on increasing, or if the cost of oil rises again when the recession is over, or if a future Government decides to tax aviation fuel, the growth in air travel will slow down or stop. These considerations are likely to make any owner of Gatwick hesitant to invest in a new runway.

23. If, although we trust it will never happen, by 2019 new runways have been built at Stansted and/or Heathrow there will be no commercial case for a Gatwick runway. Alternatively, if the pressure of public opposition has defeated the Stansted and Heathrow proposals, there are good reasons to suppose that the opposition will be even more fierce from around Gatwick.

24. There have been several previous proposals by Governments or by the BAA for an additional Gatwick runway, in 1953, in 1970, in 1993 and in 2003. Each failed because, on close examination, the plans proved impracticable due to the constraints of the site.

Annex B

THE AVIATION EMISSIONS COST ASSESSMENT 2008


26. The DfT count all APD receipts as offsetting climate change costs. Yet the document is littered with statements that part of APD should count as going to general government revenue to make up some of the shortfall due to aviation paying no fuel tax and no VAT. It is noticeable that in documents published by the Treasury in recent years APD is said to serve both purposes, whereas in documents published by DfT it is counted as offsetting climate change.

27. The cost of the climate change damage used in the ECA is extremely low. It is based on the hidden assumption that all other nations will take strong and effective action to reduce climate change damage, and that global carbon emissions will peak in the next 10–20 years, and then fall at a rate of at least 1–3% per year. It assumes that the UK, despite causing more aircraft climate change damage per head than any other country, needs to take no lead.
28. There are many other external costs of aviation which are not included in the ECA, the most obvious ones being the environmental impacts of aircraft noise, local pollution, and the damage to the natural and built environment caused by airport expansion.

29. Moreover the ECA calculation only relates to flights departing from the UK. There is a strong theoretical case for including the cost of all carbon emissions caused by UK citizens on their outward and on their return flights.

30. The fact that DfT have done the calculation for aviation alone leads to the suspicion that the main purpose was to support aviation expansion plans. Using the same methodology as used by DfT it can be shown that road users pay twelve times their climate change costs.13 The average household pays far more in income tax and VAT than the cost of the climate change damage they cause.14

Notes
3 Secretary of State for Transport. House of Commons. 28 January 2009.
4 House of Commons. 28 January 2009
6 Answer to PQ. 10 June 2008.
7 See note 2.
11 For example, the consultation on Aviation Tax.
13 Road users paid £45 billion to the Exchequer in 2006, a net contribution of £37 billion after allowing for the cost of Government funded road maintenance and construction. CO₂ emissions from road transport amounted to 126 million tonnes in 2006 which (using the same cost of carbon which DfT applies to aviation) equates to a climate change cost of £3 billion.
14 The UK’s total greenhouse gas (GHG) emissions in 2006 were 652 million tonnes of CO₂e which (using the same cost of carbon which DfT applies to aviation) equates to a climate change cost of £16.1bn. In income tax alone UK households paid £137.6bn to the Exchequer in 2006.

February 2009

Memorandum from General Aviation Safety Council (FOA 70)

In response to your request for a submission, it must be made clear that the General Aviation Safety Council’s (GASCo) objectives are to improve safety in general aviation (GA) in the UK and our responses mainly cover this area and the well being of GA for the continuation of safe flying. GASCo was a participant during 2005/6 in both of the Civil Aviation Authority (CAA) run Strategic and Regulatory Reviews of General Aviation and some of the findings of these Reviews are, where appropriate, used for this Inquiry. Briefly:

— Q1. The Strategic Review states that “GA is perceived by some to be purely a leisure pursuit and the preserve of the wealthy. However, this masks the real picture. In fact GA covers a very wide range of activities, has many participants and is not insignificant in terms of economic size. The Review concludes that an estimated £1.4 billion of direct economic contribution from UK GA in 2005 seems reasonable. This makes UK GA roughly the same size as Virgin Atlantic which in 2005 reported a similar turnover. GA is estimated to employ over 11,000 people in the UK with the business aviation sector making up the lion’s share of the overall economic contribution”.

— Q2. From an infrastructure point of view, expansion of regulated airspace can result in forcing general aviation aircraft to fly round such areas taking them over built up areas, high ground, over water or close to wind farms. From a safety point of view this is undesirable. Any Expansion of regulated airspace would generally lead to a narrowing of corridors freely available for general aviation use and to the worsening of ‘choke points’. This increases the risk of mid-air collision and of airspace infringements. The problem is worst around large conurbations. GA must have both appropriate aerodromes and airspace to operate. One of the key elements for safe flying of any sort is to be in current practice. The Regulatory Review showed that lack of flight handling skills,
training, currency or experience were factors in nearly all fatal accident to GA aeroplanes, helicopters, microlights and gliders. It also stated that there are approx. 12,000 powered GA aircraft in the UK, 2,500 gliders, 6,400 hang and para-gliders and 1,700 balloons flying some 1.3 million hours per year. (See also Q5).

— Q3. Rail travel, not relevant to GA safety but for business use GA airfields close to rail access into cities is a consideration.

— Q4. The effect of climate change policy has been recognised but is impossible to apply retrospectively to existing GA aircraft although measures are in hand for future generations.

— Q5. The effect of taxation on GA was covered in the Strategic Review which stated that “the VAT treatment for UK flight training is tougher than in some other countries and this can amongst other factors, affect the ability of UK-based flying schools to compete effectively with those abroad”. The availability of flying instructors and schools able to provide quality basic and refresher training has been identified by both the CAA and industry as one of the major problem areas affecting GA safety. The burden of fuel taxation on training costs is considerable bearing in mind that many current training aircraft use 20 litres per hour and the minimum hours to obtain a licence is 40 hours.

— Q6. The Strategic Review stated that “there is increasing pressures for GA operations to comply with new security requirements primarily aimed at Commercial Air Transport (CAT) and this area where it may be hard to find the right balance between achieving regulatory objectives and the burdens it places on GA”. One of the main reasons for GA is the relative freedom to fly and remain in current practice without the sort of big brother attitude of a totalitarian state. Although for many it is a hobby for the business sector flexibility is paramount.

— General 1. Many of the proposed and enacted EASA regulations are best suited to airlines and CAT without the effect on GA having been properly thought through. Many are bureaucratic with almost no impact on improving flight safety, forcing the general aviation organisations to use valuable time reviewing etc rather than being able to use their limited resources seeking safety improvements.

— General 2. The Inquiry should perhaps bear in mind that GA is where many airline pilots started their flying careers or gained flying experience and the recent successful Hudson River ditching may in part owe its outcome to the Captains background in the gliding world.

We hope this is of help to the Inquiry.

February 2009

Memorandum from Highlands & Islands Transport Partnership (FOA 71)

WRITTEN EVIDENCE

1. HITRANS is pleased to take this opportunity to respond to the Committee’s call for evidence regarding current aviation issues in the United Kingdom.

2. The Highlands & Islands Transport Partnership (HITRANS) is a statutory body covering all forms of public transport in the Highlands and Islands of Scotland encompassing not only road, rail, sea and air travel, but also cycling and walking.

3. HITRANS working with its five constituent Councils is charged with developing and delivering a strategy and promoting improvements to the transport services and infrastructure network that serve the region. The organisation takes an integrated and inclusive approach by consulting with the local communities and companies to achieve its objective of “enhancing the region’s viability by improving the interconnectivity of the whole region to strategic services and destinations”.

4. HITRANS is responsible an area of just under half of Scotland’s land mass but which has only 410,000 residents—10% of Scotland’s population. It includes over 80 island communities, of which 20 or so are served by airports and airfields.

5. Air services are fundamental to daily life in the 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. Small regional aircraft with less than 20 seats (predominantly the Britten-Norman Islander and the Twin Otter) are used to carry traffic between the remoter parts of the Highlands and Islands Airports and the local hub airports in Argyll, Orkney and Shetland for service access or provision, and onward connections. A number of the larger key settlements in the region have direct air service access to Inverness, Aberdeen, Glasgow or Edinburgh, the major national hubs. Aviation is vitally important for supporting social and economic cohesion in the Highlands and Islands.
6. HITRANS has previously responded to most of the areas of inquiry set by the Committee, and would summarise the areas it would wish the Committee to consider as follows:

— Regional airports are key to the economic prosperity of the remoter regions of the UK and critical to their effectiveness is access to Heathrow, for the twin purposes of accessing London and interlining with international air routes, particularly with the USA.

— Access to Heathrow from the UK’s remoter regions has significantly reduced over the last 20 years to their detriment.

— European hubs potentially offer some options for business travellers, particularly for those travelling to the east, but splitting London traffic and interlining traffic makes most destinations uneconomic for airlines to run regular flights from the smaller regional airports.

— The aviation infrastructure is not well used to meet the economic needs of the UK as a whole, what we need is a better distribution of air services to meet the need for access to European and world markets from the UK regions, which cannot reasonably access the Heathrow hub by land based transport.

— Security of air passengers is important, but security should be commensurate with the level of risk. It seems incongruous to set the same standard of security for small airports in the highlands and islands as Heathrow. The cost of supplying this level of security is far higher per passenger in small airports than large, yet the risk is generally lower.

— The future of local “lifeline” air services in the most remote parts of the UK is potentially threatened by the lack of ongoing availability of modern aircraft to meet the need. A change in legislation to permit the option of using modern single-engined aircraft for such services would be helpful.

HITRANS would in support of the above offer the following detailed evidence on the issues to be considered by the Committee:

**What are the roles of the London and regional airports?**

7. The table below displays flight frequency data derived from the Official Airline Guide (OAG) for the months August 1988 and June 2008. One of the key air transport issues for the Highlands and Islands region is access to London Heathrow. In the summer of 1988, Inverness, the hub airport for the region, was linked to Heathrow with an average of over three daily flights. By the summer of 2008, 20 years later, Inverness had no links to Heathrow, and was instead served from London Gatwick with an average of nearly four daily flights.

<table>
<thead>
<tr>
<th>Domestic route</th>
<th>Kms from London</th>
<th>Flights to Heathrow August 1988</th>
<th>Flights to Gatwick August 1988</th>
<th>Flights to Heathrow June 2008</th>
<th>Flights to Gatwick June 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inverness</td>
<td>714</td>
<td>22</td>
<td></td>
<td>217</td>
<td></td>
</tr>
<tr>
<td>Aberdeen</td>
<td>646</td>
<td>44</td>
<td>10</td>
<td>84</td>
<td>19</td>
</tr>
<tr>
<td>Glasgow</td>
<td>555</td>
<td>121</td>
<td>27</td>
<td>116</td>
<td>52</td>
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<tr>
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<td>535</td>
<td>112</td>
<td>20</td>
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<td>67</td>
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<tr>
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<td>101</td>
<td>14</td>
<td>27</td>
<td>37</td>
</tr>
<tr>
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<tr>
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<td></td>
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<td>43</td>
<td>11</td>
<td>39</td>
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<td>291</td>
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<td>13</td>
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<td></td>
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<td>Manchester</td>
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<td>Exeter</td>
<td>220</td>
<td></td>
<td>13</td>
<td></td>
<td></td>
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<td>Norwich</td>
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<td></td>
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<tr>
<td>East Midlands</td>
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<td>Birmingham</td>
<td>160</td>
<td>38</td>
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<tr>
<td>Total</td>
<td>842</td>
<td>217</td>
<td>603</td>
<td>499</td>
<td></td>
</tr>
</tbody>
</table>

*Source: OAG Flight Schedules*

8. The further regions are from the hub in south east of England, the greater the requirement for effective air links with the hub airports, as the difference in travel time between air and land based transport is greatest for these regions.
9. Since August 1988, Heathrow has “lost” air services on nine regional routes—19 domestic destinations were served from Heathrow in 1988, decreasing to 10 by 2008.

10. In addition to the Flybe service to Gatwick, EasyJet also offers daily services between Inverness and Luton and Gatwick, but these are not an option for business travellers wishing to conduct a full days’ business in either Inverness or London, as the first EasyJet departure from Inverness bound for London arrives at Luton at 12.55 pm and the latest return flight from EasyJet is the 13.45 from Gatwick. Using EasyJet alone, it is not feasible to conduct a days’ business—one must overnight at the destination for at least one night. Low Cost Carriers do not configure their schedules for the benefit of business passengers or the economic benefit they create, instead preferring for commercial reasons to offer off-peak scheduling.

What competition do they (UK airports) face from abroad?

11. One side-effect of denying regions access to Heathrow is that regions thus affected will seek interlining capability at the “next best” option on the Continent. Amsterdam, Paris CDG and Frankfurt airports all offer far greater opportunities for a transfer passenger than Gatwick does. Amsterdam Schipol has five operational runways, Paris CDG has four, and Frankfurt Main received approval for a fourth runway just as Heathrow was getting the go-ahead for a third.

<table>
<thead>
<tr>
<th>Airport</th>
<th>Weekly departing flights</th>
<th>Weekly departing seats</th>
<th>Non-stop destinations/Countries</th>
<th>Seats per aircraft departure</th>
<th>Weekly flights per destination</th>
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</thead>
<tbody>
<tr>
<td>LHR</td>
<td>4,331</td>
<td>845,750</td>
<td>157/79</td>
<td>195</td>
<td>27.6</td>
</tr>
<tr>
<td>CDG</td>
<td>4,382</td>
<td>701,853</td>
<td>224/103</td>
<td>160</td>
<td>19.6</td>
</tr>
<tr>
<td>FRA</td>
<td>3,770</td>
<td>612,837</td>
<td>235/97</td>
<td>163</td>
<td>16.0</td>
</tr>
<tr>
<td>AMS</td>
<td>3,363</td>
<td>478,613</td>
<td>195/76</td>
<td>142</td>
<td>17.2</td>
</tr>
</tbody>
</table>

Source: OAG Max Online for w/c 16 February 2009

12. As the table shows, Heathrow offers the greatest weekly seat capacity of the four hub airports. This partially explains why, with fewer runways than its continental competitors, Heathrow is operating at or close to capacity for the majority of the time. The average aircraft size at Heathrow is larger than its rivals, due in no small part to the smaller regional aircraft operations being “squeezed out” and moved elsewhere.

13. The problem for Inverness and the other smaller UK regions that do not receive scheduled service to Heathrow is that they generally have insufficient traffic to support direct flights to continental hubs, even if slots at these busy locations are available. If they cannot access Heathrow (and to a lesser extent Gatwick) then they cannot access the world, and the local economies and the ability to attract inward investment suffer tremendously.

14. The likelihood of obtaining slots at London Heathrow on the open market for flights to Inverness is remote in the extreme. Data collated by Airport Coordination Ltd (ACL) shows the excess demand for departure and arrival slots generated at Heathrow in the summer of 2008.
Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

15. Currently, aviation infrastructure is far from adequate to serve the needs of businesses and communities across the UK. The “hub and spoke” concept relies on air traffic from the regions feeding passengers into London for onward domestic and international connections, and vice versa. While there may be sufficient runway and terminal capacity at most regional airports (at the very least to handle air traffic growth over the next two decades), the congestion occurs at the London airports, specifically Heathrow (as shown in the ACL charts above). Heathrow is the largest UK airport, and the only UK airport to offer effective interlining capability. Therefore, access to Heathrow for the UK regions is singularly important to the business community.

16. The Future of Aviation White Paper published in December 2003 by the UK Government outlined what additional capacity was necessary to enhance the UK’s economic competitiveness. In the southeast, two new runways in London were identified—as of today, we are no closer to achieving this, although the Government has now given its approval for a third runway at Heathrow to be planned. This is the first step, however, in what will be a very long drawn-out planning process.

17. London will not see additional capacity before 2020 at the earliest. In this time, it is highly possible that more regions will lose access to Heathrow, and possibly London altogether.

18. The Competition Commission’s recommendation for the dissolution of the BAA monopoly in 2008 was intended to increase competition and therefore provide passengers with more choice, cheaper fares and a wider product offering. However, selling Gatwick Airport will do nothing to ease congestion at the already-over-capacity second London airport or at Heathrow. Provision of extra runway capacity in the southeast is the only way to ensure that the needs of UK business and individuals continue to be met.

What are the implications of future passenger trends and possible mergers in the airline industry?

19. Given the competitive business environment that airlines operate within, consolidation has been going on since the industry began. In the current tough economic climate, however, airline mergers and acquisitions seem to be occurring at a greater pace.

20. An issue that HITRANS has had to contend with is that of securing vital air services from a loyal airline willing to operate the “lifeline” link from Inverness to London. Historically, Inverness had access to Heathrow. That air service was transferred by BA from Heathrow to Gatwick. Currently, Flybe, who took over this service, operates three daily return flights between Inverness and Gatwick.

21. In addition, Flybe acquired BA Connect in 2007 and entered into a franchise agreement with Loganair in 2008, resulting in this single airline providing the great majority of air services from Inverness, particularly as Flybe has also further developed routes on Inverness-Manchester and Birmingham.

22. The trend towards a single operator providing the great majority of services to the smaller airports in the UK, competing only with a limited number of low cost carriers on the denser routes, could in theory lead to domination of the market. There is no sign or suggestion of Flybe abusing their position and they are a competent carrier, but there remains the possibility that such domination could impact on routes serving the smaller regional cities should circumstances change through perhaps merger or acquisition.
What is the impact of taxation on the aviation sector nationally and regionally?

23. Highlands and Islands Airports Ltd (HIAL), a Scottish Government supported company, operates 10 airports in the Highlands and Islands area. These airports are small and, combined, processed 1.45 million passengers and 62,000 air transport movements in 2008, yielding an average passengers per ATM of just 23. To benefit the small communities that these airports serve, all operations from and between HIAL airports are exempt from Air Passenger Duty (APD) and this is very welcome as a recognition of the unique nature of services in our region. However, arrivals at HIAL airports from other UK airports are subject to APD. The resultant higher fare to travel to HIAL airports combined with the high cost of air travel within the region inevitably has a negative effect on potential inbound tourist numbers and inward investment as no other mode can provide effective access to this remote region.

To what extent can rail provide an alternative to short-haul flights?

24. There have been myriad misrepresentations on the feasibility of substituting (mainly domestic) short-haul air services with high-speed rail alternatives. Indeed, the Government has announced its support for a proposed high-speed rail network linking London and the southeast to English regional areas. The underlying concept is to offer air travellers an alternative to flying the relatively short routes and HITRANS supports this policy. It is an environmental concern that is leading this initiative.

25. There are certainly short haul domestic air services that can and will be largely replaced by rail alternatives. For example, Birmingham, East Midlands, Norwich, Bristol and Southampton do not reasonably need air services connecting these airports to a London airport. Rail is a more convenient way to travel between these points, as the potential rail journey time is generally under two hours. The proposal to introduce a high-speed rail network in the UK will further cut the train journey time on these shorter routes and other intercity corridors, bringing Birmingham within 1 hour 15 minutes travel time to London. On much longer domestic air service routes, for example the Inverness/Aberdeen-London routes, rail is much less feasible as an alternative to air travel. For time-conscious business travellers, frequency of service, duration of journey and flight times to allow a days business at the destination are the most critical factors when considering transport modal usage—cost of travel alone is a secondary concern.

26. The following analysis of the Inverness-Gatwick air and rail route will highlight the difficulties in the assumption that rail substitution on a journey of over 400 miles will benefit business travellers. The actual route distance is 444 miles (or 714 km). A businessman flying with Flybe can depart Inverness at 0705, arrive Gatwick at 0855 and be in central London for 1000. This would allow him seven hours of working time before returning to Gatwick for the Flybe 1920 departure to return to Inverness at 2110; a long but not unreasonable day. By contrast, to achieve a worthwhile working period in London, the rail alternative involves the use of the overnight sleeper in both directions as the day train from Inverness to London departs at 0646 but does not arrive in London until 1457 allowing for a maximum of two hours of time during the normal working day; return could be that evening by sleeper (if two hours was sufficient) or the next day after an overnight stay in London. The air option is cheaper, when the cost of the sleeper or London accommodation is taken into the equation, and importantly provides significant time in London within one working day.

Are passengers adequately protected from the collapse of airlines?

27. It is not necessarily the collapse of individual airlines that HITRANS is concerned about, more the collapse of specific routes. Generally, when an airline ceases operations competitive market forces will dictate that another airline commences operations on the collapsed airline’s route network (although only where a route is viable profitable). Of much greater consequence to HITRANS is when a route is “lost” and cannot be picked up by another airline—such as the British Airways Inverness-Heathrow service. BA dropped this operation and used the peak-time runway slots at Heathrow for other services, arguably for a lucrative transatlantic route yielding greater profits.

28. This trend has been increasing since Heathrow effectively became “full” at peak operating times, and has been further exacerbated by the EU/US Open Skies agreement concluded in 2008 which saw a number of carriers moving selected long-haul operations from Gatwick to Heathrow to optimise profitability. The inevitable has happened at Heathrow—peak slots are in great demand and short supply so regional carriers such as Flybe, which connects London to many UK regions, are “priced-out” of Heathrow. A pair of peak runway slots at Heathrow can fetch up to £20 million for the proprietor—a sum that only the major players serving passengers on high volume international routes can afford. BA’s Inverness-Heathrow service suffered as many other regional routes have. BA clearly felt its shareholders would benefit more if the slots at Heathrow were used for more profitable long-haul services.

29. To counter this major problem, HITRANS has long campaigned for the UK Government to provide Public Service Obligation (PSO) protection for the Inverness-Heathrow route as is provided on a number of internal routes in France. This is seen as the only viable mechanism that protects “lifeline” air services for peripheral communities that cannot achieve effective land based transport access to the London hub, offering subsidies for a carrier to operate if necessary, although this would not always be needed as while these services may not be as profitable as international ones, they still potentially offer a return on
investment. To protect the social and economic well-being of remote communities, a successful network of complementary commercial and PSO routes has been delivered in the Highlands and Islands to serve residents and to attract inbound tourism and investment. HITRANS believes a PSO designation on the Inverness-Heathrow and other comparable routes will provide stability to the remoter regions of the UK and send the message that the regions are an important element in the UK economy and in many ways as important to the UK economy as the southeast.

What is the impact on the aviation sector of changes in the security environment?

30. Post 9/11, ICAO has issued wide-ranging recommendations on airport security issues for airports worldwide. Regrettably, a “one size fits all” approach to improvements in the airport security environment was adopted. Logic dictates that an airport with the size and importance of Heathrow requires a higher level of security measures than a small, regional airport like Inverness, or indeed Tiree. As previously stated, the airports in the Highlands and Islands area are small. HITRANS would like to see a level of security at airports that is commensurate with the level of operations and risk, so that smaller airports are not crippled by disproportionately high security costs.

Commercial operations of Single-Engined aircraft in IMC

31. A prominent issue for aviation in the Highlands and Islands is the issue of aircraft availability and replacement. Many of the ultra-thin intra-island routes are operated with old, effectively-obsolete twin engined aircraft with antiquated avionics and performance technology—the Britten-Norman Islander and the de Havilland Twin Otter are predominant in this regard. A suitable modern twin-engined replacement to maintain service continuity remains elusive, although fabrication of a updated Twin Otter is recommencing in Canada, although still fundamentally based on the original aircraft with its inbuilt limitations. There is no comparable proposal to replace the smaller but arguably more significant Islander.

32. An alternative to continuing to use these old planes would be to loosen the current prohibition on Single-Engined aircraft operations at night or in Instrument Meteorological Conditions (SE-IMC) for commercial services. Currently, the UK Government has issued a blanket ban on SE-IMC in its airspace.

33. In contrast, many European countries with, it has to be said, a similarly dispersed pattern of population as the Highlands and Islands, have allowed SE-IMC on commercial operations. Norway, Sweden, Denmark and Spain are examples. Outside of Europe, the USA, Canada, Australia and New Zealand have all approved SE-IMC. As a result, the major manufacturers of small commuter-style aircraft are no longer designing them with two engines, condemning the Highlands and Islands to continue sine die with obsolete aircraft.

34. The UK authorities have prohibited SE-IMC as it remains to be convinced of the safety case. Independent research conducted suggests that Single-Engined Turbine aircraft (such as the 13-seat Cessna Grand Caravan) are in fact more reliable and safer than comparable light twin-engined aircraft. HITRANS, in collaboration with other development agencies in its region, is seeking for the CAA prohibition to be changed, to allow airlines the option of using single-engined aircraft.

35. HITRANS would be pleased to elaborate on any of these points for the Committee, and is prepared to travel to London, by plane, to provide verbal evidence should this be considered desirable.

February 2009

Memorandum from HACAN (FOA 72)

HACAN represents residents under the Heathrow flight paths. It is a key organisation in the wide-ranging coalition of organisations and individuals opposed to the expansion of Heathrow. Our website is www.hacan.org.uk

INTRODUCTION

Rightly, you are conducting a wide-ranging inquiry but we felt we could not do justice to all the questions in 3,000 words. So, we have concentrated on one topic: economics.

On the other topics we just briefly mention here that:

— We have real concerns about the way noise is measured and that this seriously underestimates the number of people affected.
— We believe that investment in a good, rapid, affordable rail system will provide a viable alternative for many short-haul flights.
— We do not believe that the Government’s expansion plans are consistent with its targets to cut climate change emissions.
**SUMMARY**

— The Government has commissioned no independent study into the contribution of aviation to either the UK economy or the regional economies.

— The work which has been done seriously over-estimates the contribution of aviation to the economy.

— There is powerful evidence to show that the growth in cheap flights is damaging the economy; in particular it is having a negative impact on regional economies.

— A policy which aimed to cut the number of cheap, short-haul flights would benefit the economy, particularly the economies of the regions outside London.

The questions we address are:

What is the value of aviation to the UK economy?
What are the roles of London and the regional airports?
What competition do they face from abroad?
What is the impact of taxation on the aviation sector nationally and regionally?
Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

**The Contribution of Aviation to the Economy**

1. The Government makes much of the alleged contribution of aviation to the UK economy. The 2003 Air Transport White Paper started with the words “Air travel is essential to the United Kingdom’s economy and to our continued prosperity”. Perhaps this shouldn’t come as a surprise since the White Paper was based on a study that, although commissioned by the Government, was 90% funded by the aviation industry with its forward written jointly by the Chief Executive of the Airport Operators Association and the Chairman of the British Air Transport Association! The brief for the study, commissioned from consultants Oxford Economic Forecasting (OEF)(1), did not even include a requirement for the consultants to assess the environmental and social costs of aviation expansion or take into account the tax-breaks the industry receives each year. OEF produced an updated version of its 1999 report at the end of 2006. This formed the basis of the Government’s review of its 2003 Aviation White Paper, its so-called “Progress Report”, published in December 2006.

2. The updated OEF report found that the aviation industry contributed £11.4 billion to GDP, 1.1% of GDP (2004 figures). It found that the industry directly employed 186,000 people (full-time equivalents) in 2004. And that it helped to support over 520,000 jobs in total, including those employed in its supply chain and in travel agents, and the jobs dependent on the spending of its employees. The 1999 OEF study estimated that aviation exports £6.6 billion of services (11% of UK total export of services and 3% of total UK exports) and that it transports a further £35 billion of UK exports (over 20% of all exports of goods). It went on to argue that many of the expanding industries, such as the “knowledge-intensive” industries of the future, are particularly dependent on air travel. It concluded that, if the number of passengers were not allowed to grow at all beyond 1998 levels, £30 billion would be lost to the economy by 2015. These claims were substantially confirmed by OEF’s 2006 Report.

**The Economic Flaws in the Government’s Position**

3. When the economic claims of the industry/government are examined closely, a much more complex and very different picture emerges.

*The aviation industry does not pay its full share of general taxation*

3.1 It does not pay any tax on its fuel. It is zero-rated for VAT. It is estimated that these tax breaks cost the Exchequer over £9 billion per year(2). The aviation industry does not dispute that it receives significant tax breaks. But it is always keen to point out that it contributes its share of other taxes such as Corporation Tax and National Insurance. The 2006 OEF report estimated that it contributed £2.5 billion to the Exchequer, “on a conservative estimate”. Even with the extra £1 billion plus from the recent rise in Air Passenger Duty, this still falls far short of £9 billion.

*The aviation industry does not pay its full social and environmental costs*

3.2 A report published by the respected INFRA Institute in Zurich and IWW at the University of Karlsruhe(3) put the UK’s external costs of aviation at around £14 billion per annum in the year 2000. (This included the costs of climate change, noise, local air pollution around airports and the impact of airports on nature and the landscape). The UK economist Brendon Sewill calculates that, in 2006, the cost is likely to be around £16 billion(4).
The OEF Report distorts the number of jobs created by the aviation industry

3.3 The figure of 186,000 is accurate but the figure of 520,000 is open to question. OEF state that it includes “the jobs in the energy sector that are dependent upon airline purchases of fuel; construction workers building additional facilities at airports; the workers required to produce the goods sold at airport retail outlets”. So it includes, for example, the workers in tobacco factories or distilleries who make the cigarettes and whisky sold in airport duty-free shops. OEF state that it also includes “the 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”. Thus it includes, for example, workers in the local supermarket where airline or airport workers (or tobacco or distillery workers) spend their money. Thus the OEF report greatly exaggerates the importance of the aviation industry. If all industries calculated the jobs they created in this way, the result would be more jobs than there are people employed in this country.

Value of time

3.4 A major factor which the OEF report uses, in calculating the economic benefits of aviation, is the value of a business person’s time. It values her/his time at £62 an hour if travelling during working hours and £31 an hour during non-working hours. These figures average out a 40% higher than those used by the Department for Transport when valuing a commuter’s time. They are also higher than the figures that appear to be used in Europe. OEF makes no attempt to explain why they have gone for such high figures.

The importance of aviation to hi-tech industries has not been proved

3.5 Both the Government and the OEF report set much store about the particular importance of aviation to the hi-tech industries of the future. But their case is somewhat undermined by the survey they seem to be basing it on. According to the 2006 OEF report, “questionnaires were sent out by OEF to around 6,000 companies and 165 replies were received”. Any respectable polling organisation would regard this 2.75% rate of response as an exceptionally low, and wide open to bias. And, out of the 6000 letters, OEF only received replies from 17 high-tech manufacturing companies. It is obvious that “high-tech knowledge-based” and similar industries use air travel, and will continue to do so, but, the Government has failed to show how important aviation actually is to these industries because of the paucity of its evidence.

3.6 There is a huge annual deficit in aviation tourism—that is, the difference between what Britons spend abroad and visitors spend in this country. It is currently estimated to amount to at least £15 billion per year. London is the only region where there is a (small) tourism surplus. What this means is that regional airports, such as Liverpool and Newcastle, where flights numbers have increased dramatically since the coming of the budget airlines, are making it easier for a significant amount of money to be taken out of the regional economy and spent abroad.

3.7 This has had a direct impact on the UK tourist industry. Certain areas are hit particularly hard. When British people holiday in the UK, they tend to fan out to all parts of the country but foreign visitors tend to concentrate on the “hotspots” of London, Stratford-upon-Avon, York and Edinburgh. The aviation industry is being subsidised at the expense of the UK tourist industry.

3.8 Lees subsidy would reduce the number of people flying abroad and increase the numbers spending their money either holidaying in this country or using it to make a consumer purchase (almost certainly in this country). Some foreign tourists would be put off coming to this country but the richer ones, who contribute most to the UK economy during their stay, are the least likely to be deterred by higher fares. At present, cheap fares are haemorrhaging money out of the UK economy.

3.9 Only 25% of all air trips are for business purposes (Heathrow, at 38%, is higher). This percentage is not predicted to change over the next thirty years. It means that the huge growth in passengers numbers—a near-trebling in the number of people using UK airports by 2030—will largely come from the leisure market, the very area which is currently leaking so much money out of the national and regional economies. This expansion will damage the economy. A recent report on Glasgow airport bears this out. It found that Glasgow Airport currently contributes an annual deficit of £1.36 billion per annum to the Scottish economy. This is largely the result of the huge number of Scottish tourists taking large amounts of money out of the economy when the fly abroad on holiday. This deficit does not include the money lost to the economy through the tax-breaks the aviation industry enjoys. Nor does it include the cost to the country of the environmental downsides of airport expansion, such as more noise-related problems or climate change. And that this deficit will increase if airport expands.
Ev 392  Transport Committee: Evidence

Aviation expansion may not be the most effective way of regenerating the economy

3.10 The Government’s Standing Advisory Committee on Trunk Road Assessment (SACTRA) examined the links between transport provision in general and economic activity(7). Although the report concentrated on road building, the authors made it clear that their findings were applicable to all forms of transport infrastructure. It is regarded as the most comprehensive study done anywhere in Europe into the connection between transport provision and economic performance, yet it was virtually ignored by the Government when drawing up the Aviation White Paper.

The SACTRA Report came to a number of conclusions:

— in a mature economy which already has a well-developed transport system (such as the UK) any increase in economic growth from improved transport is likely to be modest;
— there is no simple link between the provision of transport infrastructure and regional regeneration;
— non-transport factors in a region (such as the availability of skilled labour) are usually a more critical factor in regenerating a region than transport infrastructure; and
— there will be winners and losers when new transport infrastructure was built—competitive areas may gain improved access to weaker areas, which in turn may suffer job losses.

3.11 Investment in many other areas of the economy could bring a much better return. Professor John Whitelegg found that investment in a world-class regional surface level transport system and improved rail links to London were much more important to the economy of NW England than the expansion of Manchester and Liverpool airports(8).

3.12 It would be too disturbing to the cosy relationship between the Department for Transport and the aviation industry for the Government to have commissioned work which looked at the potentially positive impact on other industries—and the economy as the whole—if aviation was to be curbed. Consultants Berkeley Hanover, who did examine these issues, argued that, if aviation became more expensive, people would spend their money on other goods and services in other areas of the economy and that, if, unlike air travel, these were unsubsidized, there would be an actual increase in national welfare(9).

3.13 There is a related point here concerning jobs. The aviation industry boasts about the number of jobs it claims expansion will create, but it fails to recognise that the number of jobs created by investment in aviation might not be a reliable indicator of the industry’s contribution to the overall economy, nor its impact on Gross Domestic Product. The reason for this is that it is incorrect to assume that all these people would otherwise be unemployed. Budgets may well be spent elsewhere, leading to employment and contributions to GDP in other areas of the economy(10).

3.14 Only at Heathrow has an independent study been done, the CE Delft Report(10), examining the question of whether or not flights, jobs and business would go to other European studies if UK airports did not expand. It found that the overall economy would not suffer if Heathrow did not expand because people would spend their money elsewhere with the result that other sectors of the economy would grow. “The economic importance of the sector can only be determined when comparing the size of the economy with the size it would otherwise have had. It is clear that the money currently spent on aviation would be spent in alternative ways in other sectors if there had been no aviation, or in case of restrictions on runway capacity. Thus it would also contribute to GDP and employment, and have indirect and induced effects”. It added: “the value added generated by the aviation sector was estimated at 11.4 billion pounds. It should be noted that this does not imply that 11.4 billion pounds of gross value added would be lost if the aviation industry ceased to exist. The figure provides an indication of the size of the sector, but not necessarily of its importance. For this the counterfactual scenario, or next best alternative, should also be taken into consideration. If there would be less aviation, value added would be generated in other sectors instead”.

3.15 CE Delft challenges the view that, if Heathrow does not expand, firms will locate to other cities in Europe which have large and expanding airports. “Although the access to good aviation links is one of the location factors for new companies, it should be noted that currently London is already ranked number 1 for its transport links with other cities and internationally. Notably, the impact of the location factor “access to air services” is of greater importance with regard to companies’ decisions on where to invest within the UK, than on the decision regarding the country in which first to locate . . . One may ask oneself the question what additional effects could be expected from further adding to the capacity of the airport”.

Conclusion

The economic claims the Government makes about its airport expansion plans are not backed up with convincing evidence. In fact, the independent evidence which does exist indicates that a large part of the expansion plans—those to cater for further growth in cheap, short-haul flights—are damaging the economy and particularly the regional economies outside London.
REFERENCES

(7) Transport and the Economy, SACTRA, published by HMSO, 1999

February 2009

Memorandum from NECTAR (FOA 73)

— NECTAR is an open, voluntary, umbrella body, established to provide a forum in which the many organisations with an interest in sustainable transport in all its forms can develop a co-ordinated viewpoint on contemporary transport issues. NECTAR provides opportunity for the exchange of news, studies and information.
— Covering the same geographical area, NECTAR provides a single, co-ordinated voice for dialogue with the Government Office for the North East, the North East Assembly, One North East, the Association of North East Councils, and similar bodies concerned with transport and related policies at a regional, national and European level.
— NECTAR is one of a national network of Transport Activists’ Roundtables sustained through Campaign for Better Transport.
— NECTAR executive committee members currently include Campaign for Better Transport, CPRE, CTC, (Durham) Coastliners (rail user group), Friends of the Earth, Living Streets, Railway Development Society (Railfuture), and Tyne Valley Rail User Group—but all are welcome to participate.

INTRODUCTORY SUMMARY

(i) Our response consists of two elements—a General Comment, followed by our Answers to specific questions. We have followed the numbering and the over-all sequence of these, but, in sub-dividing our answers, we have added (a), (b) or (c) to the given numbers, as necessary, for clarity.
(ii) The gist of our response is that Aviation produces far more atmospheric and other damage than has so far been taken fully into account, making it by far the most polluting method of transport that we now have. A rigorous concentration on those (few) circumstances in which air travel is the best way available for (usually long-haul) journeys must imply the reduction and even the ultimate removal of a large proportion of the shorter-haul journeys now operated—in the interests of the health and well-being of everybody everywhere on this planet.

GENERAL COMMENT

Some of the questions posed here suggest that some Government decisions on the future of Aviation have been taken, but would like a few messages of support from the public to make them more palatable. Others, particularly questions 2 and 5, combine two quite unrelated strands.

ANSWERS TO SPECIFIC QUESTIONS

1(a) What is the value of aviation to the UK economy?

The answer to this will vary according to who gives it: our view is that aviation counts for less than official claims (eg the preamble to the questions in this Inquiry) imply. Certainly, in respect of the supposed 180 million passenger journeys annually, some authorities claim that, far from benefiting the UK economy as such, they take, or cause to be taken, far more money out of the UK than they bring into it. Besides, it is
not clear whether a total figure, in the context of aviation, represents a 50-50 balance of Britons flying out and visitors flying in—or whether a slight or a grave imbalance exists, thereby distorting the financial value one way or another.

1(b) **What are the roles of the London and regional airports?**

(i) We in North-East England probably make little use of any of the four airports traditionally regarded as serving “London”, even for connections beyond. This is especially true if our comparatively modest needs for air travel are served by direct flights from Newcastle, Durham Tees Valley or Leeds/Bradford airports. Even when no direct flights exist, it usually makes far more sense to link at Amsterdam (for instance), or Paris or Frankfurt, than at Heathrow with its endemic congestion and frequent delay. We emphasise here, too, that no amount of extra runway building at Heathrow or at any other London area airport would alter this fact of air-travelling life.

(ii) We note now with interest that even the Department for Transport, in its document “Developing a Sustainable Transport System”, acknowledges just four significant air routes within the UK, viz those linking London with Newcastle, Manchester, Edinburgh and Glasgow.

1(c) **What competition do they face from abroad?**

It is difficult to understand how regional airports, as such, face any such competition. More likely is that one regional airport will offer a larger range of flights that its “neighbour(s)”, which is not what this question is about. The airports in London could and probably should be more often eschewed, especially by those with easy access to Eurostar, in favour of those in Paris, Brussels or even further away—or be avoided altogether now than so many European centres of commerce and of tourism are gaining faster overland links by high-speed rail in one form or another. From a regional point of view, any “competition” from “abroad” arises from the circumstances outlined in our answer to 1(b) above.

2(a) **Is the current aviation infrastructure adequate for the needs of UK businesses and individuals . . .**

(i) For many people, the answer is either “yes, it certainly is”, or even “yes, and we would prefer that it were reduced”. It is also vital to distinguish between “needs” (ie answering the question “Is your journey really necessary?”) and “desires”, both at individual and at business level. Shortcomings in and around the Scottish Isles, for instance, where—given favourable weather—airborne contact is often of life-saving importance as well as the only such inter-island contact available, may prompt understandable requests for improved airstrips and other terminal facilities—but they are in no way an argument for upgrading provision elsewhere in the UK, especially when just about every survey of CO2 emissions gives just cause for alarm rather than for complacency.

(ii) Flying, for environmental reasons of increasing threat to all on this planet, has to be seen as something occasionally necessary, rather than the natural right of all would-be holidaymakers and businessmen and women. If a hierarchy of “justifiable” types of flying is to be compiled, then long-haul business would probably top it, followed by long-haul journeys in general, mainly but not only those that involve the crossing of oceans and/or large land-masses.

2(b) . . . [and] **How should it be developed?**

In the overwhelming majority of circumstances, not at all. The best reference we can cite to justify this rather sweeping claim is Brendon Sewill’s booklet “Fly now, grieve later”, published in 2005. In it a calmly-argued case is made for strict limits to the over-all total of flights offered, rather than their total abolition, on the basis of scientific evidence for the pollution levels, both now and many years into the future, both at ground level and in the atmosphere, that are caused by air journeys of all kinds, including those already made.

2(c) **What are the implications of future passenger trends and possible mergers in the airline industry?**

(i) It is not clear whether this question is tacitly recognising that air travel figures are no longer growing either at the speed some have predicted, or even at all. Apart from that, it totally disregards any possibility that the best way forward for the aviation industry, environmentally, is to discourage a much air travel as possible, not least—but not only—by offering rail alternatives, as hinted in the next question here. We think that future trends have been over-estimated anyway: there are well-documented cases of regional airports’ forecasts (eg at Manchester) failing to come true by a margin of several million by a specified date. On a far smaller scale, the same has been true almost annually at Durham Tees Valley airport—and these two examples are by no means alone.

(ii) The significance for all this of airline mergers is not necessarily clear. A merger need not mean an overall reduction in flight provision.
3. To what extent can rail provide an alternative to short-haul flights?

The short answer here is “to the extent that future passengers choose rail rather than air for specific purposes”. However, even in the UK, there are figures showing that improved and accelerated rail services, eg between London and Manchester, have led to decreases in air use between these cities. Much of Western Europe can provide similar stories of modal shift: Paris—Lyon and beyond, thanks to the well-established TGV line; London—Paris/Brussels thanks to Eurostar; and several new high-speed lines in Spain, Germany and Italy. But more can and should be done. In the UK in particular, two sources of extra transfer from planes to trains would be furnished, by renewed and improved overnight sleeping-car trains, on new routes as well as those few that survive now, and by through north-of-London Eurostar services, especially between Birmingham and the continental mainland. These can happen on existing rail infrastructure. Looking ahead, as the Government at long last seems to have agreed to do, building of carefully-planned high-speed rail lines around the UK will definitely enable a reduction in domestic flights. It has often been noted that, if over-all journey-time by rail is no greater than 4 hours, it can and does compete successfully against the equivalent air journey, thanks mainly to long airport check-in times. This apart, some “leisure” travellers prefer a rail journey on its own merits, and will choose rail for journeys that last even longer than the quoted six-hour limit of tolerance for non-business travellers by train.

4(a) What costs does aviation impose on society and the environment?

(i) On the environment, as mentioned above, far too much (cf our answer at Question 2(b) in particular). On “society”, however defined, such costs may be expressible in purely monetary terms, but these are not the only ones, particularly where aircraft noise is concerned, and notoriously where flight-paths affect residential areas. Thus most of London, large areas of south Manchester, and significant areas around every airport in these islands, have noise-pollution beyond what is reasonable to inflict on averagely-sensitive human beings.

(ii) But that is not all. Insofar as airports have rail access, road access, and car and lorry traffic around them, these features also impose costs in congestion, noise, and fuel exhaust emissions that invariably impair the life-chances of those least able to avoid their effect.

4(b) What are the implications of climate change policy—in particular, the Climate Change Act, 2008—for the aviation industry and infrastructure?

(i) It may well be too early realistically to say, but as long as its provisions are enforced, rather than simply used to point out the Government’s good intentions, the Act should cause all airlines to check, limit, and even avoid harmful emissions completely, if that ever becomes technically feasible.

(ii) However, a worrying sign of the Government’s real thinking on this and kindred issues now appears on page 8 of the DaSTS Consultation Document on “Planning for 2014 and Beyond”. In Table 3.1, “The Challenges”, we read, next to “International Networks”:

“1. Ensure forecast growth in international aviation emissions is matched by equivalent transport reductions or offset by reductions in other sectors”. [Our italics]

To us, this can only mean that the present Government has decided that, whatever happens, air travel’s needs must always come first. We are totally opposed to this, and are the more thankful that the stated policies of the other main political parties are openly against increasing reliance on air travel—most notably in their welcome promises not to provide a third runway at Heathrow.

5(a) What is the impact of taxation on the aviation sector nationally and regionally?

Specific answers to this are not ours to give, but in general we think that taxation of airlines and air fuel is not nearly as high as it needs to be to represent the true environmental impact of their use. Indeed, the failure to tax aviation fuel at all is in direct conflict with the aims and the objectives of the Climate Change Act. If increasing tax levels leads to reduced ranges of flights and of airlines, then so be it; the quality of the air that we all have to breathe to survive will undoubtedly improve as a result.

5(b) Are passengers adequately protected from the collapse of airlines?

The answer to this, we suspect, depends on which airlines, and on which passengers use them. The ABTA and similar insurance safeguards are expected to take this kind of commercial failure into account. The financial and practical risks are well-known to most people, at least, by now, and it is up to the individual passenger to provide (or not) private insurance to cover the eventualities not covered by the industry. Difficulties of this sort arise when passengers prove to have been too trusting, or too ignorant of risk, to insure themselves adequately.
6. What is the impact on the aviation sector of changes in the security environment?

We would note only that the changes in the security environment highlight one of the risks inherent in aviation. The costs and inconvenience of security protection, exaggerated or not, are generally common to society. Ultimately, it must be for the industry to protect its customers, using the most effective means that it can.

February 2009

Memorandum from Trans World Consulting (FOA 74)

Executive Summary

— Trans World Consulting (TWC) estimates that the value of Aviation to the UK economy is £21.3 Billion for the period of 2006–07.

— UK airports are facing increased competition from other EU airports for a variety of reasons.

— The UK’s Airport Infrastructure is not adequate at the regional and national level to support the growth in passenger numbers in the next twenty years, specifically for point-to-point flights driven by business or strong foreign-ethnic connections.

— The UK Airport Infrastructure will be facing a sharp rise in the number of increasingly elderly passengers, some of whom may require assistance from check-in to boarding.

— As the current and next-generation aircraft allow for flying longer distances, in the near future they may be capable of reaching destinations which may require over 20–24 hours of direct flight time. This poses some health concerns for not only perfectly healthy passengers, but also for otherwise fit elderly passengers who may be unaware of their ability to tolerate normal flight bio-dynamics on such long-haul flights.

— The UK should support the anti-trust application of British Airways and American Airlines to help level the competition between major EU alliances.

— The Committee should be concerned with a recent US House of Representatives Resolution, 831, which proposes what we view as protectionist views on aviation that could negatively impact the remaining negotiations of US/EU Open Skies.

— We believe that this Committee should advise the Secretary of State to exercise their ability in the Section 30 of Climate Change Act 2008 to exempt Aviation from the scope of the Act, and report to the Parliament a series of alternatives listed in this brief to lower UK Aviation related carbon emissions.

— We recommend that this committee work with the Chancellor to examine (Air Passenger Duty) or APD as set forth in HMRC Reference: Notice 550 and propose a temporary reduction of premium class APD to match that of economy in an effort to assist airlines in stimulating lagging demand for these seats.

Brief Introduction of Trans World Consulting (TWC)—and Carter Stewart, Founder and Managing Director

Trans World Consulting (TWC) is a UK-based Aviation Consultancy. We use years of senior experience in the airline sector to make a positive difference—both for our clients and the industry as a whole. From top-level business strategies to high-profile mergers and acquisitions, we have the knowledge and experience to manage every kind of aviation-related project. We also advise on legislative strategy, tapping into our network of partners from Washington to Westminster.

Carter Stewart has held senior management positions with three international airlines, not to mention a high-profile role in one of history’s largest airline mergers. These experiences have helped make him a leading authority on commercial aviation—its challenges and its possibilities. Today, he puts his expertise to profitable use: delivering major airline business, technology and public policy projects across Europe, Asia and the United States.

TWC’s Factual Information and Recommendations for Action Based on the Terms of Reference of the Inquiry
The value of aviation to the economy of the United Kingdom

1. TWC calculates that the total value of aviation in the UK for 2006–07 is £21.3 Billion, or approximately 1% of the total 2006/2007 UK GDP.

What are the roles of the London and regional airports? What competition do they face from abroad?

2. The role of the London Airports should be to provide the Capital with a reliable, competitive, and diverse access for passengers, cargo. In all cases, through-passengers at so called “Hub” airports also play an important role in the UK economy by allowing carriers based in the UK additional revenue.

3. UK airports face increasing competition from abroad for varying competitive reasons. Specifically, our analysis shows that airports such as Frankfurt, Paris, and Amsterdam, and Madrid offer transiting consumers more competitive choices for a variety of reasons such as newer facilities, larger number of operational runways which reduce delays versus so called “mixed use” runways, and a public perception that while security is not sacrificed it is less inconvenient than at UK airports.

4. Some of these airport “hubs” attracting a portion of UK traffic are able to do so through exercising efficiencies found in their antitrust immunity, such as Amsterdam, Paris, and Frankfurt. The UK is behind by not having one of its largest carriers in an immune alliance.

5. To continue being a world leader who can attract and retain foreign direct investment, special attention must be paid to the aviation infrastructure, which has been linked by several studies as a key indicator for companies and corporations when making inward investment strategies.

Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

6. The growth in UK passenger numbers over the past decade demonstrate a need for continued investment in airport infrastructure throughout the United Kingdom. Currently, the major airports in the South-East are at capacity during the peak times.

7. We also believe as next generation aircraft become more flexible with the mission profiles, that we will see an expansion of profitable point-to-point flying by some airlines between key international destination and other UK Gateway airports where they may be business or ethnic demand. We feel that international carriers would be more attracted to expansion at airports such as Leeds/Bradford, Robin Hood Doncaster, and Newcastle if the sterile international departure and arrival facilities were permanently improved to handle a larger number of passengers with improved facility amenities. Statistically, these airports have catchment areas are large enough to support international air carrier service, however, TWC feels these airports have not been invested in by local, regional, and national authorities to the level to allow them to develop their service offerings.

8. There are two social sustainability issues that we feel will effect the rapidly aging world population and in particular the citizens of the UK. This increase in pension aged travellers represents two key issues for airport operators and commercial aviation on whole:

9. The first issue is airport infrastructure, and how current airport designs at some UK airports include long distances to transverse for aging and increasing disabled passengers. While these distances are technically and legally deemed accessible to the disabled, there will be unprecedented numbers of passengers requiring some form of assistance through the airport from check-in to boarding the aircraft.

10. The second key issue is as our population ages and aircraft designs continue to improve viable flight ranges there will be a greater risk to some airline passenger’s health and well being. Some flight sectors for the next generation commercial aircraft could be as long as 20–24 hours depending on configuration of the aircraft. This represents additional stresses on the healthy human body in terms of normal fluid dynamics and hypoxia that are considered today a normal part of the flight experience. Even in a healthy adult, Deep Vein Thrombosis has been found on flight shorter than six hours. In the elderly, including those who may or may not be under a physician’s treatment for a chronic health issues, the effects of these distances has not yet been established. Some simple conditions such as mild cardiac issues, hypertension, or even asthma may be exacerbated in ways we do not yet understand, causing a potential for passenger safety.

11. Airlines have done a great deal to improve their passenger’s on-board health over the past 10 years. These include warnings about the potential for injury if remaining sedentary during long flights, drinking alcohol sparingly, and keeping hydrated to prevent issues such as deep-vein thrombosis (DVT). In some cases such as British Airways the safety briefings and in-flight magazines include in-flight exercises you can perform to help prevent DVTs. In addition, the availability of Automated External Defibrillators (AEDs), an air-to-ground medical communication has improved survivability of passenger ailments in the air.
What are the implications of future passenger trends and possible mergers in the airline industry?

12. TWC strongly supports the US/EU “Open Skies” agreement and the United Kingdom’s fulfillment of its obligation to “open up” London Heathrow to further commercial competition. Since the first phase of the new EU-US Open Skies accord went into effect several new entrants have started flights in the lucrative trans-Atlantic market. This agreement has allowed these new market entrants to fundamentally change the competitive landscape at Heathrow and other airports throughout the EU. Ultimately the passengers now have a wider choice of carriers, service levels, and new non-stop destinations than ever before. As a result, we are urging regulatory authorities on both sides of the Atlantic to approve the American Airlines/British Airways application for antitrust immunity.

13. Since the implementation of the Open Skies agreement, we have seen many carriers such as Air France, Delta, and US Airways, and Northwest begin to challenge the established carriers in the Heathrow-US market. While the economic downturn has temporarily scaled down the expansion efforts of some like Air France, these are an example of the healthy competition that comes from open markets.

14. The past few years have also seen some important experimentation with trans-Atlantic links between other London airports, such as Stansted and Luton, with mixed results. Fairly radical change came at Gatwick as a near mass exodus of carriers shifted their Gatwick operations to Heathrow soon after the final agreement on Open Skies was in place. Virgin Atlantic also has a unique opportunity to redefine the overall London-US airport experience as it leads a consortium proposing the purchase of Gatwick Airport from the British Aviation Authority (BAA). If it succeeds in its bid, they will have the opportunity to potentially shift consumer preference away from Heathrow with a superior airport experience.

15. Overall, we feel that there is no cogent argument for opposing an airline alliance antitrust immunity. Using American Airlines and British Airways (or AA/BA) as an example, they are simply requesting the identical immunity that has been granted many other alliances in the EU and US already. We believe that its approval will level the playing field between the airline alliances, increase competitive pressures, and ultimately benefit consumers as a result.

16. TWC would also like to call to the Committee’s attention US House Resolution 831, a resolution that in our opinion seeks to take a protectionist stance on airline antitrust as well as call into question the validity of the US Secretary of Transportation and US Department of Justice to grant future immunity. In addition, the Resolution if made into law could jeopardise some of the key elements of the US/EU Open Skies treaty in the next phase of negotiation. (Copy of the resolution submitted as supplementary material.)

To what extent can rail provide an alternative to short-haul flights?

17. TWC’s analysis of the situation is that rail fares in the UK do not represent at this time the same value for time and money. In particular, we feel that three factors will prevent a statistically significant shift in travel by air to rail:

18. The introduction of a high-speed rail infrastructure that allows for travel times between cities that would be equivalent to those found in mainland Europe.

19. According to recent publicly available statistics, UK rail fares for commuters and longer-haul rail operators are not competitive with the rest of Europe and do not represent passengers value for money.

20. We believe that passengers are only one part of the equation. There is also a question of time-sensitive and high-value cargo operations that also account for a portion of airline revenue on short-haul flights as well. In our opinion, UK rail operators do not present a viable alternative to the UK short-haul air cargo needs.

What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

21. TWC takes the position that emissions from commercial aircraft account for less than 3% of all greenhouse gas emissions, while providing 1% of the gross GDP in the United Kingdom.

22. We feel that the Secretary of State should under Section 30, Section 5, subsection (b) of the Climate Change Act conclude that emissions from International UK inbound or outbound commercial aircraft movements should not be included in the UK emission numbers or the trading scheme. Specifically we recommend that this committee encourage the Secretary of State exercise their discretion contained in Part 6, Section 89, Paragraph (3) indeed does not count “as emissions from UK sources for the purposes of Part 1, except as provided by regulations”. Specifically, we feel that this places an undue and additional burden on international carriers, which will in turn be forced to place additional financial burdens on to passengers, resulting in a potential net-loss for UK traffic in terms of both passengers and cargo.

23. TWC recommends that Air Traffic Control (ATC) efficiency is a more immediate and sustainable approach than investing in the enforcement and administration of the carbon credit scheme. Overall, we believe that true sustainability must equitably address the balance between economic, environmental, and
social aspects. By focusing UK resources on reducing airborne traffic delays, and increasing Air Traffic Control efficiencies through technological advancement, the Secretary of State can make an immediate, measurable, improvement on carbon emissions from aircraft.

24. Another key way to increase UK and EU-wide Air Traffic efficiencies is examine financial and logistical ways to bring forward the UK’s participation in integrated EU Single Skies Air Traffic Control (SESAR) zone, and to fully understand what Green House Gas efficiencies will be gained in UK airspace as a result of the implementation of this new programme. Without this additional information, we do not believe that the Secretary of State can adequately assess the carbon budgets listed as their duty in Section 34, Paragraph 1, Sections (a) and (b) of the Climate Change Act.

25. We also recommend that there are more productive, short-term, carbon reduction plans that the UK Government could adopt to meet its carbon budget requirements. In particular, we believe that the Secretary of State should set aside an additional period exercising their discretion under Section 30, Paragraph 3, sub-paragraph (b) to advise additional research time is required to specifically investigate the innovative “Green Flight” programme, developed by SAS and Rockwell Collins which has immediate potential to help governments and the industry reduce emissions. With changes in both processes and technological investment, SAS have been able to reduce carbon emissions by 23,000 tonnes per year through more efficient flight and ATC ground systems interaction.

26. The carbon trading scheme could well be introduced in 2012, a time when the world and the UK economy is predicted to recover from it’s current downturn- perhaps even a depression. Of additional concern to both the UK and on the airlines themselves are the new revenue pressures that could drive away inward investment and causes connecting travellers to make alternate arrangements for long haul travel outside of the EU. This could cost the UK a large percentage of its aviation related revenue. In addition, airlines and passengers could begin to make choices to bypass the UK and EU on long-haul flights by using Gulf Based carriers, North American passengers electing for trans-Pacific routings.

27. TWC is concerned that there may be a lack of consistency between England and the devolved governments of Wales, Northern Ireland, and Scotland on the issue of Carbon Credits. It is our hope that the Secretary of State, Scottish Ministers, Welsh Ministers, and Northern Ireland departments will work closely together to ensure that the United Kingdom chooses a united stance on Aviation, and the Climate Change Act of 2008.

What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

28. TWC believes that the basic Air Passenger Duty (APD) and the additional premium class of travel APD as set fort in HMRC Reference: Notice 550 (Dec 2008) Section 2.5 are among some of the least competitive in the world.

29. We recommend that in the not unlike the temporary decrease in VAT, that The Committee consult with the Chancellor and consider a temporary decrease in premium travel APD to match that of economy class travel for a period of a time to help stimulate demand for these lucrative airline seats.

30. The new CAA consultation on the proposed APC increase not essential.

31. TWC opposes any more State-funded intervention in the event of failed carriers. We propose that UK consumers take out appropriate travel insurance to cover their business and holiday flights outside of the UK versus the current ATOL system.

February 2009

Memorandum from BAA Airports Ltd (FOA 75)

INTRODUCTION

1. BAA Airports Ltd is currently the owner and operator of seven UK airports: Heathrow, Gatwick, Stansted, Southampton, Edinburgh, Glasgow and Aberdeen. The Competition Commission (CC) is expected to conclude its investigation into BAA’s market share by the end of March 2009. The CC has provisionally suggested the divestment of three of these airports, namely Gatwick, Stansted and Edinburgh.

2. When the CC published its provisional findings, we said that we would be realistic in our response, though we disagreed with the Commission’s report and the analysis on which it was founded. As the CC itself accepts, the shortage of runway capacity in the South East is a main cause of poor service standards. We have continued to present our case, in respect of the South East airports and those in Scotland. At Stansted, we believe that a change of ownership would interfere with the process of securing planning approval for a second runway, which remains a key feature of Government air transport policy.
3. Although we continue to disagree with the Commission’s findings, the CC looks set to persevere with their arguments. As a result, on 17 September 2008, we announced our decision to sell Gatwick Airport, the second largest in BAA’s portfolio. The sale of Gatwick could be completed as early as March/April 2009.

4. We welcomed the Government’s announcement, on 15 January 2009, to support the delivery of a third runway and sixth terminal at Heathrow. This decision was not only essential for keeping the UK’s only hub airport competitive with its overseas rivals, but also to keep the UK and London competitive at a time of significant global, economic challenges. We remain committed to using the first tranche of any new runway capacity to ensure the airport is able to improve reliability by cutting delays.

What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

5. In 2008 BAA’s airports handled more than 145 million passengers, over 1.7 million tonnes of freight and over 1.25 million air transport movements. Oxford Economic Forecasting (2006) demonstrated that the industry contributed £11.4 billion to the UK’s Gross Domestic Product (GDP) in 2004, which alone represented 1.1% of the overall economy. The aviation industry directly and indirectly supports more than 530,000 jobs.

6. But aviation has wider economic value than simple direct benefits. The wide network of direct, global links offered by UK airports makes Britain an attractive place to do business. Senior directors currently rate London as the best city in Europe to do business, and identify access to markets and international transport links as key elements of its advantage. A survey of 500 of Europe’s top companies found that 52% considered transport links to be a vital factor in deciding where to locate their business; and 58% identified good access to markets, customers and clients as essential.

7. In a globalised economy, attracting and retaining inward investment is increasingly important. In 2007, Foreign Direct Investment (FDI) contributed more than £52 billion to London’s economy—accounting for 27% of the capital’s economy. FDI has also brought more than 500,000 jobs to London. But more than half of all FDI companies review their global strategy every three to five years, and 13% do so every year. A CBI/KPMG Business Survey, published in November 2008 found that “73% of respondents said that it is important to build a third runway at Heathrow provided environmental standards can be met”.

8. Aviation’s economic benefits stretch beyond the City. A recent study by Deloitte showed that Heathrow’s global gateway status plays a key role in attracting globally mobile and high value-added businesses to the Thames Valley and West London area. The study concluded that it was vital to the region that Heathrow did not become a source of competitive disadvantage. In a recent West London Business Sentiment Survey, 78% of businesses in West London believed that Heathrow has an important impact on the West London economy and the expansion of Heathrow was named as the single most important factor affecting their business in the future.

9. Heathrow brings economic benefits to other regions of the UK as well. A coalition of Scottish business groups published a letter recently calling for a third runway to protect the Scottish economy’s links into the global marketplace. “Scots business—large and small—need affordable, competitive links to a strong Heathrow, through which to channel people and goods to emerging and established international markets which can only be reached through a global hub airport”. Around 50% of people flying between Heathrow and Scottish airports are transferring to or from an international flight.

10. As the UK’s only hub airport, Heathrow plays a unique role in the economy—it is Britain’s gateway to the global marketplace. Heathrow accounts for only one-fifth of UK flights but for two-thirds of all our long-haul flights. Out of over 180 destinations served by Heathrow, the airport operates the UK’s only direct air links to world cities such as Mumbai, Shanghai, Beijing and Sao Paulo. The strength of its current network means that seven out of the top ten business routes in the world have Heathrow at one end. In addition, Heathrow carries over half of all UK air freight exports even though it has almost no dedicated freight flights. It is one of our country’s most important economic assets.

11. Hub airports are different from other “point-to-point” airports because they have a high proportion of transfer passengers. Transfer passengers are important to airlines because they help to smooth out the troughs and peaks of demand. Without transfer passengers, airlines often find it difficult to keep long-haul routes profitable and will cut either destinations or the frequency of service on a particular route. Transfer passengers therefore underpin two critical factors—network diversity and frequency; unsurprisingly, these are critical concerns for business travellers.

12. In contrast to Heathrow, the route network offered by point-to-point airports rarely stretches further east than Dubai or further south than the Caribbean. However, regional airports perform a vital economic role for their local area, particularly if they offer a direct link into Heathrow’s global connections. Many regional economies consider a Heathrow link essential to their well-being—up to 75% of passengers on domestic flights from Heathrow have transferred from an international flight.

270 Think London 2007.
13. This shows that not all airports are the same. The trend of airlines moving flights from Gatwick to Heathrow in the wake of the “Open Skies” agreement is a good example of airport hierarchy in action. Despite scarce runway slots at Heathrow costing upwards of £50 million, airlines were still willing to pay that price to access the valuable transfer and business passenger markets the airport offers. This illustrates how hub airports serve different markets and airlines will pay a significant amount of money to access the passengers and route network they need to remain profitable.

14. But Heathrow is vulnerable to foreign competition. Its two runways operate at 99% capacity which means the slightest problem—heavy rain, fog or head-winds—can result in serious delays and cancellations. It has no resilience, no flexibility. By comparison Paris has four runways, Amsterdam five, Frankfurt three, with a fourth approved and due to open in 2011. All have plenty of spare runway capacity and so are better able to cope with problems. Nearly half of all flights into Heathrow are delayed by 15 minutes or more—the figure on the Continent is a quarter, and many of them are the knock-on effects from Heathrow.

15. Capacity constraints are also leading to a reduction in Heathrow’s route network. Since 1990, Heathrow’s list of destinations has dropped from 227 to 183—until Heathrow is permitted additional capacity, airlines will understandably make the rational, economic decision to focus the limited slots available to them on the most profitable routes. In 1990 Heathrow was second in Europe in terms of flights to the rest of the world, but next year we will have dropped to 7th—behind Frankfurt, Paris, Amsterdam, Munich, Rome and Madrid.

16. Many people make the mistake of thinking that London has five airports so Heathrow doesn’t need to expand. But the fact is, Heathrow is the UK’s only hub airport—if Heathrow doesn’t expand, then airlines won’t fly from other UK airports, they will fly from hub airports in Amsterdam, Paris, or Frankfurt instead. In the medium to long-term, it is evitable this will affect British jobs and limit the UK’s ability as a whole to have network of reliable, direct connections into the global economy.

Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

17. The 2003 Air Transport White Paper provided a long term vision of how to meet some of the current and future demand for air travel. Our only regret is that it did not come sooner. From the mid-1980s to December 2003, aviation industry in the UK suffered from a lack of clear Government policy on future infrastructure requirements. As a result, the UK has fallen behind the rest of the world in developing adequate infrastructure for future requirements.

18. In the absence of government policy, Terminal Five took 22 years to go from conception to opening. This was partly because the planners had to guess what government aviation policy was, and then balance that with the other economic and environmental factors. In other words, there was no clear, defined policy to act as a reference point. Delays in the Terminal 5 planning process led to major overcrowding in the existing terminals—by 2007, there were 68 million passengers passing through buildings designed to handle 45 million.

19. The opening of Terminal 5 created space in the existing terminals and allowed BAA to launch a major investment programme to transform the airport. In all, over the next five years, BAA is planning to invest a total of £4.2 billion in the refurbishment and renewal of Heathrow’s existing facilities. This includes extensive upgrading of Terminals 3 and 4 but also the replacement of Terminal 1, Terminal 2 and the Queens Building with the Heathrow East Terminal—a brand new terminal that will provide capacity for around 30 million passengers a year, which we are working to deliver by 2013. BAA believes that this investment programme will transform passengers’ experience of using the airport, and provide London with the world-class international gateway that it demands.

20. But without additional runway capacity, Heathrow’s passengers will still continue to suffer from unnecessary delays and cancellations. There has not been a single, major new runway in the South East of England since 1946, despite the huge transformation in global aviation in that period. Year-on-year, this has led to more and more congestion at Heathrow, which remains our gateway to the world. In contrast, our hub competitors in Paris, Amsterdam and Frankfurt have developed the extra runways that give them the resilience Heathrow needs. The Government’s decision to support a third runway is a welcome step towards ensuring the UK has the right aviation infrastructure in place to meet future demand.

21. The fundamental question we face today is not just how we continue to improve our performance on a daily basis within the existing facilities, but also how we guarantee sustained investment levels sufficient to renew our airports, thereby improving the competitiveness of the UK.

22. BAA and its owners are fully committed to transforming its facilities, standards and capacity at Heathrow and our other airports, most importantly by investing in new runways at Stansted and Heathrow. To deliver higher levels of passenger experience, BAA is clear that significant additional investment will also be needed to replace and renew existing terminal facilities, particularly at Heathrow. Some of this investment is now nearing completion and delivering real benefits for passengers.
23. At Stansted, BAA is currently extending the existing terminal building to provide additional space for arriving passengers. Stansted has successfully sought planning permission to lift the current cap of 25 million passengers a year, to enable the airport to grow to around 35 million passengers a year. This growth will be supported by investment in further development of terminal facilities and airside infrastructure, at an expected cost of some £520 million.

24. In Scotland, BAA has transformed its airports in the last ten years—through sustained investment in terminal capacity, passenger facilities and international routes. Over the next ten years, BAA will do so again. Similarly, BAA is investing in Southampton Airport, to the obvious benefit of its passengers in the South of England.

25. The White Paper provided BAA with the clear Government policy it needed to take long-term investment decisions in its airports. Having taken five years to develop, consult on and report, the White Paper should not be lightly set aside. It finally filled the vacuum left by an absence of government policy in the past, so it should not be seen as an optional extra for the future. There are many legitimate voices in the debate over airport expansion, but none of them has the democratic mandate of a government charged with balancing those individual viewpoints with the needs of the nation, now, and in the future.

26. We therefore believe that we are at a critical stage in the development of air travel in this country. We are pleased that the Committee is taking time to examine the future challenges for the industry, knowing that decisions taken in the next couple of years will have a direct impact on the UK’s infrastructure over the short, medium and long-term.

27. As a result of the current global downturn, passenger numbers at our airports have fallen in the past 12 months. However, on the evidence of historic economic downturns and the resulting effect on air traffic, the long-term prospects for growth remain good and that passenger volumes will recover in due course.

28. Global air travel demand has been growing robustly over the past 30 years and is set to continue. Passenger numbers have grown more quickly than GDP, both globally and in the UK, despite potential external shocks such as the current financial situation. Forecasts show the demand for air travel will continue to outstrip growth in GDP.

29. It is expected that the airline market will continue the trend of consolidation through mergers and alliances. We welcome a more streamlined industry and have developed a two-alliance hub strategy for Heathrow to meet the needs of the future airline market.

30. It is often suggested that domestic flights from Heathrow should be replaced by a high-speed rail network. But even if all UK domestic passengers could switch to rail today, the 10% of capacity theoretically freed up would be filled by other demand not currently being met. The airport would be full again before 2020 when a third runway is due to be completed and long before a high speed network could actually be built.

31. This suggestion also fails to appreciate the importance of Heathrow as a gateway to the world economy for the UK regions. On average, around 60% of Heathrow’s domestic passengers are transferring to or from an international flight. As an example, rail dominates the market for passengers who are simply travelling between Manchester and London city centres, but where passengers need to travel internationally, they will choose to fly. Up to 75% of passengers on Manchester flights into Heathrow are transferring onto international flights—Manchester to Hong Kong via Heathrow is a particularly strong connection. Domestic air links into Heathrow’s long-haul network help to provide regional economies with access to markets and customers worldwide.

32. The existing high speed rail line between London, Paris and Brussels has reduced the growth in flights between those destinations and Heathrow, but it has not replaced them entirely—air has retained a 20% market share. Generally speaking passenger numbers are half what they might have been without rail. Further substitution is hard to imagine as it is more convenient for some passengers to fly. The only way to further reduce the number of flights to these European destinations would be to ban them entirely.

33. Studies show that passenger demand for rail drops considerably on journeys above 3.5 hours. Even with the existing high-speed rail link from London to mainland Europe, journey times to cities like Amsterdam and Geneva remain above five hours.

34. The choice that is presented by anti-Heathrow campaigners of rail vs. air is a false one. BAA fully supports the building of a high-speed rail link into Heathrow but it is important to realise that it would be complementary to a third runway, not substitutional. Britain needs to give a higher priority to investment in our entire transport infrastructure.
What costs does aviation impose on society and the environment?

35. Aviation brings significant economic and social benefits, but we recognise that it also has environmental and social costs, including noise, local air quality and the contribution that aviation makes to climate change. We are committed to minimising those negative impacts and to meeting aviation’s external costs through measures which are effective in reducing impacts. We are also committed to playing our role in meeting environmental limits.

36. The aviation industry recognises that aircraft noise can be disturbing for communities around airports. BAA has implemented a range of measures to limit this impact, include mitigation and compensation schemes, operational procedures, fiscal and management policies and support for technological developments. Quantifying the monetary and non-monetary costs is difficult given the range of factors in any assessment. The DfT consultation paper Adding Capacity at Heathrow Airport estimated the noise costs of various growth scenarios to be around £0.3 billion.

37. On a national scale the contribution of air transport and associated activities to air quality is small, but locally their effect can be significant. Around Heathrow, complying with the EU air quality values on nitrogen dioxide which come into force in 2010 is challenging, as it is at many at many locations in Europe and the UK (including in London and on major roads). We remain confident that it will be possible meet the limits by 2015, and with a third runway, as predicted by the modelling undertaken for the Project for Sustainable Development of Heathrow.

38. BAA’s goal is to drive full compliance with EU air quality limit values in residential locations where our airports make a significant contribution. We have implemented a number of measures to help achieve that, including procedures and fiscal measures to encourage lower emissions aircraft and operations, and programs to encourage the use of cleaner ground vehicles.

39. Estimating the costs of air quality from a single source is inherently difficult. In 2008, DfT published its Monetisation of Air Quality Impacts for Future Heathrow Scenarios. The costs associated with air quality, using this analysis were relatively small, up to £0.84 billion with a third runway.

40. In its recent policy decision supporting expansion at Heathrow, the Government announced that additional flights would only be permitted if independent assessments confirm that this can be done without breaching noise and air quality limits. In addition all new slots at Heathrow will need to be green slots—only the cleanest and most efficient planes will be allowed to operate.

41. Finding solutions to climate change is critical to our long-term licence to grow. Where we have direct control over carbon emissions, such as energy use in our facilities, we aim to reduce these. We have set a target to reduce our emissions from energy use in 2020 by 30% below 1990 levels. Where we do not have direct control over emissions, for example in the case of flights, we aim to use our influence to lead changes. We been long-standing proponents of including aviation in emissions trading schemes (see following question).

42. The DfT published an analysis of the climate change costs of UK aviation in its 2008 Emission Cost Assessment. In the central case this showed that the climate change costs in 2005 were £1.6 billion. This compares to AVGAS duty & APD revenues (using APD rates applicable post February 2007) in the same year of £1.8 billion. This is a net surplus of £0.2 billion and confirms that aviation is covering its external climate change costs. The Government plans periodic updates of this assessment. In future this will also need to take account of the costs paid by the industry through emissions trading schemes.

43. In its report UK Air Passenger Demand and CO2 Forecast January 2009 the DfT presents its updated view on future cost benefits of aviation growth. This assessment concludes that development of a second runway at Stansted and a third runway at Heathrow together give an overall net benefit of £15.5 billion.

What are the implications of climate change policy, in particular the Climate Change Act 2008, for the aviation industry and infrastructure?

44. The Climate Change Act sets an 80% emissions reduction target for the UK by 2050 against a 1990 baseline. The question of whether to include aviation (and shipping emissions) in the UK target was considered in depth by the Committee on Climate Change.

45. The committee concluded that aviation’s emissions should not be explicitly included in the overall 80% target, given complexities in allocating these emissions to national inventories. However, they recommended that they should be implicitly included and that the government should demonstrate the strategies it was pursuing to ensure that the UK target would not be compromised by aviation’s future growth. The first of these reports is due in October 2009.

46. Lord Turner, the chair of the committee, acknowledged that it is not necessary nor desirable for all sectors to deliver the same level of reductions. Indeed he noted that emissions trading offers a mechanism that ensures least cost to industry in meeting UK climate change goals and that it would be possible for the UK to meet its 80% reduction target at an approximate cost of 1% of GDP.
47. Aviation will be included in the EU Emissions Trading Scheme from 2012, which will cap aviation emissions at below 2005 levels. BAA continues to promote a global solution for managing aviation’s emissions and is participating in a new coalition of aviation stakeholders—the Aviation Deal Group—calling for the inclusion of aviation in a global climate change deal in the forthcoming UNFCCC negotiations at Copenhagen in December 2009.

48. The Government has also established a new target to limit aviation’s emissions in the UK to below 2005 levels by 2050. Any increase beyond an initial cap of 605,000 movements per year at Heathrow will be dependent on progress towards that 2050 target.

49. Sustainable Aviation, a pan-industry group, has published a forecast of CO2 emission to 2050. This demonstrates that through the take up of existing and emerging technologies, greater application of operational efficiencies and some uptake of low carbon fuels, emissions from UK aviation can be brought back to 2000 levels by 2050.

What is the impact on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

50. In 2004 Aviation paid £3.6 billion in direct taxes into the Exchequer. £1 billion of this was raised by Air Passenger Duty (OEF 2006). APD was doubled to £2 billion in 2007, and aviation’s total tax bill rose to £5.6 billion.

51. APD will be reformed from 1 November 2009 into a four-band tax. Analysis undertaken by the Airport Operators’ Association, based on current passenger numbers and expected growth, indicates that APD receipts will rise to £2.9 billion in 2010 and £3.5 billion by 2015. This taxation is specific to aviation, and is levied in addition to other revenues eg corporation tax paid by the industry.

52. Increased domestic taxation, through APD, on aviation has a number of direct impacts. Transit/transfer traffic is a highly competitive market, and as we have stated previously in this evidence, one in which the UK has fallen behind in recent years. The environmental impact of a further decline in transfer traffic would be minimal. Passengers will not stop taking flights; they will simply take them via other European hub airports.

53. Taxes have a disproportionate effect on regional air links, particularly direct international routes. For a new route to become attractive to travellers, and thus viable to run, aircraft must fly the route frequently. Higher taxes inherently penalise new routes as they struggle to become viable, because these routes are often “thin”- relying on lower levels of demand and a smaller number of passengers. This will have a detrimental impact at the UK’s regional airports, which in turn will negatively impact their connectivity, and the cities’ ability to attract investment. UK domestic aviation tax, whilst an effective revenue-raising tool for Government, places UK aviation at a disadvantage compared to its European competitors.

What is the impact on the aviation sector of changes in the security environment?

54. Airports today face threats that simply did not exist when the existing terminals were built. The safety and security of our passengers and staff is, and will always be, our number one priority.

55. However, the significant and sudden changes in security procedures announced by the DfT in August 2006 and beyond continue to make life more difficult for travellers. BAA’s airports have responded by investing heavily in new staff and equipment to reduce queues, whilst maintaining security standards. This has meant:

- a significant increase in new security officers at our seven UK airports;
- the opening of additional security lanes at the London airports by reorganising existing space and removing retail outlets;
- investing in the latest Walk Through metal detectors and x-ray screening equipment;
- trialling body scanning technology, and biometric data capture at the airports to explore ways of enhancing security and improving passenger throughput; and
- working closely with airlines to take advantage of improvements in security technology.

56. We acknowledge the current threat from international terrorism and support measures to protect the travelling public. It is self-evident, however, that protective measures need to be proportionate and appropriate, to prevent sacrificing travellers’ freedom of movement. Improving the passenger experience through our security channels is crucial, if air travel is to remain an attractive and competitive option for travellers.
57. Greater harmonisation within the EU could bring benefits in reducing the inconvenience and confusion faced by the travelling public. There is an obvious case for greater harmonisation in order to ensure appropriate minimum-security standards are enforced as widely as possible, whilst also bringing the benefits of common standards. The UK aviation security programme should be revised to make clear what measures are required under the EU baseline, and what measures are UK-specific, and thus can be adjusted by Transec, as the threat requires.

February 2009

Memorandum from easyJet (FOA 76)

SUMMARY

Aviation has an important economic and social role.

Airports play a key role in aviation infrastructure—ensuring that airports provide the services people want will be central to ensuring the industry works efficiently.

The regulator has failed to deliver efficient London airports—a challenge for the future will be to make regulation work.

Rail is not a viable alternative to the majority of short-haul flights.

The most important environmental issue in aviation is climate change—and how to reduce CO₂ emissions. Emissions are the product of planes, not people, and different flights produce very different levels of emissions.

Long-haul, not short-haul, is responsible for the vast majority of emissions.

The failure to reform APD means that the tax continues to cross-subsidise environmentally inefficient flying.

The significant increase in APD is particularly damaging at a time of recession—and means aviation will be paying well in excess of its carbon costs.

The Government should introduce a passenger protection policy based on ensuring that airlines have enough funds to meet their commitments.

INTRODUCTION

1. easyJet welcomes the opportunity to provide evidence to the enquiry, and would welcome the opportunity to take part in any oral hearings. This submission has been structured in line with the questions set out by the Committee. We would be happy to provide further evidence on any issues that are of particular interest to the Committee.

2. This enquiry comes at a time when the industry is under great pressure. The oil price spike last year, followed by the recession, has made many airlines unprofitable. Alongside these short-term concerns the longer term issues remain key. The future of the industry lies in how it responds to environmental challenges, and how it ensures that infrastructure is developed efficiently.

1.(i) What is the value of aviation to the UK economy?

3. The role of aviation is a simple one: to provide transport services. Very few people fly for fun, people fly to get somewhere. Similarly, we don’t create demand, we meet it. Low-fares airlines are a particular case in point; our value has been in providing an efficient service and much greater choice, particularly in the UK regions (we have substantial operational bases in Scotland, Bristol, Newcastle and East Midlands).

4. The direct economic value of aviation comes from the employment and activity within the sector, but the real value lies in what it allows people to do. Just like other transport sectors aviation plays an important role for many businesses, allowing them to operate efficiently, and find new customers and suppliers. Just as importantly aviation has a social role, from taking people on holiday to allowing families to meet more regularly. This applies within the UK, but also within the EU and it is probably not too grand a statement to say that low-cost airlines in particular have played a fundamental role in achieving the vision of Europe’s founding principles of cohesion and social mobility.

5. These wider unpriced benefits of aviation do not mean it should be subsidised. We do not support any form of subsidy for aviation, and it is right that aviation pays for all its infrastructure costs—and is the only transport network to do so. However, it is also important that there are not cross-subsidies within the aviation industry, as it is unreasonable for one set of passengers to have to subsidise others, for example through APD.
1.(ii) **What are the roles of the London and regional airports?**

6. Airports are central to the delivery of efficient air transport, both in terms of how they operate and their cost. Airport charges are our largest cost after fuel, and are therefore a significant factor in air fares. Airports are also an important part of the overall passenger experience of air travel. The role of an airport is to provide the infrastructure for passengers to access flights. Airports themselves are not a destination, they are a means to access the aviation product—flights.

7. Good airports are designed around the needs of passengers and airlines. We do not see any difference between what passengers and airlines want. We operate in a competitive industry and we need (and work for) airports to provide the services that passengers want. However, this is not about providing marble palaces, passengers have made it clear that they focus on efficiency and value for money, not ostentatious gold plating.

8. The key issue with airports is how to ensure they deliver the services their customers want. Airports that compete with another closely-located airport or those with significant spare capacity have to adjust their pricing or services to attract airline customers and their passengers. However, where the market cannot operate properly through insufficient “natural” competition, it is the role of the regulator to act as the “surrogate” for competition and to ensure that airports meet the needs of their customers.

9. Unfortunately, the UK’s economic regulator has not performed this role with distinction, success or fair-handedness. Instead of forcing airports to deliver efficient well-designed services, the regulator has allowed airports to increase prices while offering lower quality services in over-priced and badly designed buildings. For the sake of airports, their customers and their passengers, this cannot be allowed to continue.

10. Regulation will need to deliver much more flexibility in how airports operate and in their pricing. There are essentially two types of airlines: point-to-point and network airlines. These airlines and their passengers have very different needs from airports. Network airlines need complex baggage systems and lots of space for transfer passengers, whereas point-to-point airlines need airports that allow for efficient operations and that can move passengers quickly from surface transport to the gates. So far, the Economic Regulator has allowed BAA to provide one-size-fits-all terminals, sometimes to the benefit of just a single airline. Delivering better services to all passengers will require future airport operators to deliver infrastructure suited to the needs of their customers—the airlines. We would go one step further and suggest that in the future airport terminals should be opened up to competition, bringing choice and flexibility into airports.

11. We support the break-up of BAA, which the regulator allowed to operate with no regard for its customers. However, break-up of the London airport monopoly is a secondary concern—given that there is minimal peak-time spare capacity in the London airport system, each of the three BAA London airports will continue to need regulation. The real challenge with airports is to make regulation work. We welcome the DIT’s review of regulation, and it will be vital to ensure that it leads to real change, rather than simply perpetuating the failures of the current regime.

12. Heathrow does play a different role from the other airports, as the UK’s only international hub airport and we support the development of the third runway. However, the evidence to suggest that Heathrow’s transfer traffic brings a wider economic benefit is very weak yet leads to significant distortions, as discussed below.

13. Turning to the UK’s regional airports; these tend to operate much more effectively in meeting the need of their customers and passengers. Clearly airline deregulation has allowed low-fares airlines in particular to offer many more services to passengers in the regions and the growth in direct (rather than connecting) flights within the UK and to continental Europe should be applauded and encouraged.

14. Unfortunately, this end is not being met by the current fiscal regime. The failure to tax transfer passengers and cargo aircraft at all and long-haul flights proportionately (which are under-taxed relative to their emissions) is a gross distortion. For every passenger that receives a subsidy, another passenger or set of passengers have to pay more and unfortunately, it is short-haul passengers particularly those from the UK regions that are picking up the bill.

1.(iii) **What competition do they face from abroad?**

15. The only airport that faces competition from abroad is Heathrow, as it is the only airport where airlines or passengers have a viable alternative. Transfer passengers can choose airlines/flight routings through other hubs, and switch away from Heathrow. This is not the case with the other airports, where airlines can not serve the same market by using a foreign airport and passengers are not willing to travel abroad to catch flights.
2.(i) Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

16. The deregulation of the vast majority of airline services has ensured that airlines provide the services that consumers want. However, there are significant constraints on the ‘fixed’ infrastructure: airports and air traffic management (ATM) services.

17. ATM is inefficient, with high costs and high operational inefficiency. This leads to higher fares and higher emissions. We support the European Commission’s work to achieve a single European sky, and we are disappointed that the Government and the CAA have been resisting the Commission’s efforts to improve ATM performance.

18. There is a need for additional airport capacity in the South-East, both terminal and runway. Notwithstanding the recession, the demand for flights in the South-East is overwhelming current infrastructure.

19. However, expansion needs to be consistent with environmental principles, and an objective in itself. We understand the concerns surrounding expansion and emissions; however, limiting runway capacity does little to limit emissions, but instead increases the inefficiency and emissions of flights. There is no simple link between runways and emissions. Emissions come from flights, and are very dependent on the length of flights and the aircraft used. The vast majority of emissions comes from long-haul flights (80% of EU emissions), but the majority of flights are short-haul. Limiting runway capacity is likely to lead to an increasing proportion of long-haul flights.

2.(ii) What are the implications of future passenger trends and possible mergers in the airline industry?

20. We support continued consolidation within the industry. Weak and undercapitalised airlines cause instability and have the potential to severely disrupt the transport system. Consolidation will increase stability and the sustainability of the industry.

21. However, consolidation must not be allowed to reduce the competitive pressures on airlines. The real risk is not that airlines merge, but that mergers lead to some airlines having a dominant presence in markets and an excessive share of slots at constrained airports.

22. Future trends in passenger numbers will depend on the economy. But it seems clear that over time the demand for air travel will continue to grow. The main implications of this will be the demands it places on infrastructure and the environment.

3. To what extent can rail provide an alternative to short-haul flights?

23. High-speed rail can and does provide a real alternative to short-haul flights. In continental Europe, the advent of genuine high-speed rail services between some major cities has resulted in a complete shift of passengers from plane to train. There are other cases where rail is a good alternative to flights, and where rail offers competitive journey times many people will choose rail over air travel.

24. Within the UK, the discussion about the substitutability of flying with high-speed rail is an unfortunately London-centric argument as the Channel Tunnel Rail Link from London St Pancras is the UK’s only genuine high-speed rail line. Thus passengers wishing to travel from London to Brussels, Paris and Amsterdam are the only ones that can currently benefit from a genuine rail option.

25. Residents in most other parts of the UK have access to train services that are not fast enough to provide any alternative. Clearly, those from Northern Ireland have no rail alternative at all and to suggest otherwise would be illogical. Thus it is disappointing that many (including some politicians) imply that people should be travelling today on a set of high-speed rail routes that will not come into existence for at least 20 years.

26. Moreover, the construction of the high-speed rail links that are necessary to reduce journey times sufficiently are not environmentally-neutral—particularly construction involves emission intensive resources such as concrete.

27. Unlike airport infrastructure which is paid for entirely by the aviation industry, high-speed rail lines require significant amounts of public money.

4.(i) What costs does aviation impose on society and the environment?

28. We believe that beyond environmental impacts aviation imposes limited costs on society, indeed we would suggest that aviation has a net benefit for society. In 2008 DfT published its assessment of the social and environmental costs of aviation, which suggested they are a fraction of the total value of the industry. This assessment also reported that the tax currently paid by the industry under Air Passenger Duty is double the environmental cost of its carbon emissions.
29. Aviation does have environmental impacts, the vast majority of which are addressed within regulatory frameworks. The main environmental issue facing aviation is how it should contribute to tackling climate change. Central to this is understanding the relationship between flights and CO2 emissions, which have been identified by a range of groups (such as the Tyndall centre and the OMEGA project) as the area where policy should be focussed. There are five fundamental issues.

30. The first is that emissions come from flights, not passengers or runways. Passenger numbers can increase while emissions fall (through more efficient flying) and vice-versa. Similarly, the emissions a runway ‘creates’ are dependent on the flights that use it.

31. The second is that the type of aircraft used has a significant impact on the level of emissions. Current generation aircraft are more fuel efficient than older aircraft, and we are working with the manufacturers to ensure that future aircraft are even more efficient. We are pushing them to produce a plane that is at least 40% more efficient, which combined with more efficient airspace will halve the emissions of a flight.

32. Thirdly, the distance of a flight plays a critical role. While take off and landing is relatively intensive, the distance of a flight is the main determinant of emissions. An easyJet flight (on the same aircraft) to Athens from London has over three times the emissions of a flight to Amsterdam. The impact of distance is particularly clear when comparing long-haul and short-haul flights. On a per passenger basis a flight to Miami has ten times the emissions of a flight to Nice.

33. Fourthly, on a per passenger basis the emission of different airlines can vary significantly. The emissions on a typical legacy carriers’ flight will on average be 27% higher per passenger that on an easyJet flight to the same destination using the same aircraft. This is due to the efficiency of our operations, with higher density seating and higher load factors.

34. Fifthly, as noted by the Tyndall centre, there is no scientific evidence that emissions at altitude are any more damaging than emissions on the ground, or that there is a significant “multiplier” effect on CO2 emissions.

35. Going forward new technologies will be central to ensuring that emissions are stabilised and put on a downward path. We believe that aviation’s emissions should by 2050 be returned to current (pre-recession) levels, and that this is achievable through the combination of technological progress and the incentives ETS will provide.

4.(ii) What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

36. It is important that aviation fits within environmental policy. The Climate Change Committee has noted the difficulty of including aviation within the carbon budget. However, we believe it is important that it finds a workable way to include aviation within the delivery of the UK’s climate change commitments.

5.(i) What is the impact of taxation on the aviation sector nationally and regionally?

37. We do not support the imposition of APD on the industry. It has little environmental benefit, and is simply a revenue raising tool for Government. APD is not an environmental tax, as the Government has acknowledged, instead it creates distorting cross-subsidies, for the most inefficient forms of aviation and certain businesses. As outlined above, passengers don’t pollute, aircraft do—which is why we applauded the Government’s 2007 intention (which had cross-Party support) to reform APD and why we were so disappointed when this environmentally-progressive reform was scrapped in favour of “more of the same” in the 2008 Pre-Budget Report.

38. Furthermore, blunt taxation imposed unilaterally by one country on an internationally-focussed industry is not the best way to address the environmental impact of aviation. The climate change imperative is to reduce overall CO2 emissions, only an Emissions Trading Scheme helps achieve this, by setting a cap on emissions and allowing the market price of carbon to fluctuate with demand. A tax does not cap emissions, it simply makes them more expensive, with no regard for whether emissions are being reduced fast enough.

39. The failure to properly reform APD and turn it into a tax that reflects emissions, rather than passengers, means that it provides no real incentives on airlines and passengers to improve the environmental efficiency of their flying. By under-taxing long-haul flights (compared to their emissions) and exempting transfer passengers and freight the tax acts as a cross-subsidy from environmentally efficient flights to inefficient ones. It therefore leads to higher emissions than would otherwise occur. Effectively it is a subsidy for Heathrow and the airlines that operate there. There is no real evidence that this subsidy is of any benefit to the UK economy. We estimate that at the current tax rates, passengers flying from regional airports to Europe are paying about twice what they would have to pay if the tax reflected emissions.

40. We are also disappointed that the Government has progressively chosen to increase the total revenue collected from APD. In 2006 APD raised £1 billion for the Exchequer; by 2011 it will be around £3 billion. This is despite the Government’s own Emissions Cost Assessment putting the social cost of the CO2 emitted by UK aviation activity at around £1 billion. Increasing APD simply underlines the point that aviation is being used as a source of revenue, despite the limited profitability of the sector.
41. It seems particularly illogical in the current economic situation that the Government is choosing to further increase the tax on a transport industry that facilitates economic activity and will play a role in helping the country to emerge from the recession. We note that the industry has not asked for bail-outs, despite the financial position of many airlines.

5.(ii) Are passengers adequately protected from the collapse of airlines?

42. The main risk to passengers from airline failure is that it happens to them while they are abroad. The vast majority of passengers can make use of the payment protection offered by credit cards, and the policy concern is mainly with passengers who are left stranded by airline failure. We believe that more needs to be done in this area to ensure that exposure to this risk is limited.

43. The industry has a tradition of helping to rescue stranded passengers, and it is easyJet’s policy to offer rescue fares to passengers of failed airlines (we should also note that we include airline failure insurance in our travel insurance and the holidays we sell are bonded).

44. The focus of previous efforts has been on measures to apply following failure, and are not preemptive. In particular the Government has tended to focus on how to rescue passengers who are stranded, hence the development of the ATOL scheme and other approaches, rather than on ensuring they are not stranded in the first place. There are no controls on the financial viability of airlines or tour operators, who are allowed to sell seats up to the moment of their bankruptcy. We believe this is absurd.

45. To start an airline you must prove to the CAA that you have cash to cover three months operating expenses. However, once the airline is operational this cash cover can be reduced to zero. This is not a tenable position. easyJet has a policy of maintaining significant cash cover per aircraft to ensure that we can sustain lengthy periods of disruption, and we believe all airlines should be subject to similar controls.

46. 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. Non-UK based airlines could sign up to a kite mark scheme so that passengers know what they are getting.

47. The alternative proposal, of simply taxing successful airlines to fund failures does not help avoid passengers being stranded, it simply provides a way to fund a failed policy.

6. What is the impact on the aviation sector of changes in the security environment?

48. The changes in the security environment have had a significant impact on the sector, in particular on the passenger experience. It is vital that the industry is safe, and we believe it is incumbent on all parties to create a security environment that delivers efficient and effective security measures.

49. Achieving this requires credible and effective security measures, and these need to be sustainable in the long-term. However, the current enforcement of security measures has often confused passengers, and whereas in the US the intensity of the measures has been varied according to the perceived threat level, there has been little flexibility in the UK. This makes it hard to sustain the vigilance required for intensive measures.

50. We should also note our concern that the e-boarders project will impose significant costs on aviation and passengers, and requires airlines to hand over very wide ranging data to the Government

February 2009

Memorandum from Aircraft Owners and Pilots Association of the United Kingdom (FOA 77)

BACKGROUND

The Aircraft Owners and Pilots Association of the United Kingdom (AOPA UK) has been representing the interests of private pilots and aircraft owners since 1965. Our members are also engaged in the business of General Aviation (GA) and therefore we represent the views of 18,000 private pilots. AOPA UK is a member of the International Aircraft Owner and Pilot Associations with more than 470,000 members worldwide and has offices in 67 countries.

Until a few years ago Aerial Work Operation fell into the same category of General Aviation but ICAO separated these activities. However, for the purpose of this paper please note that where the term General Aviation is used it also includes Aerial Work Operations. This sector of civil aviation is the largest sector in terms of numbers of pilots and aircraft, out-numbering the airlines fleet by a factor of 4 to 1. The UK civil aircraft register shows a total of 10,000 aircraft (source CAA—G-INFO) and approximately 30,000 pilots; from this data we can ascertain an average annual growth of GA of approximately 4% since the mid sixties.
GA aircraft are used for recreation and personal transport (including business travel) and it is our intention in this paper to explain the value of GA to the UK economy and highlight some areas that could be improved.

In the call for “Evidence and Terms of Reference” note that we received, six questions are listed which we shall try to address as they apply to General Aviation.

The first and obvious error is contained in the wording—“Future of Aviation” as this encompasses: Commercial Air Transport (CAT) or Airlines; The military (MOD); and General Aviation (GA).

However, the questions posed largely relate to Commercial Air Transport. Therefore in Question 1. where you ask, “What is the value of aviation to the UK economy?”, we assume you only mean CAT! Therefore, the following comments from AOPA will generally relate to General Aviation and Aerial Work Operations in the United Kingdom.

**Questions**

1. **What is the Value of Aviation to the UK economy? What are the roles of the London and Regional Airports? What competition do they face from abroad?**

   The economic value of GA in the United Kingdom is estimated as being between £1.4 and £3 billion annually. GA employs about 11,000 people and uses 500 flying sites which include farmers’ fields, helicopter landing pads and major regional airports.

   The London airports do not serve the needs of General Aviation, as Commercial Air Transport has the monopoly in respect of access. Many regional airports have pricing structures that makes operating in/out of these airports cost prohibitive for many GA operators. This is a limiting factor when it comes to personal and business travel for many of our members. A light aircraft flying into Manchester and parking for 2–3 hours is likely to pay £400 plus—this is disproportionate to the hourly operating costs of light aircraft. It is clear that such airports do not want GA and this reduces access for business people to key locations.

   We understand why Heathrow is seeking an additional runway but our concern relates to the airspace and the impact on the GA aerodromes around the London Terminal Area.

2. **Is the current aviation infrastructure adequate for the needs of UK business and individuals, and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?**

   In January the Financial Times had a small article about the downturn in premium passengers and British Airways reported they were experiencing a 12.1% fall-off in their numbers. Whilst this probably is related to the “Credit Crunch” and general tightening of financial controls in the business sector, it has to be stated that business aviation and self-fly business people are the kind of customers the airlines seek. Therefore, if access to airspace and airports become more difficult for this sector of GA the advantages of this form of personal transportation is lost to the advantage of the airlines. With the prospect of personal light jet aircraft becoming an actuality we expect to see some growth in this part of GA because of the flexibility it offers.

**Airspace:**

The second part of the question has to be: adequate “yes”, but could be better.

Airspace is divided between controlled and uncontrolled.

About 65% of our airspace represents some form of control whereas 35% is uncontrolled.

Controlled airspace exists around most regional airports and all international airports and is known as Terminal Airspace which also links to the enroute airspace. It is right that fare paying passengers are afforded the protection of such an infrastructure, but access to controlled airspace does require pre-planned permission. This creates some problems for users of the 35% of uncontrolled airspace which, in the main, is used by GA and the military. Through a system of airspace classification (based on ICAO rules) there is concern within our community that due to the expansion of regional airports and associated airspace structures there has been, in some cases, over classification and this has led to the loss of freedom to fly VFR operations.

When negotiating airspace changes GA is often promised, when agreeing to a new piece of controlled airspace, that access will still be given. The reality for our members in getting a clearance through airspace, such as Southampton, for example, is still difficult. The main problems seem to be the lack of air traffic controllers manning positions to provide a service to GA. In some instances GA pilots are prosecuted for infringing the airspace because they did not receive clearance that they had expected. The availability of controlled airspace supports the commercial activity of the airline business which produces profits for shareholders through the use of a natural resource. This exchange of airspace requires NATS (National Air Traffic Services) to ensure that access for GA is still available by properly resourcing the airspace.

Where GA has gone to the expense of installing a transponder it is really not acceptable for access to be denied. GA is often suspicious about equipment mandates that create expense but no benefit.
It is often claimed by airline groups that GA does not pay for anything and this is simply not true. Each year approximately £15 million is collected from GA in respect of the duty that is paid on fuel plus VAT. In addition GA pays landing fees and terminal manouevring fees wherever they apply. Our suggestion has been to use some of the taxes that we pay to help fund the infrastructure, unfortunately no UK Government supports the idea of hypothecation. So whilst GA does pay directly in line with the “user pays” principle it would be unfair to add more fees and charges to GA particularly where the airlines do not have duty applied to jet fuel.

It is up to the Government how they use our taxes. ICAO suggests that taxes collected from aviation should be used to provide infrastructure support.

3. To what extent can rail provide an alternative to short-haul flights?

They say—“a mile of road or rail goes nowhere, a mile of runway leads everywhere . . .”.

Most GA flights are short in distance, but GA flies to many more destinations in the UK than the airlines do and to regions poorly served by the rail/road networks. With our ever increasing road traffic, GA allows business people to travel and do business and still be home in the evening. For example, a four-seated single engined aircraft which can cruise at 200mph can fly from the London area to the North of Holland in under two hours. Many airlines do not have the traffic volumes to support certain journeys and GA fills the gap. For example, someone based in Northern Ireland who needs to fly to Brussels because they cannot be expected to use boats and trains when flying offers a sensible economic alternative. Therefore, our view is that whilst rail transport has a role to play it cannot totally replace all short journeys undertaken by aircraft CAT or GA aircraft.

If we look forward to 2012 and the London Olympics there will be many GA operations and therefore our infrastructure, airports and airspace needs to be ready to deal with this traffic. So far, there has been little or no engagement with the GA community on this issue.

4. What costs does aviation impose on society and the environment etc?

The environmental impact of GA activities is less than one fifth of one percent of the 6% which is the claimed impact of CAT on the environment.

Whilst research continues in the area of greener fuels, which we support, we must not underestimate the difficulties associated with finding an alternative fuel which will be safe to use.

We could not understand the Government’s position or that of the European Commission when duty was introduced on AVTUR (Jet fuel) for private use.

AVTUR, which is used to power diesel engines (which are more fuel efficient and less polluting), now has duty applied—in turn this affects the purchase of these engines which nominally cost twice the amount of the standard aero engine. The economic benefit associated with the lower price of AVTUR is no longer available and there is a serious likelihood that the manufacturers will stop producing these engines as the market demand ceases.

In our view this is a misuse of taxation policies or at least a huge misunderstanding. It also highlights the lack of joined-up Government. The government needs early engagement with GA when considering environmental policies.

5. What is the impact of taxation etc?

As already indicated GA, pays its taxes and duties in respect of its operations.

“Yes” they are a burden and “No” taxes are not used to support the infrastructure for which GA pay.

GA also provides the airlines with a ready made source of pilots and engineers. Mike Ambrose of European Regional Association has consistently said “we need GA to provide pilots”.

The average cost of training a professional pilot up to the point he/she could be employed by an airline is at least £70,000. This usually falls on the individual and does not come from the bottom line of the airlines balance sheet. This is a major advantage to the airline industry.

The student “professional” pilot receives no tax or VAT allowances or reliefs in the UK unlike other countries in Europe (ie Spain and Holland). As a result of this lack of foresight the majority of professional flight training is done outside of the UK. The UK system of training has for many years been held in the highest regard by the rest of the world. Many countries have sent their trainee pilots in the past to the UK for training and some continue to do so. These future airline captains who have first hand experience with the UK flight training systems normally continue their association with the UK. However, through mismanagement of UK aviation, and training in particular, our schools find it difficult to be competitive in the global training market. We cannot attract the two largest markets India and China to come to the UK for flight training because we have such high costs imposed on the industry through taxes and CAA charges losing out to Canada, Australia and the USA who get the business. In future, these countries will continue
to benefit through these training links and associations, particularly when later in life some of these pilots go on to make decisions about what aircraft their company should buy. Ultimately, if they chose Boeing and Pratt & Whitney over Airbus and Rolls Royce then jobs in the UK can be affected.

The UK Government needs to restore the benefits associated with UK flight training through a series of tax incentives that support individuals and the flight training infrastructure in the long term provides wider benefits to the UK economy.

6. What is the impact on the aviation sector of changes in the security environment?

Having worked with and continue to work with ACPO, HMRC and the UKBA we take security as seriously as our freedom to fly.

ACPO recently stated that there is no significant threat from GA, and we are also inclined to believe this to be true. However, through a community based program like ‘Neighbourhood Watch’ we are encouraging the GA community to be the eyes and ears. Through working together with the agencies we believe that we can then show to any ‘would be’ criminal that there is a very good chance that they will be discovered and reported. By having a high profile approach to detection we feel that the legitimate law abiding GA pilot should be able to continue to operate as freely as they have done in the past.

AIRSPACE:

The UK airspace system is safe but could be safer. However the laws that rule how we use the airspace and associated services has moved to Europe and through the European Single Sky new legislation is being adopted. Through a framework of new rules ATM is set to be modernised through the SESAR programme (SES ATM Research). It can be stated that real ATM modernisation should begin after 2015 assuming funding issues can be resolved. €30 billion over the next three decades. The initial phase will cost around €10 billion but this is more to do with completing existing programmes currently under development through Eurocontrol.

A number of these initiatives are not new—for example the data link programme has been running for 12 years. The expansion (vertically down) of 8.33kHz radios will require large sums of money to be spent by GA for no benefit: 8.33kHz is based on 1930s technology, yet we are told this is modernisation. When we say we would rather go to digital radios we are informed this will take 20 years to achieve! Another heavily funded programme which has not really achieved high levels of service is MLS (Microwave Landing Systems) and at the same time the development of GPS has been held up due to funding and political intervention. The use of GPS applications needs to be developed quicker.

SESAR is based on a PPP arrangement and is seeking community funding through TEN-T which, if it happens will be the first time aviation will receive infrastructure support from community funds. Whilst this is right the sums in our view are too small when compared to the overall costs (€50 million (TEN-T) vs. €10 billion (first phase SESAR)).

Whilst is it right for Europe to modernise ATM, rules and infrastructures, GA must not end up paying for systems and equipment that solely benefit the CAT sector. There needs to be a system-wide approach and through CBAs the impact on different airspace users need to be identified.

We are supportive of taking part in achieving system-wide benefits and where it has been identified that GA benefits from the change then we will have to pay. Where the system benefits through the inclusion of GA, although there is no direct benefit, then other means of funding need to be found. For example if 8.33kHz radios were mandated in order to improve the operational benefits to the CAT sector, GA would have to purchase these radios which means a cost for no additional benefit.

If the overall operational benefits flow from all aircraft being equipped with 8.33kHz then Government should consider long term loans at zero or low interest rates which could be paid back through the radio licence. This would reduce the full impact on GA and deliver system-wide operational benefits.

Better still, why not work out which Coms, NAV and Surveillance (CNS) systems GA should be required to install. By using long term loans at low rates of interest to fund the equipage for a single box (CNS) GA could pay the loan back through a small increase to the radio licence fee—the biggest benefit will go to the overall system: ie capacity—less delays and environment.

Political leaders need to look beyond the airline industry when considering the future of aviation which is a web of various activities. Let us not forget the youth of our nation who are less air minded now than ever before. The airlines, military and GA are like fish in a pond who all feed off each other. Commercial success is only one way to measure the success of our nation’s aviation industry, let’s also include the wider benefits.

Thank you for inviting AOPA to make comments on such an important topic.

February 2009
Memorandum from Peel Airports Group (FOA 78)

We welcome the opportunity to respond to the Transport Committee’s Future of Aviation inquiry.

Peel Airports Group (PAG) is the largest UK owned private sector airport group in the UK. The group operates regional airports in the North England: Liverpool John Lennon Airport (LJLA), Durham Tees Valley Airport (DTVA), Robin Hood Doncaster Sheffield Airport (RHADS) as well as the City Airport Manchester.

THE KEY POINTS:

1. The value of aviation to the UK economy; the roles of London and regional airports; competition from abroad

In 2006, Oxford Economic Forecasting demonstrated that the industry contributed £11.4 billion to the UK’s GDP in 2004, which alone represented 1.1% of the overall economy. The report also highlighted a very important fact that the aviation industry supports more than 500,000 jobs (directly and indirectly).

The UK aviation sector provides vital air links connecting the UK with continental EU and the rest of the world. The importance of aviation is highlighted in the Eddington Study:

“...connectivity of the UK’s airports is particularly important for supporting certain types of business activity, such as the financial services and banking sector.” 272

There are two key factors with regard to efficient connectivity: one being the range of destinations served, and the second frequency of connections.

In 2007 the UK accounted for the highest proportion (22%) of all intra-EU air passengers. UK airports handled approximately 33% of all EU passengers.273 This clearly indicates that UK’s connectivity heavily relies on air sector due to its geographical location ie being an island country. So it is natural to see that UK’s connectivity depends heavily on air transport which provides the majority of access to the continent and beyond and this can be seen from the figures above.

Therefore, air links are vital and will remain to be vital for high value businesses located in the UK; connectivity is and will continue to be the most important criteria for new businesses when looking for new locations to base their offices.

Regional airports have experienced strong traffic growth over the past 8-10 years. This growth could be attributed to the advent and subsequent growth of the low cost—no frill sector which stimulated market demand and most importantly increased regional connectivity. This development has had a very important impact on a regional economy, growth of inward investment and also has played an important role in boosting overall national economy.

Regional airport are significant contributors to the regional and national economy. In 2006 alone direct and indirect impact of the North’s airports was in the region of £1.3 billion to regional income, whilst the aviation sector supported over 60,000 jobs, and generated approx £2.4 billion Gross Value Added. The catalytic benefits of international connectivity through the North’s airports most probably greatly outweigh the more easily quantifiable direct and indirect impacts. However the impact of increase in APD and further increases in 2009 and 2010 will affect most of all regional airports in the UK.

The above mentioned increases in APD in November 2009 will be substantial. For instance we will see a 113% increase in cost on the long haul routes between the UK and Australia between 2008 and 2010. This increase in the cost of long haul flying could have detrimental impact on air links and trade links between the UK and the fast developing global economies of India, the Middle East and China.

It should be noted that moneys generated from APD is going to grow substantially faster than passenger numbers. We believe that air transport sector in the UK should be supported to continue its growth; the doubling of the APD in 2007 and recent increase in APD will further burden the UK industry and make it even harder to deal with the ongoing deep recession and fast declining traffic.

Over the last two years we have seen a shift of airlines focus from regional airports in the UK to the continental market where European regional airports are perceived as more competitive in terms of cost. This trend could be attributed to the absence of equivalent aviation taxation (such as APD in the UK) in the rest of the European market. As mentioned the APD in the UK is due to rise in November 2009, followed by another substantial rise in 2010.

Last year Ryanair, one of two leading European Low Cost Airlines, made it very clear that the UK market was becoming progressively less competitive in comparison to the continental Europe due to increase in taxation. Low cost airlines serve price sensitive market and therefore any increase in indirect costs such as taxation is reflected in lower demand; increase in taxation also drives airlines’ yields downward. This in return results in LCC struggling to keep their fares on a competitive level which again has negative impact on demand resulting in less passengers travelling from regional airports in the UK. For example, PEEL Airports Group traffic 2008–07: LJLA—2.5%, RHADS—9% and DTVA—11%.

273 Ibid. p 53.
The growth of London’s airports is also critically important for the City and for the London economy as a whole, which is a key driver of the UK’s economy. Without these, businesses will choose other locations with the consequent impact on job creation, economy etc.

London Heathrow airport (LHR) is the largest European airport with traffic of over 68 million passengers per annum (ACI 2007 figures used in absence of full 2008 year figure). The airport is the largest European hub airport and the only hub airport in the UK. Improved access to the LHR from UK regions and continued dominance of LHR as a leading hub airport in Europe remain to be two most important points on the UK air transport agenda. We believe that a new 3rd runway at LHR, recently approved by the Government, will create new capacity, whilst a proportion of the capacity allocated for UK regional services.

In addition we believe that regardless of the new capacity at LHR, current LHR slots should be ring fenced for regional services and supported by PSO where needed.

2. The current aviation infrastructure in the UK

We believe that it is important to promote continued growth of aviation infrastructure for the benefit of our passengers using our airports, regional economies and the economy of the UK as a whole.

According to the AOA the Oxford Economic Forecasting found that airport expansion could generate wider economic benefits of over £13 billion additional GDP a year by 2030 if full implementation of the Government’s 2003 Air Transport White Paper runway proposals was undertaken. Therefore, new capacity is of foremost importance as it is vital for continued growth of the economy. Improvements in infrastructure should have a priority status and should be supported with major improvements in the planning system.

We believe that improvements are required not only in respect of adding new capacity but also with regard to the surface access to/from UK regional airports. For example Peel Airports have been experiencing ongoing surface access problems (Eastern Access Road and RHADS-FARRRS project) which need to be resolved as soon as possible. This is necessary to enable our airports to generate greater regional and national benefits mentioned above. Such infrastructure should be considered as national priority, given these are roads connecting international visitors and businesses into key UK communities.

With regard to the ongoing capacity constraints at Heathrow if continued could undermine its role as a leading hub airport in Europe in terms of: domestic and international traffic, transatlantic traffic, domestic and international connecting and point to point traffic.

The aforementioned capacity constraints at LHR in combination with increases in APD have also had an impact on the UK domestic traffic resulting in a sharp decline in the number of available services from the UK regions which impacts regional connectivity, regional economy and the economy of the UK.

The Government recently approved LHR expansion with a new third runway planned for 2019. However it seems that other key European countries are able to act and deal with expansions of their hub airports much faster and could outpace airport expansion projects planned in the UK. These countries (Germany, France etc) have recognised the importance of their hub airports and the role these airports play in contributing to the national economy. Recently, the German local authorities and the minister of the economy in Hesse state, where Frankfurt is located, approved planning consent which permits the airport to begin building a fourth runway and a third passenger terminal along with accompanying infrastructure planned for opening in 2011. This highlights the problem that LHR’s expansion could be seen as arriving too late thus LHR could potentially lose its significance as a leading hub airport in Europe.

3. To what extent can rail provide an alternative to short haul flights

It is believed that markets where a free and unconstrained competition exists consumers ie passengers enjoy more benefits such as a greater product choice availability and competitive pricing.

However, currently in the UK we have a rail sector which is subsidised (AOA states that level of subsidy was around £6.00 per rail passenger in 2006–07) whilst air transport sector faces increased taxation in the form of APD.

In addition rail sector is not taxed with an equivalent of the APD or similar. A level playing ground is required to enable a fair market condition.

Simultaneous improvements in both rail and air sector would be a proffered approach; these could go hand in hand simultaneously creating improvements in regional and national connectivity; it would also create positive market conditions which would enable passengers to benefit from greater travel mode options. This would in turn satisfy specific travel demand needs (business passengers value time therefore they represent a time sensitive market segment which requires fastest and most convenient travel mode; in addition demand for connecting/onward travel can only be satisfied by a hub feed air service).

Recent report prepared by the BAA,\(^{275}\) suggests that high speed rail systems provide a good city centre to city centre transport systems between large, well separated cities with dense cores. These are less successful when applied to extended and lower density developed areas because access is an essential component of time and cost of travel. If more intermediate stops are needed then these significantly increase travel time and add to the cost.

A rail journey from Liverpool to Edinburgh for example currently takes on average 3.5—4.1 hours (including one or two train changes),\(^{276}\) whilst a Liverpool to London Euston takes approx 2.4 hours with additional travel time increased by a London Underground Train service journey\(^{277}\) from Euston to LHR (approx 50 minutes) or by a surface train service from central London to London LHR bringing the total a total travel time of well over 3 hours and 10 minutes if no delays, traffic congestion or inclement weather conditions are assumed.

In comparison the same journey would take a passenger less than 1 hour and 30 minutes if flown by air with airport check in and flight time combined. The through check in (check in and luggage check in done only once at the point of departure) makes this transport mode a more convenient way of travel compared to rail mode from a travel time, travel comfort and connectivity perspective; this is of course as long as the travel time and dealing with luggage through central London traffic are not an issue for those opting for rail instead of air service).

High speed rail systems in EU (TGV in France or ICE in Germany for example) have been successful and continue to compete with air services for market share. Situation in the UK is different. We have seen a decline in domestic air traffic over last few years especially since doubling of the APD (\(\pm 2\%\) in 2007–06 and \(-5\%\) 2008–07).\(^{278}\)

European experience (France, Germany) indicates that air and rail sector can successfully compete in the domestic market sector provided that a level playing ground market conditions are established.

Therefore, rail sector could not be perceived as an alternative to air sector on short haul travel sectors due to the existence of very specific market segment demands (time sensitivity, convenience and connecting travel aspects of demand).

Favouring rail sector over air sector is unfair, it distorts competition, it deprives the consumer of having more travel options available and could lead to a monopoly market situation where a single transport mode would cater for all domestic travel needs in the UK.

Currently there are no direct air services from Liverpool to London; passengers have no travel options to chose from apart form using rail services; the cost of a day return ticked (open return)\(^{279}\) bought one day in advance is £415.00. This clearly illustrates the lack of travel options as mentioned above, high dependence of passengers on a single transport mode where absence of competition results in excessively high rail fares.

4. **Aviation and costs it imposes on the society and environment**

In addressing this specific point we would like to refer to a recent AOA assessment of the industry’s impact (for further details pls see AOA response).

In September 2008 DfT published its Emissions Cost Assessment (ECA). Based on a carbon cost per tonne of £25.50 (Government Shadow Price of Carbon: equates to £93.33 per tonne of CO\(\text{2}\)) and aviation emissions of 10.2 million tonnes of carbon in 2005 (including a multiplier of 1.9 to cover non-CO\(\text{2}\) externalities such as noise and NO\(\text{x}\) emissions), the total external cost of aviation can be calculated as £1.8 billion. This compares with a tax take from Air Passenger Duty of £2 billion in 2007.

From 2012 aviation will be included within the EU Emissions trading Scheme—a market mechanism which allows sectors of the industry to trade for permits to emit carbon, and in so doing fund carbon abatement projects elsewhere in the economy. Redistribution through an emissions “cap and trade” scheme offers the opportunity for net carbon emission reductions across an economy, whilst allowing industries where abatement opportunities are expensive or technologically challenging to continue to grow, by funding abatement elsewhere in the economy.

In UK terms, auction revenues from the EU ETS will raise £98.7 million in 2012. The total UK ETS cost will be £352.6 million per year. Assuming a market carbon cost of £20.83 per tonne of CO\(\text{2}\),\(^{280}\) auction revenues would raise £495.6 million by 2020 (if 100% auctioning is agreed) and the total cost of ETS to UK carriers would be £1.1 billion. The UK and German governments are the only members of the EU who will not be hypothecating auction revenues from ETS to fund research and abatement projects.

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\(^{275}\) “Integrating High Speed Rail with Heathrow”, BAA, 3 December 2008.

\(^{276}\) http://www.thetrainline.com

\(^{277}\) http://journeyplanner.tfl.gov.uk

\(^{278}\) Based on provisional CAA airport statistics for 2008.

\(^{279}\) www.thetrainline.com

\(^{280}\) Source: AOA, February 2007.
In 2012 ETS and Air Passenger Duty will together raise £3.6 billion. This compares to an environmental external cost of £2 billion (extrapolating from the Government’s Environmental Cost Assessment). Whilst aviation imposes external costs on the environment and society the industry is, and will be more than meeting those costs through revenue-raising mechanisms.

The AOA accepts that aviation needs to cover its environmental external costs if the industry is to achieve permission to grow. This is particularly evident in the UK context, where the debate on climate change is heavily aviation-focussed. The ECA, published by DfT in 2008, demonstrates that aviation in the UK is already covering its environmental costs through existing taxes.

Environmental taxes without any form of hypothecation, whilst they play a role in allowing a sector to internalise its external costs, are ineffective as they divert money away from investment in abatement. Given the overall logic of a trading scheme, it is wrong for auction revenue to accrue to the member states as a form of tax, as this prevents the use of the revenue to fund abatement.

We agree with AOA position where the cost to aviation of Air Passenger Duty and Emissions Trading should be equal to the environmental external cost of aviation. As the ‘take’ from ETS increases, then the level at which APD is set should be reduced. Passengers should not fly once, but be taxed twice.

5. Impact of taxation on the aviation sector nationally and regionally

We agree that aviation sector should meet its environmental and social costs and contribute toward creation of a sustainable transport sector, however it remains unclear how the current and future taxation contributions of the industry are used by the Government in real terms of tackling the impact of the industry on the environment.

The cost to aviation of Air Passenger Duty and Emissions Trading should be equal to the environmental external cost of aviation. However, by 2012 ETS and Air Passenger Duty will together raise £3.6 billion compared to an environmental external cost of £2 billion (AOA).

We have already experienced decline in traffic at Peel Airports which can be attributed directly to the increase in APD.

The VLM service LJLA-London City commenced in 2004 and was welcomed by the regions business sector. The service operated successfully till January 2007 when the APD saw an increase of 100% which brought airline’s average fare up to a level where it was seen as uncompetitive; at the same time subsidised rail operators commenced an aggressive campaign to attract as many passengers from the region as possible by offering attractive fares and high frequency service from Liverpool to London; in less than 6 months, in June 2007, VLM service was stopped and LJLA lost its only link to London market.

Most recently, on 19 February 2009 BMI announced that it would drastically reduce its service to LHR from UK regional airports whilst DTV A lost its LHR service as the direct result of the doubling and subsequent increase of the APD.

By 2012, the UK market could become very uncompetitive due to co-existence of a double taxation system environment, ie both ETS and APD could be applicable resulting in our passengers being taxed twice per each flight they take.

Therefore we conclude that with regard to its impact on the environment, the industry currently contributes ie pays above its share, whilst its contributions will rise further in our view unnecessarily through a combination of APD and ETS. Therefore, APD should be scrapped as soon as possible; it burdens the industry, affects air sector’s growth potential and damages UK airports competitiveness.

Furthermore we would like to mention the introduction of the EU directive on airport charges planned for implementation in 2011. We believe that this blanket measure will further unnecessary burden regional airports in the UK with additional cost implications. This regulation is meant to address any potential airport market monopoly positions and associated excessive airport charges. Instead of identifying those EU airports where alleged market position abuse occurs and resolving this with an appropriate regulation, the EU has opted for a “one measure fits all” which clearly is not the best approach.

Application of this regulation could put regional airports in the UK in a status quo position by delaying their growth whilst airports deal with requests from airlines/third parties with regard to airport fees and charges. We believe that there could be at least dozen airports in Europe where airports’ growth is currently “frozen” due to ongoing queries on airport/airline agreements.

6. Changes in the security sector and its impact on the aviation sector

We fully understand the need for increased airport policing and more stringent security measures at UK airport due to increase in threat from terrorism; the concern for the public safety is both of national and international importance.

We have some major reservations regarding the government’s proposals. As mentioned above the concern for the public safety is of national importance. UK airports not only provide service to its regions they serve but also play part in delivering service on national level. Therefore if security is of national importance and
airports play part in delivering service at national level it is realistic to expect that the Government should be responsible in providing support in ensuring that heightened security measures are implemented and maintained at UK regional airports such as Peel Airports. So far, we have not seen any indications that the Government is planning to provide support and funding for the implementation of a number of stringent measures it has imposed on UK airports.

The costs of airport policing and airport security have risen. Our airports can not pass this cost onto airlines due to long term agreements with airlines which do not allow for increases in fees. We believe that many other regional airports are in a similar situation. However, airports are now expected to cover these costs alone which we can not agree with and if left unaddressed could jeopardise the future of many regional airports in the UK (pls see AOA’s response and its assessment of the potential impact of cost increases on UK regional airports).

Moreover, the new policing bill does not stipulate what these appropriate measures are, how these should be resourced, etc.; airports would be required to meet full costs, the police would make the resource judgements without any input from the operator; airports would be presented with a new bill for policing. This is not the scenario we want to see. There is an evident lack of objective standard for setting an appropriate level of policing presence at an airport. The new system relies purely on one sided judgement and could burden airports with unrealistic and unjustifiable costs resulting in unviable operations of regional airports.

Thank you again for giving us the opportunity to respond to the consultation process and we would welcome any opportunity to give oral evidence if invited to do so.

February 2009

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Memorandum from the British Business & General Aviation Association (FOA 79)

As part of your wider engagement with stakeholders, I am pleased to take this opportunity to submit written evidence on behalf of the 170 members of the British Business & General Aviation Association (BBGA).

The BBGA’s members are engaged in a wide variety of activities within the General Aviation sector; including the operation of aircraft, maintenance, handling, airfield operation and insurance, among others.

Our aircraft-operating membership is almost exclusively made up of companies which use their aircraft as workhorses; either to train pilots or as a means to increase the efficiency of their own or their client’s main business. The businesses that our members operate are not extravagant or run on a “money-no-object” basis; they are businesses operating on margins comparable with other areas of industry, and either competing against foreign companies for work throughout Europe, or using their aircraft as a productivity tool for their own management team. A European Commission paper entitled “An Agenda for Sustainable Future in General and Business Aviation” published on 11th January 2008 has been provided to Treasury personnel and gives an idea of the important role which the commission recognises is performed by General and Business Aviation.

**Summary**

UK Aviation policy has been inattentive to the needs of Business and General Aviation for too long. To redress this imbalance, BBGA makes twelve key recommendations, as follows:

1. Economic value (including induced value) should be at the heart of every UK aviation policy decision.
2. The UK Government should sponsor an independent study into the comparative value of different sectors in aviation, and use the result to drive aviation policy across the sectors.
3. Congested UK airports should be required to reserve a percentage of their available slots for higher-value business aviation.
4. Airport capacity limits should be set with the primary aim of maximising the efficiency of the Air Traffic System.
5. A planning framework should be derived for airport developments such that the need for lengthy enquiries is minimised.
6. An urgent list of 2012 Olympic airport development priorities should be established and implemented immediately.
7. UK should adopt a “light” administrative system for compliance with EU ETS for Business Aircraft to ensure equality of treatment with US competition, as already suggested to the DfT and Environment Agency by BBGA.
8. UK DfT should lead an initiative in Europe for a proportionate system of security checks for small and medium business aviation, as already suggested by EBAA and BBGA.
(9) The UK CAA and SEMTA must urgently be compelled to rapidly build the accreditation framework to allow academic qualifications to count towards the requirements for professional aircraft engineering licences.

(10) The UK should examine the possibility of introducing incentives to flying schools to offset the disadvantageous impacts of VAT on commercial flying training compared to other EU Member States.

(11) Government should exclude International Aviation from the 2008 Climate Change Act before the 2012 decision deadline, until a short-cycle carbon fuel such as bio diesel is a viable alternative.

(12) The UK should press for changes to the European security regime so an alternative system more suited to Business and General Aviation is adopted offering passengers an appropriate and advanced level of security.

1.1 What is the value of aviation to the UK economy?

1.1.1 Business Aviation comprises about 8% of Instrument Flight Rules (IFR) traffic in Europe. The question of economic value is difficult to address, but official estimates of the direct value of the Business Aviation fleet is that it contributes some £2.5 billion to the UK economy, roughly 8% of the value of the airlines (figures from Eurocontrol and the DfT/CAA Strategic Review of General Aviation).

1.1.2 The use of business aviation allows new business connections to be made quickly and efficiently, which accelerates the process of investment and the conduct of business relationships. The ability to do business quicker and farther afield from a company’s home base is the main benefit of business aviation to British enterprises and ultimately the wider economy.

1.1.3 By far the most authoritative study on the subject of the value of Business Aviation to the European economy was undertaken by PricewaterhouseCoopers, and completed in November 2008. The analysis related to the industry in 2007, and involved primary research interviews with companies accounting for about 45% of the economic activity of the business aviation sector in Europe, together with use of industry databases, as well as data from 70 company reports of business aviation-related companies. Although the report is aimed at Europe-wide conclusions, it is easily possible to extrapolate UK-specific figures from the published data.

1.1.4 It reaches the following conclusions:

— France, Germany and the UK are the countries most impacted by the business aviation industry. The total impact of business aviation in these three countries was €12.6 billion in 2007, which represents 64% of the total industry Gross Value Added (GVA) in Europe.

— PwC were prudent in calculating the economic impact of the industry, subtracting profits from the output figures because of the difficulty in ascertaining the share of the profits from European business aviation companies that would be distributed and spent within Europe. If these amounts had been included, the industry’s total impact on GVA would have been €24.8 billion.

— Business Aviation accounts for approximately 0.2% of the combined GDP of the European Union (EU), Norway and Switzerland.

— On average, the indirect economic value of the industry roughly equates to 100% of the direct value.

— On average, the induced value of business aviation is roughly 100% of the sum of direct and indirect values. This would indicate that the total direct, indirect and induced value to the UK economy could be as high as £6–10 billion per year.

— The UK accounts for more than 30% of all European business aviation employment, as shown in figure 1.
1.1.5 Moreover, studies have shown that companies with access to business aviation perform around 10% better than those without. In a 1995 study the UK DfT recognised that “Aviation facilities are the third most important factor influencing inward investment decisions . . . . . . with evidence to support the importance of BusAv in a number of instances . . . . . . business aviation facilities have a part to play in helping to promote bi-lateral trade . . . . . . insufficient capacity . . . . . . for business aviation use in South-East will . . . . . . have a potential adverse impact upon local economics and national competitiveness”. More recently, a Communication from the European Commission entitled “An Agenda for a Sustainable Future in General and Business Aviation” dated 11 January 2008 COM (2007) 869 Final stated that “General and Business Aviation provides closely tailored, flexible, door to door transportation for individuals, enterprises and local communities, increasing mobility of people, productivity of businesses and regional cohesion”.

1.1.6 In a sustainable economy it is clear that Business Aviation is far more environmentally efficient than the airlines in its economic value per unit of emissions, and it is obtaining the highest possible ratio of economic benefit to quantified emissions that is key. Hence it is not filling an aircraft with as many passengers as possible that is environmentally efficient, but rather obtaining the maximum economic value for as few emissions as possible that matters. Unfortunately, this is the opposite principle to the one selected for the EU Emissions Trading Scheme, which will apply to aviation flying to, from or within the EU from 2012. Under this scheme, airlines will be able to obtain 85% of their carbon permits free of charge, simply by virtue of the fact that they operate with more passengers; thus incentivising value-neutral (or even value-destroying) flights on scheduled airlines at the expense of the far more economically beneficial business aviation sector. On a domestic front, airlines also receive preferential treatment with regard to airport slots, and have the legal right to displace business aviation at busy airports and even to capitalise their “value” on their balance sheets. This is clearly counter-productive to the UK’s economic well-being, as well as being questionable economic practice.

**Recommendation 1**

Economic value (including induced value) should be at the heart of every UK aviation policy decision.

**Recommendation 2**

The UK Government should sponsor an independent study into the comparative value of different sectors in aviation, and use the result to drive aviation policy across the sectors.
1.2 What are the roles of the London and regional airports?

1.2.1 General Aviation is able to utilise a wide variety of airports, and as the aircraft are generally small and quiet, they are good neighbours even in noise-sensitive areas. Scheduled Air Carriers have access rights to major airports that are enshrined in law; when an airfield becomes congested, non-airline traffic is displaced to smaller airports. Furthermore, airlines are allowed to capitalise the value of runway slots (which are not available for non-scheduled traffic) and carry them on their balance sheet as assets. In Business and General Aviation, none of this applies. Despite the fact that Business & General Aviation earns far more value for the national economy per movement than their airline counterparts (see above), they are forced ever outwards from business and population and commercial centres by the protected rights of commercial carriers.

1.2.2 The London airport with the highest percentage of Business Aviation traffic is London Luton Airport, with over 22% of its movements occupied by this type of traffic. If is the main arrival and departure point for trans-Atlantic business aviation traffic. Until only 15 years ago, this role was fulfilled by London Heathrow, but Air Transport traffic has now displaced our sector almost entirely from this airport.

1.2.3 Although able to use a variety of airports, capacity constraints are applied solely by the local government, in complete isolation from airspace capacity constraints. This approach is illogical and wasteful as we enter a period of unprecedented environmental scrutiny. Airport capacity planning should form part of a coherent transport policy, with capacity decisions made throughout with Air Traffic System efficiency as the prime goal.

1.2.4 The local planning process also hinders sensible use of the available airport infrastructure. The headline stories concerning additional runways at major airports are well-known, but BBGA members report many other significant developmental needs being delayed by minor local issues, which are allowed to over-ride the greater national economic good. Biggin Hill, Oxford and Lydd airports are but three which have experienced delays to their expansion plans, which in turn are endangering the UK’s readiness for the 2012 Olympics. This event will attract over 900 additional movements over the period of the Olympics (BBGA estimate of large business aircraft movements, detail attached), and yet no significant planning has taken place to ensure this additional volume can be handled.

Recommendation 3

Congested UK airports should be required to reserve a percentage of their available slots for higher-value business aviation

Recommendation 4

Airport capacity limits should be set with the primary aim of maximising the efficiency of the Air Traffic System

Recommendation 5

A planning framework should be derived for airport developments such that the need for lengthy enquiries is minimised.

Recommendation 6

An urgent list of 2012 Olympic airport development priorities should be established and implemented immediately.

1.3 What competition do they face from abroad?

1.3.1 International competition is an ever-present factor in all aspects of aviation. The recent adoption of the EU/US Open Skies agreement has enabled American commercial business aviation operators to seek more commercial work in Europe, to the detriment of the European business aviation fleet. The advent of the EU Emissions Trading Scheme for aviation from 2012 further exacerbates the situation, as commercial US operators will be largely exempt from the scheme’s charges (due to the 243 flight per quarter threshold for non-EU commercial traffic), while their European competition will not exempted. This will equate to European operators paying approximately €0.04 more per litre of fuel in carbon permits, which their American counterparts will not be required to pay, thus providing further incentive to compete in Europe. Furthermore, there is evidence that foreign commercial business aircraft operators are flaunting the law regarding permit applications to operate certain flights from the UK, but insufficient enforcement personnel mean that they can do that with impunity.

1.3.2 One aspect of competition frequently overlooked is that of airport competition. General and Business Aviation, unlike its Air Transport counterpart, has a choice of which airport (and which country) to operate to. If the UK makes flying through this country an unattractive proposition, due to cumbersome
or excessive security or immigration procedures, many business aviation users will simply take their business elsewhere. BBGA fully accepts the need for sensible and proportionate security and immigration methods, and advocates that specific rules should be adopted for Business & General Aviation which allow the necessary flexibility of operation while ensuring the highest standards of intelligence gathering.

1.3.3 Aircraft maintenance companies also face considerable competition from overseas, mostly driven by exchange rates and the availability of qualified labour. In the case of the UK, the labour issue is almost entirely due to the fact that no accreditation is given for professional license qualification by virtue of previous academic study. Competing European countries such as Germany offer a range of accreditation for prior study, and this greatly eases the route to professional license qualification. This issue is vital for the long-term future of aviation maintenance in this country. The current demographic of the maintenance industry is not sustainable for more than another five years or so, and beyond that it is not at all clear where qualified personnel will be drawn from.

1.3.4 Another area of the industry subject to overseas competition is that of commercial pilot training. Even within Europe, the taxation treatment of this training is handled vastly differently. This imbalance has lead to most UK flying schools conducting some or all of their training overseas, or closing. The following table summarises the wide-ranging variation of taxation treatment of commercial flying training, and is self-explanatory:

**Table 1**

<table>
<thead>
<tr>
<th><strong>Country</strong></th>
<th><strong>VAT rate applied</strong></th>
<th><strong>Notes</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>20%</td>
<td>Aircraft maintenance exempt from VAT</td>
</tr>
<tr>
<td>Belgium</td>
<td>21%</td>
<td>VAT not applied to examiner and licence fee</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>20%</td>
<td>Aircraft maintenance exempt from VAT</td>
</tr>
<tr>
<td>Cyprus</td>
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<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>25%</td>
<td>No VAT applied on commercial flight training</td>
</tr>
<tr>
<td>Estonia</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>22%</td>
<td>No VAT applied on hire of plane</td>
</tr>
<tr>
<td>France</td>
<td>19.6%</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>19%</td>
<td>Aircraft maintenance exempt from VAT</td>
</tr>
<tr>
<td>Greece</td>
<td>19%</td>
<td></td>
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<tr>
<td>Hungary</td>
<td>20%</td>
<td></td>
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<tr>
<td>Ireland</td>
<td>21%</td>
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<tr>
<td>Italy</td>
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<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>18%</td>
<td>Aircraft maintenance exempt from VAT</td>
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<td>Lithuania</td>
<td>18%</td>
<td>No VAT applied on commercial flight training</td>
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<td>Luxembourg</td>
<td>15%</td>
<td>No VAT applied on commercial flight training</td>
</tr>
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<td>18%</td>
<td>Chartering of aircraft for training exempt</td>
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<td>Netherlands</td>
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<td>Poland</td>
<td>22%</td>
<td>Lower rate of 14% applied on commercial flight training</td>
</tr>
<tr>
<td>Portugal</td>
<td>21%</td>
<td></td>
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<tr>
<td>Romania</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Slovakia</td>
<td>19%</td>
<td>Aircraft maintenance exempt from VAT</td>
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<td>Slovenia</td>
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<td>Spain</td>
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<td>No VAT applied on commercial flight training</td>
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<td>Sweden</td>
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<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15%</td>
<td></td>
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</tbody>
</table>

**Recommendation 7**

UK should adopt a “light” administrative system for compliance with EU ETS for Business Aircraft to ensure equality of treatment with US competition, as already suggested to the DfT and Environment Agency by BBGA.

**Recommendation 8**

UK DfT should lead an initiative in Europe for a proportionate system of security checks for small and medium business aviation, as already suggested by EBAA and BBGA.
RECOMMENDATION 9
The UK CAA and SEMTA must urgently be compelled to rapidly build the accreditation framework to allow academic qualifications to count towards the requirements for professional aircraft engineering licences.

RECOMMENDATION 10
The UK should examine the possibility of introducing incentives to flying schools to offset the disadvantageous impacts of VAT on commercial flying training compared to other EU Member States.

2.1 Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

2.1.1 The current aviation infrastructure is not adequate for the needs of UK businesses and individuals using business and general aviation. An overall strategy should be developed to address the following issues:
- Aerodrome locations and sizes to meet the nation’s needs over the next 20 years.
- Airport capacity decisions should be made at a national level, with the goal of maximising network efficiency and capacity (see 1.2.3 above).
- Airport development processes should be streamlined to allow compliance with the national strategy (see 1.2.4 above).
- Access to congested airports by business general aviation traffic should be enshrined in law to ensure that Air Transport traffic does not displace the more valuable business traffic (see 1.2.1 above).
- Integrated training for maintenance engineers (see 1.3.3 above).

2.2 What are the implications of future passenger trends and possible mergers in the airline industry?

2.2.1 No comment.

3. To what extent can rail provide an alternative to short-haul flights?

3.1 Clearly there is a role for rail as an alternative to short-haul flights, just as buses provide an alternative to cars for road journeys. Users must always have a choice of transport modes, however, which reflect the environmental impact of the chosen means of travel.

4.1 What costs does aviation impose on society and the environment?

4.1.1 The Business Aviation sector takes its environmental responsibilities very seriously and is proud that, because of our young fleet—one of the youngest in the world—and efficient utilisation by flying specifically to task rather than to a schedule, we generate less than 1% of aviation emissions, and therefore only a few hundredth of 1% of overall emissions, despite representing more than 8% of IFR traffic in Europe today. Yet, notwithstanding this minimal contribution, the BBGA fully accepts that aviation operations, like other modes of public transportation, have an environmental cost (according to Stern some 1.6% of global emissions, which is significantly less than most other transport sectors), and that action is needed to minimise our impact on the environment and ensure we operate in a sustainable manner.

4.1.2 In consequence, many of our members already choose voluntarily to offset their emissions via BBGA own Carbon Balancing scheme, introduced in 2007.

4.1.3 EU ETS will be extended to aviation with effect from 2012, and will place cap and trade principles onto the sector for the first time.

4.1.4 Aviation Passenger Duty (APD) has been assessed to roughly cover the environmental cost of aviation.

4.2 What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

4.2.1 The Climate Change Act 2008 has potentially terminal implications for UK aviation. Since there is no obvious alternative to fossil fuels at present for aviation, if the government elects to include aviation in the greenhouse gas emission reduction targets of at least 80% by 2050, and reductions in CO₂ emissions of at least 26% by 2020, against a 1990 baseline, it will spell the end of aviation.

4.2.2 BBGA’s hope is that government will elect to exclude International aviation from the scheme by the 2012 decision deadline.
**Recommendation 11**

Government should exclude International Aviation from the 2008 Climate Change Act before the 2012 decision deadline, until a short-cycle carbon fuel such as bio diesel is a viable alternative.

5.1 *What is the impact of taxation on the aviation sector nationally and regionally?*

5.1.1 Aviation taxation is a finely balanced aspect of international trade. Any changes to the scale of operational taxation should be driven through ICAO to ensure that the global playing field is not skewed against the interests of British operators. Recent increases in Air Passenger Duty (APD) and the introduction of EU ETS already threaten that balance.

5.1.2 Business and General Aviation is a tool of efficient business; excessive taxation will simply lower the ability of British businesses to compete with their international counterparts.

5.2 *Are passengers adequately protected from the collapse of airlines?*

No comment.

6. *What is the impact on the aviation sector of changes in the security environment?*

6.1 General and Business Aviation is very different from Air Transport Aviation. The design of the aircraft is such that passengers are seated in close proximity to their luggage, often near a crash axe, and the cockpits frequently cannot be fitted with doors due to the need to provide egress for the crew in an emergency.

6.2 And yet, it is likely that unsuitable Air Transport security rules will be forced onto Business Aviation users simply because UK government agencies refuse to understand these fundamental differences. The recommendation of the BBGA and other representative bodies in the industry can be summarised as follows:

6.3 Based on current threat assessments, the size of aircraft is the key determinant of risk, both in terms of the vehicle’s capability to do damage on the ground and its attraction to potential terrorists. A further determinant is the accessibility of the aircraft to the general public: business aviation operations do not sell flights on a per seat basis, a fundamental difference from an airline. Derogation from international rules does not mean there is no security at all, but rather the application of different procedures appropriate to the different basis of operation. It is also necessary to ensure national compliance with the requirements of the recently amended ICAO Annex 17 (AL 17).

6.4 Based on these principles, security requirements for Business Aviation can be broken into three subgroups:

- Aircraft below 5,700 kg Maximum Take off Weight (MTOW).
- Aircraft between 5,700 and 15,000 kg MTOW.
- Aircraft between 15,000 kg and 45,000 kg MTOW either operated by a corporation or fractional owner, or used by a corporation or fractional owner on whole plane charter.

6.5 Aircraft below 5,700 kg MTOW

6.5.1 Aircraft below 5,700 kg MTOW, which carry small numbers of passengers and very little fuel, would also have low kinetic energy even at maximum speed. They therefore present a minimal risk in terms of their potential as a weapon to be used against people and property. In respect of such small aircraft, a secondary risk reducing factor is that pilots and passengers are generally much better known to aerodrome personnel and aircraft operators than the typical passenger on a commercial airliner. Moreover, recreational general aviation passengers are typically friends, family, acquaintances or colleagues of the pilot in command. Suspicious activities such as use of cash for flights, probing or inappropriate questions are more likely to be quickly noted on the small aerodromes from which such aircraft operate and the authorities alerted. For business aviation operations of small aircraft below 5700 kg, typically all parties onboard the aircraft are known to the pilot(s). Accordingly, in the light of the potential risk and exposure, for aircraft below 5700 Kg adequate security is assured as long as:

- Aerodrome operators minimize the risk of unauthorised access to hangars and aircraft.
- Pilots ensure that:
  - The identity of all occupants is verified before flight.
  - All occupants are aboard at the invitation of the owner/operator, and
  - All baggage and cargo is known to the occupants and placed on board by the passenger requiring its carriage.

6.5.2 Security identification badges required for personnel at major airports are not appropriate for the majority of general aviation aerodromes due to the lack of security restricted areas, perimeter fencing and other security controls. Moreover, because of the small numbers of personnel on site they are unnecessary.
6.5.3 Low Frequency Screening Protocol (LFSP)

Whilst not the preferred basis for providing security for smaller aircraft, because of the wider, more focused aviation security regime proposed and such aircraft’s internal design, the screening of passengers, cabin baggage and hold baggage should be the default procedure for all Business Aviation flights using aircraft above 5,700 Kg. A Low Frequency Screening Protocol (see below) may be utilized at those airports or parts of airports (FBO) processing less than 250 passengers per day.

6.5.4 LFSP is an affordable and proportionate method for screening small numbers of passengers. This special protocol allows staff from other trade disciplines to be trained and qualified to conduct screening to a company defined standard, which shall have been approved by the Authorities as appropriate to the exposure, assessed risk and possible consequences. LFSP delivers the same screening standards as defined in Regulation (EC) No 300/2008, but allows more flexible and efficient use of staff appropriate to very low volume activity.

6.6 Aircraft between 5,700 and 15,000 kg MTOW not operated as a Corporate (in house or charter) or Fractional Aircraft

A written security program shall be adopted, operated and maintained, which will designate a security focal point and contain contingency plans, including those for dealing with bomb and air piracy threats. Robust booking and boarding procedures shall also be put in place to identify and deal with passengers under duress. It shall be a requirement for derogations from screening that the operator shall have been independently audited against an industry standard, and shall be registered as meeting the security requirements of the programme.

6.6.1 Screening of Passengers

Prior to each flight, the carrier shall compile a declaration (passenger manifest) including the name, nationality, date of birth and identification document number of every passenger.

All passengers shall carry state-issued identification documents that include a photograph (eg passport, ID card) and shall be in a position to present them to the crew for inspection prior to boarding an aircraft.

All luggage will be positively controlled at all times and identified and matched to each passenger. Passengers and their luggage shall undergo screening unless exempted according to the rules mentioned below.

6.6.2 Vetting and Validation Required to Derogue from Screening

A pre-requisite of passenger validation and establishment of their status as a “known passenger” is that the booker (chartering company, customer or owner) shall have first established itself to the satisfaction of the carrier (aircraft operator) as a “known booker” by a defined and controlled means.

6.7 Aircraft between 5700 kg and 45,000 kg MTOW operated or used by a Corporation or Fractional Owner

6.7.1 Despite their size, business aircraft when used exclusively by Corporations or Fractional Owners represent less of a threat because of the tight controls exercised over whom may board the aircraft by these operators and so require the application of different, proportionate, security rules than are required for commercial operations. However, for such derogations to be considered Authorities will need to be assured that such tight controls are indeed being exercised over their passengers in terms of their being either company employees or long term users who have been vetted as a pre-condition of employment/contract. “Passenger under Duress” procedures also need to be in place. To this end, a condition of approval would be that an operator or user seeking derogation under this rule would need to demonstrate compliance with the vetting and validation requirements for aircraft up to 15,000 Kg, including the provision of evidence that they meet defined the security requirements, and have been audited and approved as meeting this standard by an independent approved auditor.

6.7.2 Passengers not being an owner, fractional owner, or employee of the corporation owning the aircraft, should be screened in a similar fashion to a passenger of an ad-hoc charter. As part of the pre-boarding check the following steps shall be included:

- the identity of all occupants is verified;
- all occupants are aboard at the invitation of the owner/operator;
- all baggage and cargo is known to the occupants; and
- where necessary a Low Frequency Screening Protocol (LFSP) can be performed.

In the case of corporate operators, validated company background checks shall be accepted as a means of passenger vetting and validation.
RECOMMENDATION 12

The UK should press for changes to the European regime along the lines of the above so that Business and General Aviation is able to continue to offer passengers an appropriate and advanced level of security.

Thank you for this opportunity to provide input into the future of Aviation in the UK. We very much hope that our response above indicates the level of thought that the BBGA has given to the topic, and look forward to engaging in further dialogue in due course.

February 2009

Memorandum from the General Aviation Alliance (FOA 80)

EXECUTIVE SUMMARY

A. The Inquiry poses questions on “Aviation” and it seems to assume that this means only Commercial Air Transport (CAT) whereas, of course, it must also include “General Aviation” (GA), being a mix of flying for both commercial and non-commercial, business, sport and leisure purposes.

Our response concentrates on GA but also contrasts some aspects with CAT.

We also refer to the Civil Aviation Authority’s Strategic Review of GA of 2005–06 (Strategic Review) carried out in conjunction with GA and representatives of Government. This was the first time that such a review had taken place. A copy of the report is attached.

We consider this report should form the basis of the Transport Committee’s consideration of the future of the GA sector of aviation in the UK as it provides a source of information to answer most of the questions it has posed and deals with the relationship between CAT and GA.

We also consider the European Parliament resolution of 3rd February 2009 on “an Agenda for Sustainable Future in General and Business Aviation (2008/2134(INI))” (The Parliament Resolution) should be taken into account as it asks Member States Governments to consider many aspects in relation to that sector of aviation.

B. The value of the GA sector in the UK to the UK economy was considered to be approximately £1.4 billion in 2005–06 when the Strategic Review of General Aviation reported but others estimate it at £4.7 billion.

In 2005 GA directly employed some 11,600 people and 5,900 others on GA airfields.

There are some 32,000 members of sport and recreational flying associations although the membership is in excess of 160,000 if other associated sectors are included. It is estimated that air shows produce the second largest public attendances in the UK.

C. There is much concern over the lack of access to many airports and larger aerodromes by GA in the UK. As airports become larger or busier they either specifically bar the smaller GA aircraft or price their services such that it is uneconomic for GA to use them. This has potentially adverse effects on pilots who need to train and maintain their flying skills with facilities, such as landing aids, that are not available at smaller airfields. It also reduces the network available for an important sector of aviation which must rely upon re-fuelling stops at convenient geographic points.

The GA training industry in the UK, which trains and provides many pilots who then move into the CAT sector, suffers considerably from the lack of encouragement from Government in that it is not exempted from VAT unlike some other European States. As a result many training establishments have either moved abroad to those States or the USA.

Aviation works best when there is a continuous spectrum from small private operators, through GA and business aviation, to CAT. Such a structure helps reduce costs and increase flexibility for the airlines when recruiting flight crew and other staff. It is therefore important that this spectrum of activities is maintained and not accidentally stifled by an over emphasis on CAT.

Pilot licences issued in recent years have fallen overall despite the introduction of a more limited privileges licence known as the National Private Pilot’s Licence (NPPL). This licence requires less in terms of medical standards and training but has consequent stricter limitations on use. Issues of the more conventional Private Pilot licence (PPL) have fallen by 30% in eight years.

D. It is accepted that GA has a range of effects on the environment. However, compared to CAT those effects are absolutely minimal. GA does take steps at local aerodrome level to minimise, in particular, noise impact on areas surrounding them. GA at the lighter end also pays taxes on fuel, mostly out of the taxed income of its pilots, unlike CAT.

E. GA suffers adverse effects, particularly when using regional airports, from excessive and disproportionate security regimes. The Parliament Resolution deals with this issue at point 7 and recommends there should be examination of simplified security procedures for business aviation passengers.
1. **What is the value of (General) Aviation to the UK economy?**

   The Strategic Review looked at a full description of GA and analysed sectoral trends together with the economic and social impact of GA in the UK, infrastructure access, the regulatory and tax environment, together with other issues.

   The “value” of GA can be considered in relation to both economic and social values.

   The Lober study, carried out as part of a General Aviation Small Aerodrome Research Study by UCL in 2006, was used by the Strategic Review as a reasonable estimate and has estimated total expenditure within the GA sector at a minimum £1.4 billion in 2005; other industry estimates consider the value to be £4.7 billion. This is all expenditure on GA, and does not include any indirect expenditure generated by GA activity or the multiplier effect.

   Lober provided estimates of GA employment, based on survey data. He estimated that some 11,600 people are employed in jobs directly related to GA. This estimate is not an exact one as it relies on the replies of airfields surveyed, and includes their estimates of the total number of people employed in the businesses based on their airfields, a number they may not have accurate data for. Many of these people may be employed in jobs not directly related to GA. Employment on airfields classed as “mainly GA” is estimated at 5,900.

   In earlier, post war, years the UK had a thriving CAT and GA aircraft manufacturing sector. Some aspects of the CAT sector have remained, mainly in supply of engines and peripheral equipment and assembly of some aircraft structural parts. However the GA aircraft manufacturing sector has virtually ceased being lost to Eastern European States and the USA. A small specialist microlight manufacturing sector has appeared in recent years.

   The CAT sector is of course very much larger than GA in economic terms but using Lober’s GA figure it was, in 2005, roughly equivalent to Virgin Airlines turnover and equated 8% of the CAT turnover of £17.6 billion.

   Significant numbers of people are involved in GA recreational activities. The total membership of sports and recreational associations in the UK is estimated at some 36,000. In addition there are 32,000 temporary members of the British Parachute Association (occasional and one-off jumpers) and some 37,000 people who fly model aircraft.

   There are also about 53,000 Air Cadets, aged between 13 and 18, attached to over 1,000 squadrons and many scouts who seek “air-minded” badges.

   The Parliament Resolution, at points 32 and 33 emphasises the need to promote the recreational and sport sectors and recognise the sector plays an important role in the development of professional skills.

2. **Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?**

   This was covered in much detail in the CAA’s Strategic Review. Section 3.1 of the report neatly summarises the problem:

   “As with all forms of aviation, GA needs a certain level of access to infrastructure in order to operate, although this may vary widely across the different types of GA.

   There are two main infrastructure issues: airfields (or some form of fixed site to take off and land); and access to airspace. GA is currently facing increased difficulty in accessing both of these, particularly in the more congested areas of the UK.”

   This situation prevails and is becoming, and forecast to become, worse due to growth in demand for controlled airspace from CAT, more controlled airspace around airports and increasing use of unmanned aerial vehicles, the latter both from Ministry of Defence and private contractors.

   Furthermore the Government has yet to introduce effective safeguarding of airports into the planning system, as it has indicated it would do, and airport sites continue to be under pressure for redevelopment for commerce and housing as recognised “brownfield” redevelopment sites.

   The White Paper “The Future of Air Transport” of December 2003 noted the “important contribution made by small airports in the South East in providing capacity for business aviation” and supported “the adoption of policies which encourage the continued provision of these services”. The wider benefits of GA, and its sports and recreational aspects were not considered, unfortunately, to be within the scope of the White Paper exercise.

   To provide a viable airport infrastructure in the UK for use by GA as a resource, for both industry and leisure use, there needs to be effective access to both regional airports and smaller GA aerodromes. There would be cause for concern if a significant further loss of airfields were to continue, especially if crucial interchanges on the transport network were to be lost.
It is critical that in solving the current infrastructure issues relating to CAT that other users are not unfairly compromised. This would be counter to EU policy. The current infrastructure for UK GA is poor in comparison with that of the USA, France and several other EU countries, and it is important that it does not get any worse.

The Parliament Resolution deals with this aspect at point H on page 2 and points 9 to 22 on pages 3 and 4. Furthermore the founding document COM (2007) 869 (The EC Communication) details the issues at points 3.4, 3.4.1 and 3.4.2, and, we consider, emphasises the points we make. It is critical that the UK adopts policies that recognise the difficulties faced by the sector in the UK and the encouragement given by the European Parliament to address the problem.

In particular point 20 states the SESAR programme must fully take into account GA and BA. Currently we are concerned that it is not doing so effectively and we have little input into the process.

3. To what extent can rail provide an alternative to short-haul flights?

The majority of GA flights are acknowledged to take place within a relatively small area. However, a significant element involves flying between two points and these are often not easily accessible by rail.

Much time and effort can be saved by businesses flying between airfields, particularly the smaller ones, to be nearer their final destination. Much time can also be saved compared to short haul CAT flights, with its attendant security constraints, and then travelling to the final destination by other means.

4. What costs does aviation impose on society and the environment?

The Strategic Review covers this aspect in section 2 of its report and part of the summary is:

“Aviation has a range of environmental impacts, to which GA contributes. The impact of aviation as a whole upon the environment has increased significantly over recent years, although GA's overall impact in terms of noise and emissions is far less than that of CAT, as would be expected given the difference in aircraft size and fuel consumption between the two sectors. GA also pays tax on much of the fuel it uses, unlike airlines.”

The question presupposes a cost on society without any corresponding benefit. Private aviation provides a valuable social outlet for air-minded people including young people. It provides the opportunity and educational basis for many to start thinking about a career in aviation; air sports in particular perform a valuable and relatively inexpensive outlet for these interests.

The UK has been especially successful in sports aviation in recent years, as evidenced by the many World and European Champions, as well as international records in air sports such as gliding, microlighting, parachuting and ballooning. As an example of air sports achievements and the diversity of activities undertaken, the current Women’s World Championship 4-Way Formation Skydiving team and the current World Champion Freestyle team are both British.

The EC Communication also deals with this issue recognising the need at 3.6 “Ensuring environmental sustainability” to be considered.

5. What is the impact of taxation on the aviation sector nationally and regionally?

Sections 4.52–4.67 of the Strategic Review report deal with Taxation.

CAT benefits from VAT zero-rating of passengers. By contrast, most GA activities are subject to standard rate VAT including flight training courses, unlike most other education activities. A pilot’s licence is one of the most expensive vocational qualifications to obtain, but is one of the few vocational areas where the student is expected to pay VAT in addition to the cost of their training.

This state of affairs unfairly burdens GA and is the main reason for many flight training establishments basing themselves within mainland European States that zero-rate flight training or in the USA where all costs are lower.

In addition the duty on Avtur fuel used for non-commercial purposes has recently been doubled by the Treasury, removing an advantage of its use, which will mean development of more fuel efficient (“diesel” type) engines for GA aircraft will be held back and currency training by pilots in their own or rented aircraft powered by that fuel will be reduced thereby potentially affecting safety.

The fact that taxation, and increases in costs generally, adversely affects GA can be seen by the progressive downturn in the issue of pilot licences over recent years in the graph below:
It can be noted that the PPL licences issued have fallen by some 30% in the eight years since 2000–01 whereas professional licences issued have, after a fall in the middle years, regained their numbers.

NPPL licences issued numbers, following a start in 2002–03, have remained approximately constant around 800. The introduction of the NPPL in 2002 has particularly benefitted those private pilots who could not meet the unnecessarily stringent and disproportionate medical standards of the JAA.

At point 3.6.2 64 the EC Communication notes the taxation position on fuel used for “private pleasure flying”.

6. What is the impact on the aviation sector of changes in the security environment?

Sections 4.68–4.73 of the Strategic Review report deal with security.

GA operates from a range of large and small airports, aerodromes and unlicensed farm strips. Application of security measures affects GA in varied ways but the most adverse effects are felt at the larger airports where security measures are often excessive having regard to the nature of GA’s operation. Smaller GA aircraft and their passengers are hardly likely to pose a security threat and GA made such point to the DfT TRANSEC review of 2005.

APPENDIX 1

THE GENERAL AVIATION ALLIANCE (GAA)

The General Aviation Alliance (GAA) is a group of organisations representing the interests of many in the UK General Aviation Industry (GA). It was formed in 2004 due to concerns about the fragmented representation of GA and the need for co-ordinated UK level responses to CAA and EU initiatives, the latter through a pan-EU representative organisation, Europe Air Sports.

The term General Aviation (GA) describes all aviation activity except airlines and military i.e. a civil aircraft operation other than a commercial air transport operation. The principal sectors of the GA industry include sport and recreational aviation (S&RA), personal transport for business and private purposes, flying training, corporate aviation, aerial work and a wide range of ancillary activities from maintenance to airport services. There are approximately 7,500 UK registered and certificated (including approximately 1,000 helicopters) plus 1,000 USA registered GA powered aircraft in the UK, 2,300 microlights, 2,600 gliders, 740 balloons/airships, 62 gyroplanes plus 5,500 hang and paragliders and approximately 1,000 UK civil airliners. In addition parachuting activities are within the scope of CAA regulation as well as aero-modelling.

It is understood that air shows are now the UK’s second most popular spectator activity with some 6.6 million attending annually (Source: Air Display Association (Europe)).

Members of The Alliance include:
British Balloon and Airship Club (BBAC)
British Gliding Association (BGA)
British Hang Gliding and Para Gliding Association (BHPA)
British Microlight Aircraft Association (BMAA)
British Parachute Association (BPA)
Helicopter Club of Great Britain (HCGB)
Light Aircraft Association (LAA)
PPL/IR Europe—European Association of Instrument Rated Private Pilots
Royal Aero Club of the United Kingdom (RAeC)

The Alliance coordinates about 72,000 subscription paying members of these bodies.

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**Memorandum from Network Rail (FOA 81)**

**SUMMARY**

1. Recent years have seen a considerable growth in rail passenger transport, including on those routes currently served by short haul flights. Growth is expected to continue, and additional rail capacity will be required to accommodate this growth. Consequently the rail industry is engaged in structured public discussion, research and planning to address this issue.

2. The work currently being undertaken by the rail industry will shape the long term future of passenger rail provision on routes which are served by short haul flights.

3. The future of aviation in the short haul sector should therefore be considered against the outcomes of the rail industry’s current research and development work and subsequent plans for the infrastructure.

**NETWORK RAIL**

4. Network Rail owns and operates Britain’s rail network. It is a private, independent, “not for dividend” company directly accountable to its Members and regulated by the Office of Rail Regulation. Profits made go straight back into improving the railway. The aim of the business is to provide a safe, reliable, efficient and sustainable railway, fit for the 21st century. Network Rail owns around 20,000 miles of track; 40,000 bridges and tunnels; 1,000 signal boxes; 9,000 level crossings; 2,500 stations that are leased to train operators; 18 large stations that are managed and operated directly by the company, and a further 8,200 commercial properties all of which fund the rail network infrastructure.

5. Network Rail does not run the trains themselves. That is the business of the passenger and freight train operating companies who are its main customers. In a complex and entirely interdependent system, both Network Rail and the train operating companies share the responsibility of delivering train services to the travelling public and to the nation. However, 60% of journeys start or finish at one of its 18 managed stations, with 650 million people passing through these stations every year. This much direct contact with passengers provides Network Rail with an understanding of their needs from and aspirations for the railway and, ultimately, Network Rail seeks to meet these.

6. Network Rail welcomes the Committee’s intention to conduct an inquiry into the issues connected to aviation policy, and the opportunity to respond. We trust this response, which limits itself to answering question 3 (“to what extent can rail provide an alternative to shorthaul flights?”) will provide an informative contribution to the Committee’s inquiry.

**BACKGROUND**

7. The railways have traditionally provided services on routes now catered for by the airlines as shorthaul flights. Despite shorter journey times offered by air, and the advent of budget airlines, the railways have enjoyed considerable passenger growth in recent years. For example, on the West Coast Main Line, in 2004, Virgin Trains had 40% of the rail/air market. Following service improvements, this had risen to 74% at the end of last year. Both industry and government expect that growth to be sustained in the long term.

8. On many key routes, the railways are operating at close to their maximum capacity, and the future ability of the network to accommodate the projected increases in demand will depend on investment, both in the current infrastructure, and potentially in the future construction of new lines. The extent to which the railways occupy the market in relation to aviation on “short-haul” routes will therefore be dependent on a range of inter-related factors including:

   — Demand—present and future.
   — Capacity of the network.

281 Figures from Virgin Trains.
— Future expansion of the network.
— Journey times.
— Cost (both business case for infrastructure and cost to passengers).

9. Long-term planning to allow Britain’s rail network to meet national requirements is a vital task, and matching future capacity to demand is one of the most important issues being considered across the industry. As the owner and operator of the railway infrastructure, Network Rail is uniquely placed to take a leadership role in this process, and has been given that role as part of our licence conditions by the regulator.

10. There are three main workstreams currently underway to address these issues; the results of which will be key to addressing the Committee’s question “to what extent can rail provide an alternative to shorthaul flights”. The remainder of this paper provides a brief outline to each of those workstreams which are:
   — Route Utilisation Strategies (consideration of existing network—led by Network Rail).
   — New Lines Programme (consideration of new lines—led by Network Rail).
   — High Speed Two (consideration of new lines—led by government).

**ROUTE UTILISATION STRATEGIES**

11. In the last decade, rail passenger numbers have soared by 40%, with 1.13 billion journeys per year; the greatest number since 1946, when the network was almost twice the size it is today. Over the last decade, freight traffic has increased by 60%. The long term forecast suggests that demand for rail travel is likely to continue to grow.

12. Against this huge increase in demand, Route Utilisation Strategies consider how the existing network could best be used and modified to accommodate growth.

13. As their name suggests, the Route Utilisation Strategies are conducted on a route-by-route basis across the network. They use standard industry growth projections, and, following extensive consultation both within and outwith the rail industry, they propose various options to accommodate and facilitate growth over a 10 year period.

14. Undertaking Route Utilisation Strategies is part of Network Rail’s licence conditions, as set by the Office of Rail Regulation. The Strategies are developed in close consultation and dialogue, not only with our customers (the train and freight operating companies) but with a broad range of our stakeholders, including local and national government, rail users, industry and communities.

15. At the time of writing, 10 of the 19 Route Utilisation Strategies have been published, and are available on Network Rail’s website at www.networkrail.co.uk/aspx/4449.aspx.

**NEW LINES PROGRAMME**

16. This programme is intended to test the hypothesis that in the future (2020 and beyond), the existing railway lines from London to the North and West will be operating at full capacity, and will be unable to accommodate future predicted growth in demand, and that all available conventional tools to increase capacity have been exhausted.

17. In such circumstances the construction of new lines will have to be considered. The main objective of this programme is to develop and evaluate the options for construction of new lines, and the case for such new lines being high speed.

18. This programme of work examines routes which are in competition with short-haul air services, and include:
   — East Coast Main Line;
   — West Coast Main Line;
   — Great Western Main Line;
   — Chilterns Main Line; and
   — Midland Main Line.

19. The first report of the New Lines Programme (which will shape future work) is expected to be published in summer of 2009.

**HIGH SPEED TWO**

20. In January, Transport Secretary Geoff Hoon made a statement to the House of Commons on transport infrastructure. The statement announced the creation of a new company called High Speed Two to examine high speed rail options between London and Scotland. The company will draw expertise from both the Department for Transport and from Network Rail, and Network Rail’s Chief Engineer, Professor Andrew McNaughton has been seconded to High Speed Two.
21. It is understood that High Speed Two will begin by considering the costs and benefits of options for a new High Speed line from London to the West Midlands and is expected to report on this by the end of the year.

**CONCLUSION**

22. The long term ability of rail to provide an alternative to short-haul flights is fundamentally dependent on the extent to which investment is made in new infrastructure to accommodate the forecast growth in demand.

23. At present, the rail industry in general and Network Rail in particular are undertaking considerable works to propose a long term, affordable, and sustainable set of proposals to allow future infrastructure to accommodate predictions in growth.

24. This work is vital to determine the shape of the UK’s transport infrastructure, and will provide a researched and informed basis for addressing the Committee’s question “to what extent can rail provide an alternative to short haul flights”.

*March 2009*

**Memorandum from Gloucestershire Airport Limited (FOA 82)**

**EXECUTIVE SUMMARY**

Gloucestershire Airport is a Local Authority Airport trading profitably as a Limited Company.

Gloucestershire Airport is one of the Countries leading General Aviation Airports

Annual Turnover of £3 million.

Important focus for aviation related activity.

Major hub for Air Ambulance and Police Helicopters servicing over 75% of the UK’s forces.

Rich in aviation heritage and with strong aerospace industry connections.

Niche services.

Evidence of a clear demand for regional air travel.

Important transportation and economic resource.

One of the UK’s largest training providers, ensuring a steady flow of trained pilots are available in the future.

Utilised by all the UK air taxi services in the UK.

Viable asset to the region.

1. **GLOUCESTERSHIRE AIRPORT**

1.1 Gloucestershire Airport is a Limited Company, established in 1993. The Airport has a 900 year lease and manages the 400 acre site for aviation related activities. It is jointly owned by Gloucester City and Cheltenham Borough Councils, who each have a 50% shareholding and appoint 3 Non-Executive Directors to its Board of Directors.

1.2 Gloucestershire Airport Ltd trades as a normal profit making business. Far from receiving Council Tax support, it actually contributes directly to the income of its Local Authority shareholders. It does this by paying both a proportion of its operational property rental income and an annual dividend. It employs 40 people and has an annual turnover of around £3m.

1.3 The Airport has seen a significant transformation in recent years, with a number of important improvements to buildings and the facilities on offer. It now presents a far more professional, clean and efficient image than was the case 10 years ago.

1.4 The Airport is an important focus for aviation-related employment activity in Gloucestershire. Within the Airport, the existing built up area, known as South East Camp, currently contains around 40 firms. Almost all of these are aviation related businesses or provide support and ancillary services. These support over 550 jobs including a range of highly skilled professionals. A recent ‘census’ of the businesses on site showed asset holdings in excess of £1.5 billion, annual turnover in excess of £150m and planned investment of £10m.
1.5 On the north side of the Airport is the Meteor Business Park, an industrial estate which is owned by the Airport Company, on a 135-year lease. This is fully occupied and contains a range of companies, employing some 2,500 people, including large aviation-related firms such as Messier-Dowty/GE. The latter does not require runway access but has indicated it would like to make greater use of the Airport for business flights.

1.6 Around 150 aircraft are permanently based at the Airport, ranging from single-seat micro-lights to multi-million dollar Executive Jets. Approximately 40 Air Ambulance and Police helicopters, serving around 75% of the UK’s forces, are operated by home-based companies and “rotate” through the Airport on a regular basis for maintenance and training.

1.7 It’s not just all about business. In a region rich in aviation heritage and with strong aerospace industry connections, it is not surprising that recreational, private flying is a popular pastime. Aviation-related activities, such as pleasure flights, trial lessons etc. are immensely popular and a strong revenue source for the resident operators. Ancillary services, such as the café and pilot shop are well utilised by the public.

1.8 In September 2007, Manx2 began scheduled passenger services from the Airport to the Isle of Man, Jersey and Belfast City, with a 19-seat turboprop aircraft. Free parking, rapid check-in and friendly, efficient service are making these services immensely popular with local people.

1.9 Manx2 have demonstrated the clear demand for regional air travel for both business and leisure travellers and the service we can offer is a world away from the hassle and delays of using bigger Airports.

1.10 Turboprops are far more environmentally friendly than larger jets operating from major airports. A Ryanair Boeing 737 will use around 1500ltres of fuel to cover the taxiing phase of flight at a major Airport. Manx2’s Metroliner, pictured below, will use a similar amount during its entire return flight from Gloucester to the Isle of Man.

2. THE AIRPORT’S ECONOMIC CONTRIBUTION

2.1 Gloucestershire Airport performs an important role in providing key air services to the sub-region and is therefore an important transportation and economic resource; this is recognised in various policy and economic strategies for region and sub-region, including the Government’s 2003 Aviation White Paper. As a General Aviation airport with a strong business aviation role, Gloucestershire Airport also contributes to the wider economy.

2.2 Looking first at the national context, in 2006, the Civil Aviation Authority (CAA) carried out two reviews in the General Aviation sector and its value to the UK economy. The reviews demonstrated that General Aviation (GA) is an important and integral part of the UK aviation sector and that it makes a significant contribution to the UK economy, both in terms of direct economic value (approximately £1.4 billion per annum) and numbers employed (11,600). This is equivalent to 8% of the total contribution of the UK’s commercial aviation sector as a whole. Clearly, Gloucestershire Airport plays an important national role in this contribution.

2.3 The Airport also supports important services within the sub-region that are vital to the economy and to the operation of key public services. It provides a base for emergency services such as police and air ambulance helicopters, and for medical flights supporting hospitals in the area. A wide variety of specialist tasks, including aerial survey, monitoring and photography routinely take place from the Airport.

2.4 The Airport’s pilot training facilities support operations at the region’s larger airports, helping to ensure a supply of pilots for the growing number of commercial flights operating there. The aircraft maintenance operations and maintenance training facilities based at Gloucestershire Airport also support the aviation sector generally in the region, hence indirectly supporting its economy. Such facilities are valuable as they are increasingly unable to be accommodated at the larger commercial airports in the region, because of the growing pressure on runway slots and on operational airport land from commercial air operations.

2.5 In terms of serving the local business community, over 30 companies based in the area regularly use Gloucestershire Airport for corporate aircraft or air-taxi services. Everyday High Street names and Blue Chip companies frequently use corporate aircraft. Almost all the 100 air taxi operators in the UK utilise this Airport to connect the Gloucestershire area to other parts of the UK and Europe not directly served by scheduled services.

2.6 This is an increasingly important resource at a time when business linkages with Europe are increasing and firms seek quick transport links to business destinations. Government studies on business aviation confirm that such linkages help attract inward investment, provide flexibility, time savings and security for firms and support the retention of established businesses (DETR, 1999).
2.7 The Eddington Report commissioned by the Government has calculated that a 5% reduction in travel
time for all business and freight travel on the roads could generate around £2.5 billion of cost savings, let
alone the environmental savings. The Government White Paper (2003), Department of the Environment
Transport and Regions (1999), findings from the Transport Research Laboratory (2004) and various
Shareholder commissioned reports dating back some considerable time all conclude the viability of
Gloucestshire Airport as an asset to the region that should be invested in.

March 2009

Memorandum from Kent County Council (FOA 83)

1. SUMMARY

1.1 The following is a summary of the main points the Kent County Council would like to present to the
House of Commons Transport Committee for their consideration in relation to the future of aviation
provision in the UK:

— Kent County Council’s principle view is that air travel demand should be met through maximising
the use of existing capacity.

— For the South East the phased incremental development of London’s existing major airports
should be considered in tandem with the intensification of use of regional airports both in the South
East and neighbouring regions.

— Expansion of regional airports provides greater choice for business and passengers and can make
a significant contribution to the local economy.

— A Thames Estuary airport is not the solution to the capacity problems in the South East on the
basis of costs, feasibility and both environmental and economic impacts.

— High speed rail connections to airports are important for improving more sustainable access as
well as a substitute for city-to-city short haul flights.

2. THE CASE FOR EXPANSION OF KENT INTERNATIONAL AIRPORT (MANSTON)

2.1 Kent County Council believes that the demand for air travel should be met through maximising the
use of existing capacity and that phased incremental development of London’s existing major airports
should be considered in tandem with the intensification of use of regional airports such as Kent
International Airport.

2.2 London’s existing major airports are already under severe pressure and the prospect of additional
runway and terminal capacity improvements at Heathrow, Stansted and Gatwick is some way off. The recent
announcement by the Transport Secretary on a third runway for Heathrow would not see it operational
before 2015 and past experience of the planning process suggests that it may take longer. Accepting that the
changes in the Planning Act and the forthcoming National Policy Statement on aviation may speed up the
process there will always remain the possibility of legal challenges. The impending break up of BAA is also
likely to complicate the issue of providing additional capacity at London’s major airports.

2.3 With this scenario there are opportunities in the short-to-medium term for regional airports to expand
and relieve some of the pressure on London’s major airports. It is accepted that regional airports would not
be able to offer the range of destinations or the inter-connectivity between flights that are available at major
airports. However, even in the longer term regional airports would still have a role to play offering a degree
of choice for business, leisure passengers and freight; providing a more convenient choice both in terms of
location and time savings. The expansion of regional airports would also have significant benefits for the
local economy.

2.4 Kent International Airport (KIA) is ideally suited as an airport that could expand to fulfil the role
of a regional airport. KIA is a fully operational airport located near Ramsgate in east Kent some 70 miles
from London. The airport is already equipped with a 2,752m runway capable of handling all commercial
aircraft types currently in use (including the Airbus A380). This makes the airport one of the most significant
pieces of aviation infrastructure in the UK. The airport has good road connections and the introduction of
high speed domestic services to East Kent, utilising the Channel Tunnel Rail Link (HS1), will improve rail
connections between London and the airport.

2.5 KIA is privately owned by Infratil Airports Europe which also owns Glasgow Prestwick airport and
Lubeck airport in Germany. In October 2008, the airport owners published a Draft Master Plan setting out
their plans for the development of the airport over the next 25 years. The Draft Master Plan sets out the
following forecast growth for KIA:
### Annual Passengers

<table>
<thead>
<tr>
<th></th>
<th>By 2018</th>
<th>By 2033</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Passengers</td>
<td>2,778,000</td>
<td>5,776,000</td>
</tr>
</tbody>
</table>

### Annual Freight

<p>| | | |</p>
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<th></th>
<th></th>
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<tbody>
<tr>
<td>Annual Freight</td>
<td>211,000 tonnes</td>
<td>507,000 tonnes</td>
</tr>
</tbody>
</table>

### Annual Air Transport Movements (ATMs)

<p>| | | |</p>
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</thead>
<tbody>
<tr>
<td>Annual Air Transport Movements (ATMs)</td>
<td>28,000</td>
<td>46,200</td>
</tr>
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</table>

### Direct Employment at the Airport

<p>| | | |</p>
<table>
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<tr>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Direct Employment at the Airport</td>
<td>600</td>
<td>1,200</td>
</tr>
</tbody>
</table>

### Total employment supported (covering direct, indirect, induced and catalytic)

<p>| | | |</p>
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<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employment supported</td>
<td>3,500</td>
<td>7,500</td>
</tr>
</tbody>
</table>

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2.6 In the three years since Infratil has owned KIA, Civil Aviation Authority statistics show that the average passenger numbers at the airport have been around 12,000 per annum whilst the average freight handled by the airport has been around 23,900 tonnes per annum. Compared to these figures the forecasts contained in the Draft Master Plan seem ambitious. However, they should be regarded within the following broader context:

(i) the restraint in the short-to-medium term at London’s existing major airports to accommodate the expected growth in demand for air travel in the South East;
(ii) the airport has a 1-hour catchment that has a population of around 1.5 million and broadly covers Kent;
(iii) the 2-hour catchment for the airport extends to Sussex, SE London and N London and covers an additional population of around eight million; and
(iv) people within the immediate catchment area made 3.4 million flights in 2006.

2.7 The Thanet area has significant concentrations of deprivation, low education and skill levels, limited current employment opportunities and a declining traditional tourism economy. KIA is already making an impact on the local economy. The airport already employs around 100 people and contracts services from around 120 companies. Thanet and more widely East Kent are areas of economic potential and there are a number of business parks adjacent or in close proximity to the airport that are being developed to provide employment opportunities. The expansion of KIA would demonstrate that the area is an attractive proposition for inward investment as well as supporting the dynamic growth of local businesses. Growth at the airport would provide employment opportunities that would build on traditional local skills and experience in the tourism, logistics, transport and engineering sectors.

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3. **The Case for High Speed Rail Connections to Airports**

3.1 Kent has unique first hand experience of the introduction of a high speed rail service through the construction of the Channel Tunnel Rail Link (HS1) and two international passenger railway rail stations and Ebbsfleet and Ashford. The full economic benefit from international rail services has yet to be fully realised in Kent but given adequate service levels both the growth areas of Ashford and North Kent should be able to take advantage of the connections to the Continent.

3.2 Additional economic benefit will arise from the introduction of high speed domestic services (due later this year) across large parts of North and East Kent utilising CTRL. For KIA this will improve rail journey times between the airport and London. The fastest journey time between London and Ramsgate is forecast as 81 minutes compared with the current journey time of around 129 minutes. Whilst the introduction of CTRL may well have had an impact on short-haul flights between London and Paris/Brussels the principle benefit for KIA of the high speed domestic services will be the improved connectivity to London and other parts of Kent. A Parkway station is being investigated near the airport that should further improve access to these high speed rail services.

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4. **The Case against a Thames Estuary Airport**

4.1 Kent County Council set out its opposition to an airport on the Thames Estuary in its response to the Government’s South East Regional Airport Study (SERAS) in 2002. This opposition was based on the costs, complexity and unacceptable damage to the natural environment that would be associated with such an airport. As opposition to the development of London’s major airports gathers pace the proposition of a Thames Estuary airport once again comes to the fore. Kent County Council believes that its original objections are still valid.

4.2 The provision of a Thames Estuary airport would go against the County Council’s principal tenet that air travel demand should be met through maximising the use of existing capacity. This should be seriously considered as part of any feasibility study conducted into a fourth London airport. A more sustainable approach would be the incremental development of London’s current major airports considered in tandem with the intensification of use of regional airports.

4.3 The unacceptable cost and complexity of building a completely new airport in the Thames Estuary is a major objection. A similar proposal put forward as an option in the SERAS study was rejected by Government as ‘prohibitively expensive’ and recent concerns over the economy and the future supply and cost of oil reinforce this view.
4.4 There would be significant costs associated with surface access by both road and rail that have not been fully considered. Pressure on the existing A2/M2 corridor would be intense and require further upgrading. The limited capacity on the CTRL (HS1) would mean that either the railway would require a significant increase in capacity or high speed domestic services for north and east Kent, due to start in December 2009, would have to be sacrificed which would be unacceptable to both the County Council and Kent’s residents.

4.5 There are considerable environmental objections to an airport on the Thames Estuary as a consequence of its location close to a Ramsar (the convention on wetlands) site and its wider effect on the ecology and air quality of the surrounding area. Although the direct effects on the Ramsar site would be reduced, as the airport would be off shore, road and rail links would have a detrimental effect and there would be significant pressure to develop airport-related support industries and housing on the mainland Kent that would have a serious blighting effect.

4.6 There are serious concerns over the risk of bird strike accidents in an area which is an important habitat for 155,000 waterfowl over winter.

4.7 For an airport in the Thames Estuary to be remotely successful could well require the closure of at least two of London’s current major airports to ensure that airlines would use the facility. This would have a dramatic impact on the local economies around these airports and result in significant costs for the airlines themselves. It is likely that Government intervention would be required to achieve this.

4.8 Due to the costs, complexities, environmental impacts, economic impacts and general uncertainties the feasibility and long-term sustainability of an airport in the Thames Estuary must be seriously questioned.

March 2009

Memorandum from the City of London Corporation (FOA 84)

INTRODUCTION

1. The City of London’s position as the world’s leading international finance and business centre is heavily dependent on it being accessible from all over the world. For many people their first impression of London and the City will be arriving at an airport in the South East and it is, therefore, critical that airports catering for the City provide a reliable and efficient service.

2. While the City Corporation is not in a position to respond to all the areas being covered by the Committee’s inquiry, it welcomes the opportunity to highlight the economic importance of having efficient, high-quality aviation services and outline both the strengths and weaknesses of the current provisions.

3. The content of this evidence relies on two pieces of research commissioned by the City of London Corporation to assess the views of the Square Mile on London’s aviation services. The first, undertaken by Oxford Economic Forecasting and published in 2002,282 offered an insight into the importance of air services to City businesses. This was updated by a further study by York Aviation published in July 2008.283

4. In 2002 the research commissioned by the City Corporation and undertaken by Oxford Economic Forecasting identified that the provision of air services in London that would compete with and outperform services available in other financial centres are essential if London is to remain globally competitive.

5. The subsequent 2008 research conducted by York Aviation was based on a large number of attitudinal surveys which were conducted to measure how much City businesses relied on air services. Although it does not place a monetary figure on the value of aviation to the UK economy, this research demonstrated that 64% of businesses regard air travel as critical or very important for internal company purposes, and that 73% consider aviation critical or very important for meeting external clients or service providers. The primary driver of this requirement to travel is the need to meet clients face to face.

6. The research shows that 82% of businesses regard Heathrow as critical or very important to their operations, making it the most highly-valued airport in the South East by some margin. This is largely due to the wide range of destinations served and the frequency of the service. The research concludes that that this hub airport plays a key role in the functionality of the financial services industry in the UK.


283 “Aviation Services and the City”, York Aviation, published by the City of London Corporation, July 2008.
7. Gatwick is second to Heathrow in being seen as critical or very important to the interests of 43% of City businesses, while in third place London City airport is described as critical or very important by 38% of businesses. None of the respondents regarded Stansted as critical, and only 11% categorised it as very important. This is largely due to the prevalence of low-fare services at Stansted which are designed for use by holiday-makers.

8. The 2008 report concluded that, in recent years, Heathrow had stagnated and lost some of its market share to European competitors. This is reflected in the fact that, while the frequency of services from Heathrow rose between 2003 and 2008, the number of destinations to which it provided air services declined and, in comparison with other major European hub airports where additional runways have been built to meet rising demand, the rate of expansion has been noticeably slower. Furthermore, 50% of businesses surveyed regarded road and rail access to London’s airports as worse than that of airports in other major cities.

CURRENT AVIATION INFRASTRUCTURE

9. There are a number of options for developing aviation infrastructure in the South East. These include building additional runways at Heathrow, Stansted and Gatwick or creating a new airport in the Thames Estuary. The development of a third runway at Heathrow is the option which commands the most support amongst City businesses with 27% regarding this as either critical or very important. A second runway at Gatwick is seen as slightly preferable to a second runway at Stansted, but neither is considered as important as further development at Heathrow.

10. The “do nothing” option, which involves no further expansion of London’s air travel capacity, would be unlikely to address business’ concerns about the quality and frequency of air travel service. Unless some action is taken, the forecasted increase in demand may cause the quality of service to decline and result in further dissatisfaction.

RAIL AS AN ALTERNATIVE TO SHORT-HAUL FLIGHTS

11. The 2008 research also addressed the potential for rail to provide a genuine alternative to short-haul flights. For journeys of up to three hours within the UK, 69% of businesses felt that improved rail travel could act as a substitute for business travel by air. For journeys of over three hours within the UK, this figure was 44%. For travel to Paris 64% felt that an improved rail service would provide a genuine substitute to air travel and for business travel to Brussels the figure was 36%.

QUALITY OF SERVICE

12. Whilst recognising the importance of Heathrow to London’s business community, both pieces of research highlighted major weaknesses in the airport’s management. The 2002 report indicated that there was real concern about time wasted at airports waiting for security checks. While the importance of good security measures is understood, it is expensive for companies to have staff unable to work because of overly-long airport security processes. The 2008 report also identified that inefficient security procedures led to passenger delays and also prevented many flights leaving Heathrow at the time scheduled.

13. 50% of businesses cited quality of service at Heathrow as a major weakness with some reflecting that this could damage the credibility of London as a viable business centre. More efficient passenger processing and reduced delays on flights are the two most important improvements identified by businesses for Heathrow and other airports.

Conclusion.

14. It should be noted that the research does not suggest that failure to expand London’s air capacity would result in a sudden mass exodus of businesses from the City. The strength of London’s position as a global financial centre is based on many factors and businesses across the world continue to recognise the importance of a presence in London. However, with the economic downturn and issues with tax and regulation, the ‘hassle’ factor experienced at UK airports could contribute to a longer-term impact on the reputation of London as a place to do business.

March 2009
Memorandum from Emirates Airline (FOA 85)

SUMMARY

Emirates Airline (Emirates) operates a total of fourteen daily flights to the UK: five daily flights to London Heathrow, three daily flights to London Gatwick, two daily flights to Manchester, two daily flights to Birmingham, one daily flight to Glasgow and one daily flight to Newcastle.

Having ordered 58, Emirates is the largest purchaser of the part UK built A380 aircraft—one of which now operates daily between Dubai and London Heathrow.

Emirates injects over £260 million each year into UK local airport economies and has a total fleet related UK gross capital spend of £15.4 billion.

UK regional airports are catalysts for the economic and social development of their local cities and surrounding regions, particularly when they are able to secure long haul services. Such services satisfy local demand and minimise flights to congested London airports.

Despite aviation’s demonstrated contribution, it often appears a non-supported UK industry and we believe all political parties should take greater account of its critical economic role.

Emirates supports the introduction of new airport capacity for London and the construction of a third runway at Heathrow. The airport’s slippage down the airport league tables is in part a result of poor investment decisions and its competitors being willing to invest in aviation infrastructure to satisfy future demand and facilitate a good passenger travel experience.

Emirates was encouraged by and intends to take advantage of the proposed ‘green slot’ principle for the new runway at Heathrow, which seeks to incentivise the use of the most modern fuel, noise and emission efficient aircraft.

Emirates sees Maximum Take-Off Weight as a blunt charging instrument and would suggest all relevant authorities should adopt infrastructure pricing which better rewards environmental advances and more accurately measures actual emissions.

Emirates has never belonged to, nor has any plans to join, an alliance and sees them as having significant anti-competitive elements which do not best serve the consumer interest. Parliament and UK regulators should rigorously analyse the real outcomes of recent, as well as future, airline consolidation and the impact of alliances on the competitive environment.

The start of EU Emission Trading Scheme (ETS) should mean the end of UK Air Passenger Duty, but airlines may well face a situation of punitive double taxation in the UK and EU—where regrettably neither revenue stream goes into any form of environmental mitigation.

INTRODUCTION


2. Today, Emirates operates a total of fourteen daily flights to the UK: five daily flights to London Heathrow, three daily flights to London Gatwick, two daily flights to Manchester, two daily flights to Birmingham, one daily flight to Glasgow and one daily flight to Newcastle.

3. In 2008, Emirates flew almost 3 million passengers to and from the UK and Emirates Cargo operations uplifted for UK export 80,000 tonnes of goods. As a consequence, Emirates has one of the largest operations of any international airline serving the UK.

1. What is the value of aviation to the UK economy?

4. Aviation Products: Emirates contribution to the UK economy is large, especially in terms of spend on airframe and engine products. The total fleet related UK gross capital spend of Emirates at list prices is £15.4 billion, based on historic deliveries and future confirmed aircraft orders through to 2025. For a major British employer and technology leader like Rolls Royce, this equates to almost a £1.6 billion spend to date on their engines and almost £3.5 billion worth of firm orders to 2025.

5. The Airbus A380: Emirates is the largest customer for the A380 aircraft, having ordered 58 of them, one of which now operates daily between Dubai and London Heathrow. The UK content for this aircraft is extensive, which includes the design and production of the wing, fuel system and landing gear at Filton near Bristol and at Broughton in North Wales. Such investments in advanced technology, manufacturing and design processes have supported the UK as a leading world player in the aerospace industry.
6. Airbus estimates that 22,000 UK high skill and value jobs, as well as over 400 British companies throughout the UK are directly linked to the A380 programme. This is part of over 45,000 people employed on Airbus UK work overall, whose activity indirectly supports a further 90,000 British jobs. In total, over £7.5 billion worth of work has already been placed in the UK on the A380 programme, with this figure set to more than double to over £15 billion over the life of the programme.

7. Economic: Aviation plays a crucial role in the UK economy. A report by Oxford Economic Forecasting published in 2006 entitled “The Economic Contribution of the Aviation Industry in the UK” found that aviation contributes more than £11 billion to the UK economy and employs 186,000 people with over 520,000 jobs in the UK depending on the aviation industry. Aviation is a major UK success story and yet this is often ignored by policy makers when making far reaching decisions which impact on the industry. In our view, all UK political parties should take greater account of the critical economic role of aviation in UK.

8. In terms of Emirates own spend on direct operational costs in the UK, Emirates injects over £260 million each year into the airports and economies around the two London and four regional airports which we serve to cover airport charges, fuel, accommodation and catering among other costs.

9. Tourism: Aviation is closely linked to the tourist industry, which makes a major contribution to the UK economy—directly contributing nearly 4% of GDP. Nearly 75% of international visitors to the UK arrive by air and their spending at over £12 billion a year is equivalent to 1.1% of GDP, generating around 170,000 jobs in the UK. Emirates spends several millions of pounds every year promoting the UK as a destination—not just London but also UK regions like the North East and North West as well as Scotland—across its network for international visitors from Dubai and from other parts of the world. In 2008 Emirates transported almost 1.5 million visitors to the UK, with these numbers growing by more than 10% per year over the past 5 years.

10. Exports: Given over 55% of the UK’s manufactured exports outside the EU by value are transported by air, aviation is particularly important for trade with fast-growing emerging economies and for high value goods and services. Each year between 2006 and 2008 Emirates’ cargo division (Skycargo) transported almost 30,000 tonnes of UK origin exports. Breaking down total UK cargo carried by Emirates, 52% of exports were destined for Middle East markets, 16% for the Indian subcontinent, with about 10% being destined for the Far East, Australasia and Africa respectively. The type of high value UK exports carried by Emirates from the UK ranges from leading edge pharmaceuticals to perishable foodstuffs for foreign restaurants and supermarkets.

11. A good example of where Emirates has boosted exports for a regional economy is our daily service to and from Glasgow. Scottish exporters have been a major beneficiary, allowing them to move fresh fish and high technology drilling equipment for the oil industry for instance, quickly and seamlessly to foreign markets. Tourism and inward investment have also been boosted with over 300,000 visitors travelling with Emirates to Scotland since the route began in 2004.

What are the roles of the London and regional airports?

12. London Heathrow is the gateway airport to the UK, and combined with London Gatwick, serves one of Europe’s densest and most economically developed spaces. The recent views of the Competition Commission on the ownership structure of the British Airports Authority (BAA) and the subsequent decision of BAA to put London Gatwick up for sale will hopefully mean effective inter-airport competition in the South East, timelier infrastructure investment decisions being made and more meaningful airline customer consultation taking place.

13. UK regional airports are catalysts for the economic and social development of their local cities and surrounding regions, particularly when they are able to secure long haul services. Regional airports also can locally satisfy demand for flights and thus reduce the volume of flights from the regions to already congested London airports. Emirates offers the people and businesses of Manchester, Birmingham, Glasgow and Newcastle the ability to fly direct to Dubai or conveniently connect there to the many points on the Emirates network, without having to transfer via London airports or inconvenient European alternatives and vice versa for inbound leisure and business travelers.

What competition do they face from abroad?

14. It is sometimes suggested that Dubai International Airport poses a direct and hostile threat to London Heathrow. The reality is that Heathrow’s historic slippage down the league table of international airports as well as its poor customer reputation owes more to poor investment decisions being made by its owners and its EU/non EU competitors being willing to invest in the necessary aviation infrastructure to satisfy future demand and facilitate a good passenger travel experience.
2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed?

15. As one of the largest non UK airlines serving London, with five daily flights between Dubai and an already very full Heathrow as well as three daily flights between Dubai and London Gatwick, Emirates supports the introduction of new airport capacity for London—and the UK Government’s recent decision to approve the construction of a third runway and additional terminal at London Heathrow. In fact, the slot-constrained nature of London Heathrow directly underpinned the recent introduction of our 489 seat A380 aircraft on the Dubai-Heathrow route. In ruling out “mixed-mode” operations on the existing runways at London Heathrow in the same announcement though, the UK Government may have limited the resilience of the airport, contributed to delays and cut off the potential to provide additional capacity in the likely extended period before the third runway is operational.

16. Emirates was encouraged by the proposed ‘green slot’ principle for the new runway, which seeks to incentivise the use of the most modern fuel, noise and emission efficient aircraft. This is something which other governments around the world currently wrestling with the same aviation infrastructure policy challenges would do well to consider. Emirates is looking forward to hear from the UK Government the policy specifics of this particular proposal, given that we probably operate the most eco and fuel efficient aircraft into London Heathrow of any major carrier.

17. It is also important to look at the price paid by operators for UK aviation infrastructure. Weight or Maximum Take-Off Weight (MTOW) is a common measure in the calculation of charges, but it is often used as a blunt instrument by airports, air traffic control authorities and government authorities. Fees charged should reflect the cost of provision, rather than being an additional tax on tourism and trade. For example, the cost of providing en-route services to a Boeing 737 is identical to that of an Airbus A380. Indeed, aircraft like the A380 typically require less en-route supervision by government aviation authorities than older aircraft.

18. Charging based on MTOW for environmental reasons is also irrational, as the objective of such charges should be to create incentives for cleaner and greener aircraft. The UK Government recently pulled back from adopting an amended Aviation Duty for departing UK travellers based on the MTOW of the aircraft. Adopting such a methodology would have hurt the very aircraft—such as Emirates A380 and B777—which will contribute the most environmental improvements going forward and would have done nothing to penalise older and more polluting smaller aircraft types.

19. Emirates would suggest UK airports and aviation authorities look at infrastructure pricing which better reflects these environmental advances and more accurately measures actual emissions, compared to the blunt and environmentally flawed MTOW instrument. A charging formula representative of actual emissions would be an effective method of rewarding improvements in emissions, best practice, newer fleets and technological innovation.

What are the implications of future passenger trends and possible mergers in the airline industry?

20. Emirates has never belonged to nor has any plans to join an alliance, instead preferring to remain independent. We see alliances as having significant anti-competitive elements and believe that our membership in one would only be an artificial brake on our own business plans. Unless you are the lead participant in an alliance, such as British Airways in oneworld, Lufthansa in Star Alliance or Air France in SkyTeam, their individual airline members are often compromised by implicit or implied collective decision-making.

21. The following table highlights the collective power of airline alliances today. Some claim that inter-alliance network competition holds the key to the future and that alliances enhance both passenger travel options and overall service. However, for many airports and individual markets, alliances have a disproportionate hold and it is questionable whether this is always in the consumer interest.

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**Top 10 world airports by international passengers in 2007 (ACI)—Alliance—non alliance airline share by international flight departures for January 2009**

<table>
<thead>
<tr>
<th>Airport</th>
<th>Intl Pax (m)</th>
<th>Others</th>
<th>oneworld</th>
<th>SkyTeam</th>
<th>Star</th>
<th>Alliance Total</th>
</tr>
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<tr>
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<td>19%</td>
<td>48%</td>
<td>7%</td>
<td>26%</td>
<td>81%</td>
</tr>
<tr>
<td>Paris Charles de Gaulle</td>
<td>54.9</td>
<td>20%</td>
<td>5%</td>
<td>65%</td>
<td>10%</td>
<td>80%</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>47.7</td>
<td>20%</td>
<td>6%</td>
<td>66%</td>
<td>9%</td>
<td>80%</td>
</tr>
<tr>
<td>Frankfurt</td>
<td>47.1</td>
<td>20%</td>
<td>5%</td>
<td>5%</td>
<td>74%</td>
<td>84%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>46.3</td>
<td>50%</td>
<td>31%</td>
<td>5%</td>
<td>13%</td>
<td>50%</td>
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<tr>
<td>Singapore</td>
<td>35.2</td>
<td>37%</td>
<td>9%</td>
<td>1%</td>
<td>53%</td>
<td>63%</td>
</tr>
<tr>
<td>Tokyo Narita</td>
<td>34.2</td>
<td>18%</td>
<td>27%</td>
<td>22%</td>
<td>33%</td>
<td>82%</td>
</tr>
<tr>
<td>Dubai*</td>
<td>33.5</td>
<td>87%</td>
<td>3%</td>
<td>3%</td>
<td>7%</td>
<td>13%</td>
</tr>
<tr>
<td>Bangkok</td>
<td>31.6</td>
<td>53%</td>
<td>6%</td>
<td>4%</td>
<td>37%</td>
<td>47%</td>
</tr>
<tr>
<td>London Gatwick</td>
<td>31.1</td>
<td>61%</td>
<td>34%</td>
<td>1%</td>
<td>4%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Emirates—46%
Top 5 Europe-US city pairs by passenger numbers in 2008 (IATA)—Alliance—non alliance airline share by passenger bookings in 2008

<table>
<thead>
<tr>
<th>City Pair</th>
<th>Others</th>
<th>oneworld</th>
<th>SkyTeam</th>
<th>Star</th>
<th>Alliance Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>London—New York</td>
<td>32%</td>
<td>48%</td>
<td>19%</td>
<td>1%</td>
<td>68%</td>
</tr>
<tr>
<td>Chicago—London</td>
<td>14%</td>
<td>52%</td>
<td>1%</td>
<td>32%</td>
<td>86%</td>
</tr>
<tr>
<td>Los Angeles—London</td>
<td>26%</td>
<td>36%</td>
<td>12%</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>New York—Paris</td>
<td>13%</td>
<td>21%</td>
<td>61%</td>
<td>4%</td>
<td>87%</td>
</tr>
<tr>
<td>London—Washington</td>
<td>21%</td>
<td>27%</td>
<td>2%</td>
<td>50%</td>
<td>79%</td>
</tr>
</tbody>
</table>

22. The airline map of the UK and Europe is being remade by consolidation—often with airline alliances being the vehicle or stimulus for this change. However, it is debatable whether the consequences have been fully thought through. Barriers to entry for new airlines are now much higher, with many countries and regions facing the prospect of consolidated carriers dominating their markets and reducing consumer choice—irrespective of the so-called “remedies” agreed to as part of regulatory approvals.

23. Consolidation also presents a threat to the future of regional or secondary airports. Large hubs such as London Heathrow, Frankfurt or Charles de Gaulle will always prosper, but the thinner economics of markets such as Manchester, Birmingham, Glasgow or Newcastle can be exposed and impacted by consolidation. In fact British Airways’ recent decision to terminate its Manchester to New York JFK service ended its last remaining international long haul flight from a UK regional airport.

24. Emirates finds it disingenuous though that some leading alliance airlines remain determined to thwart other non-alliance carriers like Emirates from providing fair and reasonable competition through their lobbying for state protection via air traffic rights. Fortunately, we do not place the UK in this category since the Department of Transport (and its predecessors) together with the UK Civil Aviation Authority have consistently adopted liberal policy settings for the good of UK consumers, businesses and the economy. The same cannot be said of other parts of Europe. For example, Lufthansa will soon take control of bmi—the second largest carrier at Heathrow in terms of slots. In the past few years Lufthansa has also taken large or majority shareholdings in carriers in Switzerland, Belgium, Italy, Luxembourg and Austria.

25. There is a real risk that competition may well be the forgotten story of the current economic maelstrom. Emirates therefore urges UK Parliamentarians and regulators, such as the Competition Commission and Office of Fair Trading, to rigorously analyse the real outcomes of recent airline consolidation and the impact of alliances on the competitive environment.

3. To what extent can rail provide an alternative to short-haul flights?

26. Rail is not an alternative to the long haul flights operated by Emirates from the London and four regional airports. This is sometimes forgotten when policy options are discussed without context and when environmental exaggerations are thrown into the debate about the substitutability of rail vs. air. Emirates long haul flights from Manchester, Birmingham, Glasgow and Newcastle do have an impact in this debate in that they reduce the demand for domestic short haul flights from these regions and in turn reduce congestion at south east airports.

27. Emirates agrees with the conclusion from the Transport Committee’s Sixth Report of 2003, that “rail is competitive with air for many journeys from city centre to city centre. . . but will not remove the need for regional air access to main airports in the South East nor materially affect the case for runway expansion” which we feel still stands.

4. What costs does aviation impose on society and the environment?

28. Evidence so far indicates that aviation already more than meets its external environmental costs—those due to noise and climate change—see answer to question 5. Based on the principles of sustainable development, if aviation covers its external costs then it should also be credited with the value of its external benefits. In addition, aviation—unlike most other UK transport modes, whose costs on society and the environment are subject to less scrutiny—meets the capital costs of all infrastructure through airport charges and en route charges.

29. It is also worth identifying the real polluter since many emissions are the result of inefficiencies in air traffic control systems—most of which are run by national governments. In Europe the average route distance flown is 49 kilometres longer than a potential direct route because of the fragmentation of airspace—representing between 7% and 12% of extra fuel burn per flight, creating an additional 5 billion tonnes of CO2, or one billion Euros of extra cost.

30. The UK Government should fully recognise the social benefits of aviation and should think very carefully before limiting its citizens’ freedom to fly. Social benefits are not just limited to the UK, as aviation has a vital role in ensuring that developing nations can take full advantage of the opportunities presented by the growth in international tourism and those presented by consumer markets in developed nations for fresh and other produce from developing nations.
What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

31. Emirates assumes this question relates to the UK Government’s announced inclusion of international aviation and shipping in the UK’s national emissions targets in late 2008. We share the view of other airline stakeholders in the UK that the adoption of unilateral national targets without any agreed method in place for calculating and allocating emissions is not an appropriate way to tackle the global issue of climate change. The most appropriate place to address the issue of aviation’s contribution to climate change is at ICAO, the United Nations body responsible for international aviation.

32. For the UK to push ahead with such a national plan in isolation, at a time of considerable economic uncertainty, is likely to put it at a serious disadvantage compared to its European and non-EU competitors.

5. What is the impact of taxation on the aviation sector nationally and regionally?

33. The most significant form of taxation on aviation in the UK is Air Passenger Duty (APD), which when it was doubled in 2007, provided the UK Government with more than £2 billion per annum. This is a figure which Department for Transport’s own estimates suggested exceeded aviation’s environmental costs by over £100 million per annum and which only goes into general Government coffers—a chunk of which therefore presumably goes into the less than eco and emissions efficient UK road network. In the recent Pre Budget Report, APD was redesigned with the introduction of new distance charging bands and even higher rates, to be introduced in two stages from November 2009 and from November 2010.

34. Emirates is concerned that the cost of doing business in the UK is reaching a tipping point. As detailed in the first section of this submission, Emirates brings significant visitor numbers and commerce to the UK, promotes the nation globally and is a major facilitator of exports. Emirates believes that Government, airport and other costs are dramatically outstripping inflation and negatively impacting our multi-billion pound UK operational investments.

35. Ultimately though, it is Emirates customers who bear the majority of these charges. Demand for air travel is not inelastic. A British family seeking to visit relatives in Australia or a visitor from the Far East wishing to holiday in the UK or business people wanting to enhance trade between the Gulf and UK may soon find the on-flow of these ever increasing costs prevent them from fulfilling an otherwise affordable scenario. Our analysis of the impact of the most recent rises in APD rates on flights from UK regional airports indicates that by 2010 more than a third of the price of a net fare from the UK to destinations such as India, South Africa and China will be taken up by APD alone.

36. This negative pressure will be particularly felt on our four UK regional routes whose operating economics are very different to those of our London routes. We have shown our long term commitment to the UK regions and want our relationship to grow further, but the UK Government’s on-going treatment of aviation as a pure revenue raising tool is forcing us to review the cost base of all our UK regional operations, with a view to possibly deploying those aircraft to other non UK destinations on the Emirates network.

37. On the introduction of an EU Emission Trading Scheme (ETS) from 2012, Emirates would expect APD to be scrapped. However it looks likely that airlines will face a situation of double taxation in the UK and EU. Despite the claims from the European Commission that Member States such as the UK will withdraw their own aviation duty schemes when the ETS is operational in 2012, HM Treasury have recently confirmed that they have no intention whatsoever of doing this. Such a double taxation will further distort the market for aviation services and serve to reduce the UK’s competitive aviation credentials. Despite aviation’s demonstrated contribution to ‘UK Plc’ we are growing increasingly concerned that it is a non-supported industry in the UK.

Are passengers adequately protected from the collapse of airlines?

38. Emirates respectfully asks the Committee to refer to the submission of its trade body in the UK (BAR-UK), given the technical and specific nature of the area in question.

6. What is the impact on the aviation sector of changes in the security environment?

39. As above.

March 2009
Memorandum from Railfuture (FOA 86)

We are very concerned that the present Government’s support for the expansion of our airports, and air travel in general, is economically and environmentally unsustainable. We present our arguments below.

AVIATION AND THE ECONOMY

Claims that aviation growth is vital for the economy are highly contentious, and the report by Oxford Economic Forecasting (OEF), upon which the 2003 Aviation White Paper was largely based, has been shown to be deeply flawed.

A recent report by C E Delft (Centre for Energy Conservation, based in Delft, an independent firm of Dutch economic consultants), and an earlier report in July 2004 by Professor John Whitelegg from the Stockholm Environment Institute, both found that claims made for job creation and economic benefits, credited to aviation activity in the OEF Report, had included a significant amount of double counting, and that job losses can also result from the availability of cheap flights, not least because they can drive tourism outwards from the UK as well as inwards. This is apparent in the loss of jobs in the British tourist trade for example.

There is strong evidence that aviation growth has been driven, not by economic benefits, but by cheap leisure flights to warmer climates, made possible by unsustainable air travel tax concessions. According to a National Trust report in their submission to the BAA’s proposed second runway at Stansted Airport, the net tourism deficit attributable to aviation in 2005 was about £17 billion. A more recent report by Brendon Sewill, a former Treasury economist, in his report “The Hidden Cost of Flying”, indicates that aviation tourism has been bleeding over £19 billion each year from the UK economy! Furthermore a substantial amount of Heathrow traffic is “inter-lining” which brings no economic benefits to the UK, and whose effects are greatly exaggerated by UK-based airlines.

As for cheap flights “. . . enabling the poor to enjoy holidays abroad . . .” claimed by many airlines, a CAA survey in 2006 found that passenger growth at Stansted and Luton, the two airports used mainly by budget airlines, had been generated by those with annual incomes in excess of £50,000, choosing to take two or more holidays overseas instead of one!

TAXATION

Apart from tax-free fuel, the aviation industry enjoys zero-rating for VAT, enabling it to reclaim an estimated £2 billion of input taxes from the Treasury each year. By contrast, the rail industry pays fuel duty which the Chancellor raised in four successive budgets, and now stands at 8p per litre, and also must pay VAT at the standard rate on everything except fares revenue.

So we currently have one of the least environmentally damaging transport modes being taxed, while the most damaging mode enjoys tax concessions other sectors can only dream about. It is no surprise therefore that budget airlines are able to undercut rail fares. Without these benefits, tax parity would enable rail to be more competitive, and the rail share of long distance domestic and short-haul European mainland journeys would be significantly higher, taking much pressure of existing airport capacity.

While we appreciate that aviation fuel tax will depend to a very large degree on international agreement, at least within Europe as a start, the recent decision by the Chancellor to abandon the proposed aircraft carbon tax, in favour of retaining the almost ineffective Air Passenger Duty, is to be deeply regretted.

AIRPORT INFRASTRUCTURE

We are frequently informed by Government and the airports authorities that airport expansion is essential to enable London to remain competitive with airports in north western European cities, including Amsterdam, where its’ Schiphol Airport has five runways. However unlike Amsterdam, Paris and Frankfurt, London already has five airports (including London City Airport) and six runways at its’ disposal. All London’s airports now have rail access too, just like these three European airports.

Furthermore there is growing evidence that aviation demand has peaked with growth at the five BAA airports in the twelve months up to November 2007, averaging just 1.88%, with a mere 0.3% recorded at Heathrow (source: Local Transport Today, 20 December 2007). More recently a survey by BAA recorded a 2% decline in passenger numbers at Stansted Airport in the 12 to July 2008 (Source: Local Transport Today, 8 August 2008).

Until recently, the rising cost of oil contributed to this decline in aviation, since energy costs form a very high proportion of airline operating costs. The worsening economic recession will also have a restraining effect on demand for air travel. Eventually as the recession begins to ease, oil prices will resume their upward trend. However the Government’s prediction of only $72.5 per barrel by 2025 is already considered by most economic experts to be wildly optimistic. The future price of oil, with costs passed on to passengers, will have serious implications for aviation demand, and thereby also undermine any currently perceived need for additional airport capacity.
It seems to us therefore that present airport infrastructure will provide adequate capacity to meet future aviation needs, particularly since growing concerns about the environment and limits on carbon emissions, contained in the Climate Bill, will intensify pressure to restrain aviation growth or even to reduce capacity. Airport expansion could well prove to be an unnecessary waste of resources, and it would be far better, for many sound reasons, to invest in renewably energy and railway electrification and expansion instead.

**THE EXTERNAL COSTS OF AVIATION**

One of the major criticisms of the OEF Report was its’ failure to factor in the full environmental costs. The true cost of noise and damage to health is probably incalculable. As for climate change, it is generally accepted that carbon emissions per air passenger/kilometre are about twice as great as for an average car passenger, and four times greater than for rail passengers. Eurostar claim that it is 10 times greater than for London-Paris train passengers, but this is achievable because the electricity for most of their train mileage is generated in France from nuclear power.

However with air travel, the effect of radiative forcing (the damage caused by emissions released at high altitude) must also be taken into account, and this is generally accepted to be twice as damaging as emissions at ground level. The Tyndall Centre for Climate Change Research claims it is between 2.7 and 4 times more damaging, depending on the type of emission being compared. Furthermore, airports generate high volumes of road traffic, particularly from those airports that are not rail-connected, and they depend on a significant amount of related road infrastructure.

Clearly, aviation is by far the most environmentally damaging transport mode, yet the recent DfT consultation on Delivering a Sustainable Transport System (DaSTS) outrageously suggests that carbon emissions from aviation growth should be covered by additional savings from other sectors, including from those who never fly! We hope the Transport Select Committee will agree that this suggestion is wholly unacceptable. There is growing acceptance by scientific analysts that technological fixes will not be enough to meet our Climate Committee’s objective to reduce carbon emission reductions of 80% by 2050, and that significant behaviour change will also be required. This target must include aviation. While it is true that aviation is included in the EU Carbon Trading Scheme from 2012, the trading price is so low that it will have no significant effect on aviation demand.

**RAIL ALTERNATIVES**

There is abundant evidence that existing high speed rail services (up to 200 mph/320 kmph) have succeeded in replacing aviation demand, over distances where the train journey is up to about 4 hours’ duration, for distances up to about 800 kilometres (500 miles). Good well-known examples are Paris-Lyon, Paris-Marseilles, Paris-Brussels, Berlin-Cologne, Berlin-Frankfurt; Madrid-Seville, Madrid-Barcelona, where airline competition has almost completely disappeared on these routes, because the speed and frequency of new train services from city centre-to-centre cannot be surpassed by air or other modes. Where rail services complete these journeys within 3 hours (about 60 km) they become the dominant mode with about 70% of the total market share; within 2 hours they can take up 90% of the market.

The Paris-Basel-Zurich service is already reporting 90% load factors with market share at 63% and Easy Jet have already withdrawn from this route. Paris-Marseilles (750 km) train service in 3 hours 20 minutes, now claims 67% of the rail and air market. Madrid-Seville (470 km) rail service in 2 hours 20 minutes accounts for 80% of the market. Air France/KLM withdrew from their Paris-Brussels route many years ago, even reserving seats on the trains for their connecting air passengers. Eurostar claims that they have 70–73% of the London-Paris (492 km) and London-Brussels (373 km) routes, with journey times of 2 hours 15 mins to Paris, and under 2 hours to Brussels. Ryan Air have withdrawn their Stansted-Charleroi (south of Brussels) services, and Air France/KLM have halved their London-Paris services as a result.

Even here in the UK, the moderately fast (125 mph since December 2008) West Coast main line modernisation scheme has already restored rail as the dominant mode between London and Manchester, Liverpool, and much of the north-west, with journey times just over 2 hours, at greatly enhanced frequencies.

“Peak Oil”, the point at which no new significant supplies of oil will be discovered will soon be with us, (if not already as some claim), and the resumption of rising demand after the current recession will ensure continuing price rises, greater than the contemporary inflation levels in the period concerned. Therefore we should already be planning a rolling programme of railway electrification, able to be generated from any energy source available, and a programme of high speed rail lines. A “North-South” route (HS2) could reduce London – Edinburgh/Glasgow timings down from 4½ and 4 hours to 3 hours. Most of the UK’s major conurbations could be connected by high speed rail within these timings. With equal fares applied, ie “a level playing field”, rail could still be the major carrier for journeys up to 4½ hours.

A study by Steer Davis Gleave for Transport 2000 (now CFBT) in 2006, entitled “Fog on the Runway”, established that if Heathrow Airport was connected to high speed rail services to the North, the West, and the Channel Tunnel, then rail could account for about a fifth of the airport’s traffic. This is very close to the predicted capacity of a third runway at Heathrow, which as already stated could become redundant even...
before it was available, due to rising oil prices and its reduced availability. We attach an Appendix illustrating some of the possible effects on airline competition of rail services, as they are already in most case, even without new high speed lines being planned. We hope this is helpful.

We therefore urge the Committee to recommend consideration of the effect of introduction of new rail services, in preference to any UK airport expansion.

March 2009

APPENDIX

This appendix uses information, including numbers of arriving or departing flights, supplied by “HACAN Clear Skies” in September 2008, as a basis for further analysis of ability to achieve a significant modal shift from short-haul air travel to existing or future high speed rail services (or other fast rail services). Rail journey times between the city centres shown, and distances in kilometres, are based on those shown in the December 2008 edition of the Thomas Cook European rail timetable, (pre-September 2008 for journeys temporarily slowed by work due to the Channel Tunnel fire).

This table shows the number of typical daily flights to/from Heathrow Airport to/from the destination indicated, the distance between city centre rail terminals (kilometres) and the normal rail journey time. For this exercise the number of services from Gatwick, Stansted and Luton, to the cities shown, have been excluded. Although admittedly for a lesser overall volume of flights than that from Heathrow, we believe that a similar potential modal shift from these airports also could be identified.

We suggest that for all flights an average surface journey time of 45 minutes from/to city centre to/from the related airport is typical (whether by car, airport coach, or rail). For all flights a minimum check-in time of 1 hour is assumed, although this may be shorter for first class passengers on UK domestic flights, and longer for economy class passengers on international flights. Therefore 2½ hours should be added to the relevant air journey times (apart from baggage collection). Therefore none of the journeys below, if undertaken by air, can normally be achieved in less than three to four hours.

We believe that if average air fares and average rail fares were the same for any distance, as a guide for comparison purposes, then all the journeys shown could be shifted from air to rail, with little or no journey time penalty for airline users. All the rail journeys are two-hourly or better (eg Manchester every 20 mins, Leeds 30 mins).

<table>
<thead>
<tr>
<th>Flights</th>
<th>Destination</th>
<th>Distance</th>
<th>Rail Jny time</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>Brussels</td>
<td>373</td>
<td>1hr 55m</td>
</tr>
<tr>
<td>36</td>
<td>Manchester</td>
<td>296</td>
<td>2hr 07m</td>
</tr>
<tr>
<td>10</td>
<td>Leeds-Bradford</td>
<td>Leeds</td>
<td>299</td>
</tr>
<tr>
<td>50–60</td>
<td>Paris</td>
<td>492</td>
<td>2hr 15m</td>
</tr>
<tr>
<td>6</td>
<td>Durham-Tees Valley</td>
<td>D’ham</td>
<td>409</td>
</tr>
<tr>
<td>6</td>
<td>Rotterdam*</td>
<td>520</td>
<td>2hr 50m*</td>
</tr>
<tr>
<td>12</td>
<td>Newcastle</td>
<td>432</td>
<td>2hr 55m</td>
</tr>
<tr>
<td>50</td>
<td>Amsterdam*</td>
<td>600</td>
<td>3hr 20m*</td>
</tr>
<tr>
<td>40</td>
<td>Edinburgh</td>
<td>632</td>
<td>4hr 20m</td>
</tr>
<tr>
<td>28</td>
<td>Glasgow</td>
<td>646</td>
<td>4hr 30m+</td>
</tr>
</tbody>
</table>

Notes:
* Possible from Dec 2009/mid 2010 if direct trains from UK provided.
+ Could be 4hr 15m if some stops omitted.

Other destinations within target range (under 4hr 30m) include Cologne, 603 km, in estimated 3hr 30m, and Dusseldorf, 642 km, in estimated 3hr 55m, also from Dec 2009/mid-2010, if direct trains from the UK were provided. Even Frankfurt which could be reached in under 5 hours from 2010 by direct train could have an impact.

Memorandum from the Campaign to Protect Rural England (FOA 87)

SUMMARY

— Aviation facilitates a substantial tourism deficit that leads to a net job loss. These job losses happen over time and so are far less visible than new jobs created by airport expansion. This particularly affects the economy of rural areas as well as leading to a regional imbalance.

— The failure of the EU’s Emission Trading Scheme to include the impacts of Radiative Forcing means that aviation effectively benefits from a “Buy One Get One Free”.

— The fact that biofuels count as zero emissions under ETS whatever their origin, combined with the very loose caps and the recent collapse in the price of carbon means the ETS is a stillborn means of controlling aviation emissions.
— If aviation demand is managed, there is likely to be more private and public sector finance available for rail improvements so as to give the public and business better alternatives to flying.
— Increasing numbers of non-environmental groups are accepting the need for demand management of motor traffic: it is time to accept the same logic for demand for aviation.
— Just as increasing road capacity is a two-way street in terms of regeneration, so air routes are two-way and can lead to money flowing out of the country. Alleged greater economic efficiency is outweighed by environmental costs.
— There may be a heavy cost to the economy and individuals of increased costs of decarbonising domestic electricity and heat production so as to permit aviation expansion.

Recommendations

— There needs to be an independent review of Air Travel White Paper, particularly in the light of the latest science on climate change. This must include the scenarios of the peaking of conventional oil supply by 2018 and higher carbon reduction targets than are currently required by the Climate Change Act 2008.
— There needs to be rigorous analysis of the economic as well as the social impacts of not making aviation take its fair share of carbon cuts. Analysis of social impacts must take account of the different impact on different areas, particularly those dependent on domestic tourism.
— There needs to be fairer taxation of aviation, including a more efficient taxing of planes not people that must include Radiative Forcing impacts as well as noise impacts as well as VAT on domestic flights other than lifeline services.
— Increased tax on aviation must include investment in and initial subsidy for new travel options for international travel, such as longer distance high speed services and sleeper trains.

1. What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?

1.1 Any assessment of aviation to the economy must consider not just the full environmental costs of aviation but also the impact on domestic tourism and regional disparities. When considering the size of the aviation industry it is necessary to consider what individuals and businesses would spend their money on instead if they flew less and the associated safeguarding of domestic jobs, for example in the leisure industry.

1.2 The claimed financial benefits to the economy are dwarfed by the large losses incurred through the “tourism spending gap” set out in Government statistics showing the gap has progressively widened and the net deficit is now around £19 billion a year. Indeed, every UK region save for London itself is in net deficit. The overwhelming proportion of the travel is by air. Unfortunately the situation could become even worse. The Government has published forecasts of tourist traffic by air showing that the 2005 figure of 41.5 million more British trips flying abroad than visitors to UK, could increase to 163 million by 2030.

1.3 This is of particular concern for CPRE due to the disproportionate effect on the rural economies, as domestic tourism is the largest source of income for increasing numbers of rural areas. An extra pound for the economy of the overcrowded South East where many greenfield sites are under threat cannot be worth as much as an extra pound for rural areas whose very viability is under threat. Aviation provides more jobs in Ibiza, Palma or Prague, but fewer jobs in England.

1.4 The contribution in terms of jobs is grossly overstated. One example of the “jobs” overstatement: when Manchester Airport announced in 1991 that it wanted to built a second runway, the Chairman of the Airport company claimed that this would create 50,000 new jobs. A subsequent report, presented by the Airport to the public inquiry, revised the figure downwards to 18,000 new jobs, which included indirect and induced employment, and included “catalytic” employment in firms which would be attracted to the Manchester area. It also included jobs created by inward tourism—without taking account of outward tourism. However the media continued to use the 50,000 figure, and indeed it was repeated by the then airport chief executive, in 1997 after planning permission was granted. The runway was built, and opened in 2001. The total number of jobs at the airport in 2006 was 4,000 more than ten years previously. Even adding indirect and induced employment, the increase would be around 6,400, quite a shortfall from the 50,000 promised, and without any estimation of job losses in domestic tourism whether in Blackpool or the Peak District.

1.5 Another example: airport master plans are fond of using some yardsticks for “added jobs”: 1,000 per additional 1 million passengers; in the Government’s Aviation White Paper (many of whose forecasts were based uncritically on an aviation industry financed report by Oxford Economic Forecasting (OEF)) and its SERAS document, factors of 0.3 for “indirect” jobs, and a Treasury-suggested 0.2 for “induced” jobs were used, suggesting that for every 10 new direct jobs, 3 indirect and 2 induced jobs would arise. Yet the “1,000 per million” figure is not borne out by analysis: at Luton, over the last 10 years (using employment data

284 Office of National Statistics, MQ6 Transport Travel and Tourism: Overseas Travel and Tourism/
from the airport’s Annual Monitoring Report) the figure is at best 300 per million additional passengers. Overall, this figure is likely further to decline as airlines and airports seek to improve efficiency (ie reduce employment numbers) with initiatives such as automated check-in, on-line ticket issue etc.

1.6 Though the industry is always keen to stress the “contribution to business made by good communications”, there is an implicit assumption that these communications routes are essentially one-way and beneficial to the UK economy. However, data for the UK as a whole show a significant worsening in the movements of international investment. The current UNCTAD Handbook of Statistics shows that between 2005 and 2006 inward investment in UK declined by 28% while outward investment declined by only 5%. Though still a positive net contributor, it appears set to return to the position of being a significant net loser as in the late 1990-early 2000’s.

2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

2.1 Our evidence to the Transport Committee’s Inquiry on Use of Airspace stated that the present arrangements are not fit for purpose. The current approach whereby each airport is free to compete with others in the vicinity by attracting airlines and thereby demanding ever greater airspace capacity is chaotic.

2.2 Our evidence to the Transport Committee’s Inquiry on the Major Road Network stated that the questions should not be one of adequacy of infrastructure for the perceived needs of businesses and people but rather how to support sustainable development and sustainable economic growth in accordance with Public Service Agreement 7. The same principle applies here. Furthermore just as alternatives to driving are relevant to the perceived adequacy of the road network, so alternatives to flying, whether improved rail or videoconferencing services, are relevant here.

2.3 While the argument that there needs to be demand-management of road traffic seems to have been won amongst many business groups—see for example the CBI’s Time to Change Gear (2009)—these groups still seem to want to hold out aviation as a special case.

3. To what extent can rail provide an alternative to short-haul flights?

3.1 A high speed line between London and the Midlands could reduce journey times by up to 45 minutes for destinations further north. EU standard cab-based signalling (as part of the European Railway Tra Management System—“ERMTS”) is due to be rolled out across the network over the next decade and will lead to the possibility of speeds of up to 140mph on conventional lines, as was previously planned for both West and East Coast Main Lines. With the implementation of both, Edinburgh and Glasgow would be within three hours of London, allowing rail to take the vast majority of market share.

3.2 Increasing numbers of trips are not Capital to Capital and there is an increasing need for direct services between other cities in the UK and on the continent. Greater electrification, such as of the Great Western Main Line would facilitate such services and make rail journeys more competitive by reducing hassle and journey times as well as putting regional cities on the European rail map. The EU’s deregulation of international rail services from 2010 offers a key opportunity to develop new services.

3.3 Although the Spanish Government is supporting its new high speed rail services for the first few years to help them capture market share from airlines, there are no plans to promote new international rail services to the UK. Indeed the Government’s continued support for major aviation expansion sends out a signal to the private sector that it is not worth investing in setting up new rail services to the UK. While the Government promotes the creation of more “travel options” at the level of local transport, it seems to be doing the opposite for international transport.

3.4 CPRE believes that the spotlight on high speed rail has led to sleeper services being given insufficient attention. Sleeper trains provide for longer distance journeys and a new generation of services using High Speed Lines at night could offer new services to popular destinations such as Barcelona and Prague.

3.5 Freight is responsible for an increasing number of air traffic movements. The EU’s proposals for a Rail Freight Oriented Network giving greater priority to and capacity for freight movements on strategic corridors, combined with increased co-operation and through working with ERMTS, will enable rail to capture a far higher share of time-sensitive freight deliveries.

4. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change [Act] 2008—for the aviation industry and infrastructure?

4.1 Particular problems caused by aviation include noise pollution, damage to tranquillity, distortion of the economy due to tax advantages and failure to pay anything like its full environmental cost. Assertions that aviation does pay its environmental cost rely:

— on undervaluing the carbon cost, based on the assumption that the world is on course to tackle climate change, and ignoring Radiative Forcing of aviation carbon emissions;
— ignoring other environmental costs such as noise; and
4.2 The OEF, the Aviation White Paper, and more recently the NATS consultation on airspace changes in the Terminal Control North area all made much of the value to individual travellers of reducing travel time to airports and in their flights. On the other hand the only serious attempt to monetarise noise disturbance, in the DfT’s ANASE study, was not taken forward. Although elements of that study were given an unfavourable peer review, the failure to take forward any figures arising from ANASE and the lack of progress in developing alternative ways of monetarising noise disturbance may well be because the data that emerged in ANASE proved distinctly unpalatable.

4.3 Noise impacts are an important element of tranquillity but noise is far from being the major deterrent. Research commissioned by CPRE286 shows that seeing low flying planes is a major detractor from tranquillity, more even than seeing power lines or roads, for example. Tranquil areas, in particular National Parks and Areas of Outstanding Natural Beauty, provide places for people to “get away from it all” on an increasingly crowded island. The tranquillity in many of these areas is affected by low flying planes and this damages the competitiveness of domestic tourism services.

4.4 There are hidden subsidies for aviation from charge-payers where local authorities own airports. Returns on the capital assets are in many cases deplorably low or non-existent, even before “route development subsidies”—concessionary reductions in usage charges made for up to five years to encourage airlines to use the airport—are made. The most recent such case is that of Newquay; several others, such as Finningley or “Robin Hood International” airport, exist. The aviation industry argues that buses and trains receive subsidies too, however, these are for local not long distance services so this is not comparing like with like.

4.5 The impact of aviation on climate change has been particularly controversial. CPRE does not believe that the Government’s two key measures that were used to justify Heathrow expansion are in any way credible. Firstly European Union’s Emissions Trading Scheme (“ETS”) means that expansion in aviation will be offset by other sectors. Second that aviation emissions will be back to 2005 levels by 2050.

4.6 In relation to the ETS, the combination of the late baseline of 2005 for aviation and the looseness of the cap mean that carbon prices will be insufficient to have a significant effect on demand,287 in particular over the next decade. The carbon price has already collapsed to under €15/tonne. The failure of the ETS to take any account of Radiative Forcing, which approximately means that one tonne of carbon from aviation has twice the impact of one tonne of ground based emissions, means that aviation is benefiting from a “Buy One Get One Free” offer. Furthermore, biofuels do count as zero under the ETS, even though the Gallagher Review of the Indirect Effects of Biofuels (2008) showed that many biofuels have limited or even negative climate impacts. Even if a second generation of zero-carbon biofuels were at some point made commercially viable, they would still cause radiative forcing and so would not be climate neutral when used in aviation.

4.7 There are three fundamental problems with the suggestions that aviation emissions can return to 2005 levels by 2050. First, the International Energy Authority has stated that conventional oil sources are likely to peak by 2018. After this time, relying on sources such as tar sands that require far higher energy inputs or indeed conventional oil but in difficult locations such as the deep sea bed mean that “well to wing” emissions are unlikely to decrease even assuming the technological improvements the industry aspires to can be delivered.

4.8 Second, as pointed out in our evidence in the inquiry on the Major Road Network, there is a real likelihood that more stringent targets will be needed: Stern has already accepted that the problem of climate change is worse than when he drafted his Review and the science is likely to develop over the next decade let alone generation, particularly in relation to tipping points. As what matters is not the headline reduction figure in 2050 but the overall amount of greenhouse gas emitted over time, we risk wasting our carbon budget on cheap flights.

4.9 Finally, there is a reliance on carbon trading whereby other industries will make greater cuts to allow aviation to continue expanding. It is noteworthy that while the ATWP Progress Report of December 2006 focused on voluntary “offsetting” schemes, by July 2007 the Environmental Audit Committee concluded, in its 6th report, that “offsetting alone will have only a minor impact at best on increases in global emissions as a result of air travel”.

4.10 Offsetting hardly features now in justifications for Heathrow expansion etc. CPRE believes that the argument that UK aviation can continue to grow on the basis that other sectors and other countries will have to cut their emissions back even more is likely to stand up to scrutiny as badly as the carbon “offsetting” has done. In particular other industries and consumers are going to have to pay more to allow aviation to expand, the benefits of which, as shown above, are greatly overstated. There needs to be rigorous analysis of these impacts, not just in terms of economics but also the social impact.

286 Newcastle University, Tranquility Mapping: Developing a Robust Methodology for Planning Support, CPRE (2008).
287 Tyndall Centre, A bottom-up analysis of including aviation within the EU’s Emission Trading Scheme (2008).
5. **What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?**

5.1 Besides the effects of aviation on society and the environment, the favourable tax regime for aviation causes a number of impacts. Its tax-free status results in no duty or VAT paid on aviation fuel or on a number of other inputs to aviation: eg purchase of aircraft, spares and servicing. A conservative estimate is that this represents a hidden subsidy (or tax income foregone by HM Treasury) by UK taxpayers worth over £9 billion per year.

*March 2009*

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**Memorandum from Airbus UK (FOA 88)**

1. **Introduction**

1.1 Airbus welcomes this opportunity to contribute its views as part of the Transport Select Committee’s inquiry into “The future of aviation”. Airbus in the UK is a subsidiary of Airbus SAS and owned by EADS NV, a global leader in aerospace, defence and related sectors. Airbus is a global company with major design and manufacturing facilities in France, Germany, the UK and Spain as well as subsidiaries in the US, China and Japan.

1.2 Over the past three decades Airbus has developed into a European success story, securing market parity with Boeing in a market previously dominated by US companies. Airbus delivered 483 jetliners in 2008, surpassing its previous year’s total by 30, and achieving the highest ever on-time rate and quality level. As of 31 December 2008, Airbus has delivered a total of 5,500 aircraft and has total sales of more than 9,200.

1.3 Airbus is the major player in the civil aerospace industry in the UK with a workforce of over 13,000 on its two sites at Filton (Bristol) and Broughton (North Wales). Airbus in the UK has a highly skilled workforce who is responsible for wing design and manufacture on all Airbus aircraft and landing gear and fuel systems integration.

1.4 This submission sets out Airbus’ views on the future of aviation and provides responses to some of the specific questions posed by the Committee. The submission gives a general view of Airbus’ position in the UK aviation industry and our future goals, with a focus on our environmental targets.

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**Answers to Specific Questions**

2. **Q1. What is the value of aviation to the UK economy?**

2.1 The aviation industry, that is the air transport system, its infrastructure and associated services, is worth around £22 billion to the UK economy. It creates and sustains some 580,000 direct and indirect jobs and earns the UK £13 billion in exports. The UK’s aerospace industry, which is second in size only to that of the USA, has a turnover in excess of £20 billion and employs a highly skilled workforce of over 164,000 people.

2.2 The contribution of Airbus to the UK economy is significant. It contributes over £2 billion per annum to the UK’s trade and supports around 135,000 jobs through its UK operations. Airbus UK also spends over £1 billion per annum with on aircraft components and general supplies from UK companies.

2.3 The majority of UK-based airlines have fleets that include, or are entirely composed of, Airbus aircraft. Amongst these are: British Airways, British Midland International, EasyJet, MyTravel Airways, Air 2000, Monarch and Virgin Atlantic Airways. Virgin Atlantic is also one of the first customers for the A380.

3. **Q2. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?**

3.1 Airline operators are clearly struggling with the severe congestion now affecting major UK airports. Shortage of capacity is evident in delays on the ground and in on-route delays and stacking at major hubs, such as London Heathrow. This is damaging in environmental terms, as more optimised use of the air transport system could reduce aviation emissions significantly.

3.2 The current recession is hitting airlines hard, with a number failing in 2008. More mergers and acquisitions are inevitable as airlines seek greater economies of scale. This is likely to lead to less fragmentation in the route network and a re-concentration on major hub activities. This will provide some relief in the immediate future.
3.3 While the recession will impact the steady growth of passenger numbers in the short-term, and hence the fragmentation of the route networks, the historical record shows that beyond a recession, growth will recover the losses and return to previous trends quite rapidly. In order to plan for the longer term, passenger numbers should still be predicted by previous trends. Typical intra-European growth has been running at around 3.9% per annum.

4. Q4. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

4.1 Aviation is hugely beneficial to society, connecting people and services worldwide in a safe and efficient manner. However a balance must be made between the benefits of aviation and the environmental impact caused by the manufacture and operation of aircraft. The aviation industry believes that improvements in the environmental footprint of the industry is of the utmost importance and puts the issue at the forefront of every development or project.

4.2 The industry is addressing every environmental concern, in particular some of the major areas described below:

Noise

Aircraft entering into service now are typically 20 decibels quieter than comparable products 30 years ago. An A320 taking off or landing has a noise footprint of less than 1/10th the area of that created by a similar sized 1970s tri-jet. An A330 taking off has an 85 dB(A) noise footprint that is contained within the airport’s perimeter.

The A380 is the quietest long-range aircraft on the market, with even lower noise levels than the A340 (one of the quietest aircraft of its kind) for twice as many passengers. It also meets the stringent requirements for operations at London airports—QC/2 for departures and QC/0.5 for arrivals. A380 thus represents a huge breakthrough in noise footprint, achieving 50% less noise energy than any competitor aircraft.

With its latest-generation engines, the A350-XWB also will be airport “neighbour-friendly”—operating as much as 16 decibels below the ICAO Chapter 4 noise level requirements at its maximum operating weight.

Engine Emissions

Any transport technology using carbon-based fuels exerts an environmental cost. The aviation industry is acutely aware of its impact and so has been make great strides in its environmental performance for many years and will continue to focus their time and efforts on the issue.

To highlight the improvements made in fuel efficiency, it can be useful to look at the issue of weight, just one of the areas that can impact fuel burn, in a more detail.

Weight is critical in improving aircraft fuel efficiency; and as such it is a major focus in the design of all aircraft components. A 1% reduction in empty aircraft weight will typically improve fuel burn by 0.25%–0.75%. Significant developments in composite materials such as Carbon Fibre Reinforced Composites (CFRC’s) have lead the way for huge leaps forward in weight saving and the potential is there for increased use of composites to continue.

In 2000 the typical large civil aircraft consisted of roughly 15% composite materials and 65% aluminium. By 2020 the Greener by Design organisation estimate that this ratio will be closer to 65% composite and 15% aluminium. If this is so, there will be a 15% reduction in fuel burn for long haul aircraft with a parallel decrease in CO2 emissions.

The percentage use of composite for the A380 was a major step forward at 25% and it is noteworthy that A380 is the world’s first long-haul aircraft to achieve fuel burn of less than 3 litres/seat-100kms, similar to that of a Smart Car.

Weight savings are only one of the routes that Airbus is following in order to reduce fuel burn. Airbus’ goals in the research into integration, technologies and flight routing techniques work with those laid down in the ACARE 2020 Vision. Airbus invests up to €500 million per year so in Research in order to progress towards the ACARE 2020 goals:

— A 50% reduction in the emissions of CO2.
— An 80% reduction in NOx emissions.
— 50% less perceived noise than comparable aircraft designed and operated in 2000.

High points in this technology strategy are two key projects:

— Clean Sky, which aims for the development of greener aircraft by bringing a number of cutting edge technologies to realisation.
— Single European Sky (SESAR), which is a major Air Traffic Management Research imitative.
With these projects Europe is investing hugely in aeronautics research. In the Framework 7 Programme the EU is spending €2.3 billion on Aeronautics and Air Transport. With industry support €2 billion will be spent on the Clean Sky and SESAR project, designed to produce aircraft and an aviation system with substantially lower environmental impact, as demanded by ACARE’s 2020 Vision for the sector.

Manufacturing

ISO 14001 certification is awarded in recognition of companies’ achievements in monitoring and minimising the effect their operations have on the environment. Airbus’ work towards the international standard began in Europe, where Airbus was successfully awarded ISO 14001 certification for all its products and sites in June 2007—becoming the first aircraft manufacturer to achieve this important environmental milestone. Airbus is not only ensuring high standards in our European sites, but in our sites across the world. In February 2009 the Airbus Beijing engineering centre campus received ISO 14001 certification. They joined the six Airbus sites and offices in the United States that were also awarded ISO 14001 certification in early 2009.

A through life approach to carbon emissions was the key objective for Airbus’s ACADEMY project. This acronym stands for: Airbus Corporate Answer to Disseminate integrated Environmental Management system. The project’s objective was to achieve an environmental management system, where data on the product and manufacturing were integrated to give a complete life-cycle picture of environmental impact. This new management system allows for the mapping, assessment, control and reduction of the environmental impact of an aircraft and its production processes. Designed to be fully compliant with ISO 14001 international environmental standards, the system has now been introduced into all Airbus’s manufacturing sites and products.

End-of-Life Impact

There are some 6,400 aircraft due to reach end-of-life by 2026; hence the need for decommissioning, dismantling and recycling aircraft in an environmentally-responsible manner. Airbus’ proposed approach relies on the experience gained through the PAMELA (Process for Advanced Management of End of Life of Aircraft) research project. With the PAMELA partners SITA, EADS CCR, Sogerma Services and the Préfecture des Hautes-Pyrénées, Airbus has set up a special experimental centre at Tarbes Airport (South West of France) where procedures for decommissioning and recycling aircraft in safe and environmentally responsible conditions have been trialled. The experimental project, selected as part of European Union’s LIFE programme, ended in 2007 and demonstrates that up to 85% of aircraft’s components can be easily recycled, reused or recovered. It will now apply at larger scale through the TARMAC project that will industrially dismantle aircraft while also continuing research in this field.

4.3 Climate Change Act 2008

The Climate Change Act remains somewhat ambiguous regarding both international aviation and shipping. Broadly speaking Airbus supports global approaches to the issue of aviation emissions, as the problem is manifestly one that requires worldwide regulation. National and regional regimes that seek to apply disciplines on emitters are likely to run up against legal challenges over scope of jurisdiction. Airbus acknowledges the inclusion of aviation in the EU ETS, but is conscious that it may cause trans-Atlantic tension. Airbus believes that the funds collected through the EU Aviation ETS should contribute to aviation Research & Technology efforts and fleet modernisation. This would multiply the positive impact of ETS on greenhouse gas levels, by ensuring that new green technologies can be brought into reality as quickly as possible. Airbus is seeking to maximise its contribution to achieving a low carbon economy by investing in more efficient technologies on a massive scale and believes that correctly implemented policy change can ensure that all sectors of the industry also follow the same route.

March 2009

Memorandum from NATS (National Air Traffic Services) (FOA 89)

SUMMARY

NATS is the UK’s leading provider of air traffic management services. We are regarded as a world leader in our industry, voted the best Air Navigation Services Provider (ANSP) in the world in an independent survey of the industry including other ANSPs, systems manufacturers and airlines.

NATS was established as a PPP in 2001 and is now owned 49% by the UK Government, which also maintains a Special Share; 42% by The Airline Group, a consortium of UK airlines; 5% by its employees, and 4% by BAA.
NATS comprises two businesses. NATS En Route plc (NERL) is the monopoly provider of en-route air traffic services in the UK and the north east quadrant of the North Atlantic, provided under licence from, and regulated by, the Civil Aviation Authority (CAA); NATS Services Ltd (NSL) is NATS’ non-regulated business providing air traffic services at many UK airports and is NATS’ interface with the wider UK and global Air Traffic Management (ATM) markets.

The terms of NERL’s licence from the CAA require NATS to meet the air traffic service requirements of airlines and others using UK airspace, and to control traffic safely and efficiently. NATS does not establish airspace policy, which is the responsibility of the Directorate of Airspace Policy at the CAA.

Recognising that many aviation industry interests will be contributing to the Committee’s inquiry, we have focused our response on the specific areas where we feel our expertise can add value to the debate, namely in the field of airspace management. In light of our written submission to the Committee’s ongoing inquiry into the use of airspace, we have not repeated its contents here.

We welcome the Committee’s interest in the considering the future of aviation which is one of the UK’s most successful industries. If the Committee should require any further information, or would like to discuss our response in greater detail we would be pleased to help.

RESPONSES TO THE COMMITTEE’S QUESTIONS

1. **What is the value of aviation to the UK economy? What are the roles of the London and regional airports? What competition do they face from abroad?**

   NATS is a service provider to the aviation industry (airlines and airports) which is better placed to address this question generally. However, it is important that NATS makes it clear to policy makers that the projections and aspirations of airport operators will ultimately affect strategy and airspace design requirement and capabilities, and that therefore policy decisions must reflect clear priorities.

   Notwithstanding the current traffic downturn resulting from the effects of the recession, we agree with the Government’s forecasts that demand for additional capacity in the South-East will continue to grow strongly in the medium and long term. This assumption remains a valid basis for planning.

2. **Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?**

   As above, we agree with the Government’s view that demand for additional capacity in the South-East will continue to grow strongly in the medium to long term.

   In this context NATS believes that the Government’s priority should be to expand capacity at existing airports. An existing site will almost certainly be a better solution, from the perspective of airspace management, than a new site. In line with that, we have welcomed the Government’s policy clarification regarding Heathrow in its decision to allow a third runway.

   If the Government were minded to develop a new, major hub, this would require investment in careful air traffic modelling to measure the interactions with existing airports. We have addressed this issue in our submission to the Committee’s ongoing inquiry into the use of airspace.

3. **To what extent can rail provide an alternative to short-haul flights?**

   This is not a matter for NATS.

4. **What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?**

   NATS is the first air navigation service provider in the world to set a target for reducing CO₂ emissions relating to air traffic management procedures. Our environment strategy sets out a number of initiatives for achieving an average ten% per flight reduction by 2020.

   The aviation industry is clear that emissions will continue to grow to 2020 and will then decline to a level by 2050 where they will be similar to the levels measured in 2000. Sustainable Aviation, of which NATS is a founder member, has addressed this matter more fully in the roadmap which it has already shared with the Committee.

   There is, nonetheless, exaggeration of the contribution of aviation to climate change which has confused the public debate. It remains the case that aviation contributes 2% of global CO₂ emissions; suggestions that this will grow compared with the emissions of other industries presume that the aviation sector will make no progress in managing and mitigating its impact.

   We welcome sensible and informed debate on the contribution of aviation to climate change and means of mitigating that impact.
5. **What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?**

This is not a matter for NATS.

6. **What is the impact on the aviation sector of changes in the security environment?**

NATS’ first priority is safety, and the security both of our own people and of the aircraft under our control are a core element of our safety culture. We work closely with other agencies within the industry to ensure that we are aligned and current with all security matters.

**March 2009**

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**Memorandum from Highlands and Islands Enterprise (FOA 90)**

Highlands and Islands Enterprise (HIE) is the Scottish Government’s economic and community development agency for an area which covers more than half of Scotland. We work with high growth businesses and public and voluntary sector organisations to build sustainable economic growth across a diverse region which stretches from Shetland to Argyll and from the Outer Hebrides to Moray. We are committed to developing the Highlands and Islands as a competitive region which is home to strong communities, successful, high growth businesses and excellent quality of life.

HIE is pleased to submit evidence to the Committee’s inquiry into the future of aviation. We work closely with the Scottish Government, Highlands and Islands Airports Ltd (HIAL), and the Highlands and Islands Transport Partnership (HITRANS) on aviation matters, recognising that for our region, air services are vital to economic development and social inclusion. HIE’s response should therefore be considered alongside those from the Scottish Government, HIAL and HITRANS, as well as from air operators serving the region.

**Summary**

The Highlands and Islands is the UK’s most distant region from London: at 560 miles, Inverness is the same distance from London as cities like Geneva and Hamburg; whilst at 750 miles, Lerwick in Shetland is as distant as Marseille and Prague. The Highlands and Islands includes over 80 island communities, of which 20 or so have licensed airports and airfields with scheduled air services. Our dependence upon aviation as a mode of public transport is therefore unique in the UK, as was noted in the 2003 Aviation White Paper.

Our key points are:

— Aviation is of critical importance to both mainland and island communities in the Highlands and Islands, supporting range of economic activities as well as health-related and other socially important trips. The offshore petroleum and emerging renewable energy industries are particularly reliant on aviation services

— The development of new cross-border services from Inverness has facilitated better business connections between the Highlands and Islands and other UK regions and has stimulated domestic tourism activity.

— International connections are important for some of our largest businesses, but Inverness currently lacks a service to Heathrow or any other major hub airport. Gatwick does not provide the desired level of connectivity, whilst Heathrow does not have the capacity to support services to regional airports like Inverness. A long-term solution would be for Government to ensure that a proportion of new capacity provided by a third runway at Heathrow is reserved for domestic services.

— Without a third runway at Heathrow, Inverness and other regional airports will continue to rely on Gatwick for business travel to and from London and for international connectivity. There is a need for improved terminal facilities, reduced air traffic congestion and possibly additional runway capacity at Gatwick.

**Our Response to the Questions Posed by the Inquiry Follows**

1. **What is the value of aviation to the UK economy?**

1.1 HIE recognises that aviation is of value to the UK economy as a whole, but will restrict our comments to its particular importance in the Highlands and Islands. The region makes a substantial contribution to the UK national economy with over £1 billion worth of exports (excluding oil). It contains strategic facilities and industries of national significance such as Sullom Voe and Flotta oil terminals; the Dounreay nuclear
facility; and food processing, whisky and tourism sectors. Tourism alone is worth an estimated £839 million per annum to the regional economy, comprising £734 million from UK visitors and £105 million from overseas visitors.\textsuperscript{288}

1.2 In 2005, it was estimated that the operation of Inverness Airport supported a total of 751 FTE jobs within the region, along with approaching £55 million of output and around £16m income annually. Expenditure by inbound visitors generates a further annual output of £65 million and income of £16 million, supporting 1,546 FTE jobs within the region.\textsuperscript{289} Since 2005, passenger numbers have increased by about 20% and we would anticipate the economic benefits to have increased in line with this.

1.3 We do not have similar figures for the other airports in our region, but given their geographical contexts expect that they are even more significant in supporting their local economies than Inverness. Whilst all our inhabited islands are served by ferry, air services are vital for daily economic activity, health-related travel, and other socially important trips. The offshore oil and gas industry is particularly reliant on aviation and forms a major component of demand for air services in Shetland. The development of new renewable energy sources in the north of Scotland is also likely to require access to regular scheduled and charter air services to enable efficient movement of personnel to and from development sites.

1.4 In summer 2009, the Highlands and Islands scheduled regional air service network will extend to 23 routes between Aberdeen, Glasgow, Edinburgh, Inverness and the 9 smaller airports serving the islands and remote mainland, with 90 or more single flights every week day. These are all flown using aircraft with no more than 34 seats, with services provided by Loganair/Flybe, Eastern Airways and Highland Airways. Most of the network is commercially operated, but is supported indirectly by the Scottish Government’s sponsorship of the 10 main airports in the region (including Inverness), and by the Air Discount Scheme, which provides a 40% discount to eligible residents. Services to Barra, Campbeltown and Tiree are also subsidised by Scottish Government through Public Service Obligations (PSOs). In addition, the local authorities in Argyll, Orkney and Shetland provide scheduled services using Islander aircraft through PSOs to 13 island communities.

1.5 Whilst there are surface alternatives to all of these air routes, most involve a combination of road or rail and ferry travel, with end-to-end journey times of over six hours. Some require overnight ferry travel or an overnight stop between connections. During periods of bad weather, ferry services may be liable to cancellation and disruption, leaving air services as the sole means of access to a number of our island communities. This level of dependency on air services is unique in the UK.

1.6 Economic activity in the Highlands and Islands also relies on efficient access to other parts of the UK and internationally. Over the past five years there has been a significant growth in the number of direct routes from the larger Scottish airports which has also benefited our region. Inverness is currently served by 9 routes linking to other parts of the UK, including London, Birmingham, Bristol, Manchester and Southampton. Whilst these are now all operated by ‘low-cost’ operators (Flybe and easyJet), they are well used by business travellers. In particular, the London Gatwick and Manchester schedules are designed to permit day returns for travellers from Inverness, with the opportunity for a full day’s business in-between. The new routes have also stimulated domestic tourism, and have enabled the Highlands and Islands to remain competitive for UK travellers with “low-cost” foreign destinations. Most of the economic benefits of activity at Inverness Airport detailed in paragraph 1.2 stem directly from these domestic cross-border services.

2. What are the roles of the London and regional airports? What competition do they face from abroad?

2.1 For businesses in the Highlands and Islands, the other regional airports in the UK are an important means of accessing the major UK city-regions. The links between Inverness and the London airports are particularly important, both for direct access to London and the South East, and for connections to international flights, with patronage of over 350,000 passengers per year. Some of our largest businesses, such as Lifescan Scotland, are part of wider international operations, and have staff travelling between Inverness and other worldwide sites on a daily basis. Such travel requires access to larger hub airports such as Heathrow which provide regular and efficient connections to a full range of international air services.

2.2 The total demand for air travel in the Inverness Airport catchment was almost 1.1 million passenger trips in 2005, according to Civil Aviation Authority (CAA) passenger survey data. Approximately 10% of these were international journeys made via Inverness Airport and involved connecting flights at hub airports, whilst a further 10% were similar journeys made via Aberdeen, Glasgow or Edinburgh airports. The total demand from the area for connecting flights at hub airports is therefore in excess of 200,000 trips per year.

2.3 Currently, Inverness does not have direct access to a hub airport, and the main conduit for international travel to and from Inverness is the three times daily return service to London Gatwick operated by Flybe. This provides a good point-to-point service, and is an important export route for high-value fresh seafood to Southern Europe. Flybe maintain a codeshare agreement with BA and various interline agreements with other airlines at Gatwick permitting through-ticketing and baggage transfer, but the range

\textsuperscript{288} VisitScotland. 2002.

of international connections directly available at Gatwick is limited compared to those available at Heathrow. Indeed, many of the BA connections offered from Inverness via Gatwick require coach transfer to Heathrow.

2.4 bmi operated a single daily return service between Inverness and Heathrow between 2004 and 2008. However, the low frequency and poor timings of the service using off-peak slots at Heathrow limited the range of international connections that were possible. Despite this, the route carried up to 66,000 passengers per year, a significant proportion of whom were connecting with other flights at Heathrow. The loss of the route is estimated to have resulted in annual user dis-benefits of £3.1 million for those flying outbound from the Highlands and Islands, plus a net reduction of £2.1 million in tourist spend. Businesses have reported that international flight connections are now more difficult, and it is evident that not all travellers have simply transferred to Gatwick.

2.5 The same research also concluded that an “enhanced”Inverness-Heathrow service (ie similar to the current Gatwick service) would reduce journey time for those travelling inbound to the region on business by 9%, and increase the range and quality of onward flight connections by 118%, thus improving connections to key inward investment, export and tourist markets. More generally it is recognised by both BAA and the Department for Transport (DfT) that Heathrow is the “K’s only hub airport” and that Gatwick offers only a relatively limited range of connections, being served by an increasing number of “low-cost” point-to-point services.

2.6 HIE recognises that the current capacity constraints at Heathrow make the reestablishment of an Inverness-Heathrow service extremely unlikely. Whilst this would be the first preference of businesses in our region, we must therefore look outside the UK to develop our international connectivity. Working with HIAL, we have focussed our efforts recently on attracting a service to Amsterdam Schiphol Airport. We believe there is sufficient demand for travel between Inverness and Amsterdam and for international connections at Schiphol for at least a twice daily return service with a 50-seat aircraft, and have been discussing this proposal with potential operators. Of course the current economic climate makes establishment of such a route a more difficult proposition for airlines, but we will continue to work with them to find viable means of enhancing our international connectivity in the short term.

3. Is the current aviation infrastructure adequate for the needs of UK business and individuals and how should it be developed? What are the implications of future passenger trends and possible mergers in the airline industry?

3.1 Within the Highlands and Islands, aviation infrastructure is provided by the public sector, either through the Scottish Government’s sponsorship of the 10 HIAL airports, or through the local authority maintained airfields. These are generally adequate for current needs, although recent investment levels will need to be maintained to support future growth, and safe and efficient operation of the airports.

3.2 In paragraph 2.6, we have noted that the major capacity constraint at Heathrow Airport prevents the Highlands and Islands from having a direct link to the UK’s only hub airport. Provision of a third runway at Heathrow may be the only way to alleviate these constraints. HIE responded to the DfT’s Future of Heathrow consultation in February 2008 requesting that consideration be given to how improvement of domestic links to Heathrow could be “built in” to the proposals to increase capacity.

3.3 We believe this could be achieved through any license or consent to the operator to increase capacity at Heathrow, being made conditional upon a proportion of new landing and take-off slots being reserved for domestic services. Only a small proportion of new slots would need to be reserved to protect the current level of domestic services and allow the re-introduction of others that have been lost since the 1990s, including Inverness. This would have little effect on the overall range of international services at Heathrow but would re-establish it as a hub airport for the whole of the UK rather than just certain parts of the country.

3.4 In the meantime, prior to the opening of a third runway at Heathrow, we note that continued investment is required at Gatwick to improve the terminal environment for business passengers, and to provide efficient flight transfers for connecting passengers, including transfers between Gatwick and Heathrow.

3.5 With the probable sale of Gatwick Airport to a new operator before the end of 2009, it may also be appropriate to re-evaluate the requirements for additional runway capacity. Gatwick is the world’s busiest single runway airport, and at peak times, air traffic congestion can be severe: the 0705 Flybe departure from Inverness has a published arrival time of 0855 at Gatwick, but can land as early as 0830 if there is no congestion; on a typical day, the aircraft arrives above Gatwick at about 0820 but then spends around 30 minutes in a stack before gaining clearance for landing. Additional runway capacity would therefore yield environmental benefits by reducing air traffic congestion, as well as potentially allowing the airport to support a wider range of international connections.

4. To what extent can rail provide an alternative to short-haul flights?

4.1 As noted in paragraph 1.5, most of the air routes within Scotland serve island communities, or would involve surface journey times in excess of six hours. Rail/ferry journeys are popular with visitors to the Highlands and Islands, but for many trip purposes do not present a viable or attractive alternative. From Inverness, rail is well used for trips to and from the Scottish Central Belt, with journey times currently around three to four hours, but is considerably less attractive for cross-border trips. Rail journey times to London are over 8 hours by day train or overnight by ScotRail sleeper, whilst journeys to Manchester and Birmingham would take at least 7\frac{1}{2} and 8 hours respectively. Substantial investment in high speed links between London and the Scottish Central Belt would still leave journey times on these routes of around six hours. For the Highlands and Islands, short-haul flights will therefore continue to be the preferred mode for most cross-border (and international) travellers.

5. What costs does aviation impose on society and the environment? What are the implications of climate change policy—in particular the Climate Change Act 2008—for the aviation industry and infrastructure?

5.1 HIE recognises that along with all motorised forms of transport, there are environmental consequences of aviation activity. Analysis undertaken last year by AEA Energy and Environment produced an inventory of transport carbon emissions in the Highlands and Islands for road, rail, sea and air transport. Taking account of both arriving and departing from airports in the region, scheduled flights, produced some 84.6 thousand tonnes of CO₂ per year in 2006—equivalent to 5.8% of all direct regional transport CO₂ emissions, and just 3.4% of all UK emissions from domestic aviation. Based on work published by HIE in 2003, we understand this to be equivalent to less than 0.3% of all UK aviation emissions when international flights are included.

5.2 The study noted that most of the aircraft serving the region were either small turboprop or modern, fuel efficient regional jets, that for many journeys resulted in less emissions than the equivalent surface journeys by car and/or ferry. For example, a typical single passenger journey from Inverness to Stornoway by air would be responsible for 43kg of CO₂, compared to 90kg for the same journey by car and ferry.

6. What is the impact of taxation on the aviation sector nationally and regionally? Are passengers adequately protected from the collapse of airlines?

6.1 Whilst most air services in the Highlands and Islands are provided commercially, they are nevertheless mainly fragile, ‘thin’ routes. All our airports require operating subsidies from either Scottish or local government, and regional air services are supported indirectly by the Scottish Government’s Air Discount Scheme. Most cross-border routes at Inverness carry less than 50,000 passengers per year, and only London Gatwick and Manchester have more than one service per day to Inverness. The commercial fragility of such routes was highlighted with loss of the daily service to London Heathrow in 2008.

6.2 In this context, taxation can have a significant impact, not just on airfares, but on the commercial viability of air services in the region. In recognition of the peripherality of the region and the important role that air services play in connecting both island and mainland communities, flights departing from airports in the Highlands and Islands are currently exempt from Air Passenger Duty. In response to HM Treasury’s consultation on aviation duty in April 2008, HIE argued that this exemption should be retained in any future aviation duty scheme.

7. What is the impact on the aviation sector of changes in the security environment?

7.1 Airport operators will be better placed to answer this question in detail, but HIE understands that the impact of changes in the security environment on our smaller island airports can be particularly onerous.

March 2009

Memorandum from Kent International Airport (FOA 91)

1. Summary

1.1 The following is a summary of the key points that Kent International Airport wishes to present to the House of Commons Transport Committee for their consideration in relation to the future of aviation in the UK:

1.2 The current infrastructure in place at Kent International Airport (KIA) is substantial and significant, including a 2,752m runway with parallel taxiway and hard-standing suitable for 12 Code E aircraft.

1.3 KIA hosts daily Code E aircraft (Boeing 747-400) during winter and is also capable of hosting Code F (A380, B747-8) movements.

1.4 Existing facilities at KIA will accommodate up to one million annual passenger movements and 100,000 tonnes of air cargo per year.

1.5 KIA has the benefit of strong local support for expansion. This local support expands to the Local Authority (Thanet District Council), the County Council (Kent County Council) and the two constituency Members of Parliament, Steven Ladyman and Roger Gale.

1.6 The recently released draft Master Plan for KIA highlights the medium term potential for the airport to host six million annual passenger movements and 500,000 tonnes of air cargo per year.

2. Current infrastructure at Kent International Airport

Runway

2.1 KIA has a 2,752 x 61 metre recently resurfaced and remarked paved runway. This runway is sufficiently long and wide to service all commercially operated aircraft types, with minor outbound load restrictions for the largest aircraft flying to the extent of their range.

Aprons

2.2 The site also has a passenger terminal apron capable of accommodating 4 X B737s or 3 B747s or a larger number of turbo-prop aircraft types. There is a separate freight terminal apron and with standing areas capable of accommodating three to four widebody aircraft. A number of other hard-standing areas used for aircraft parking up to B747 size are in place around the airfield detached from the passenger and freight terminals.

Air Traffic Control and Navigation

2.3 Instrument Landing System (ILS) Category 1. Non-directional beacons (NDB) and Distance Measuring Equipment (DME) also in operation. A full Air Traffic Service is provided including tower, approach and radar services.

Rescue Fire Service

2.4 KIA supports three fire tenders and crew, ICAO and UK CAA compliant up to Category 9 fire cover, consistent with widebody freight and passenger jet operations.

Land Area

2.5 The total land area of the airport site is 296 hectares. Approximately 20 hectares inside perimeter fence is available for airport related development (including additional freight facilities). 46 hectares of immediately adjacent land is used for aircraft storage (connected by an apron across a road) and is developable for airport purposes.

Passenger Facilities

2.6 KIA has a recently refurbished 2,800 square metre single level terminal capable of handling up to 1,000,000 passengers per annum. It is equipped with:

2.7 Fully compliant baggage handling, baggage x-ray and passenger security equipment, six check in desks, separate departures and arrivals areas. Food and beverage services, airport retail and an onsite travel agency, significant car parking facilities adjacent to the terminal providing for 1,000 vehicles with approval to further extend, customs and immigration based on site.

Freight Facilities

2.8 KIA has a modern 3,200m² cargo facility incorporating a fully licensed Border Inspection Post (BIP) adjoining the apron. The BIP allows the import and customs and veterinary clearance of meat and fish imports into the EU. The airport also has several other large warehouse style buildings suitable for airfreight/aircraft maintenance operations.
Transport Links and Travel Times

2.9 The A299/M2 dual carriageway, which provides a road link directly to the M25 (57 miles) and central London (75 miles) begins on the boundary of KIA. Drive time to the M25 is one hour and driving from KIA to the London underground at North Greenwich Station takes one hour and 15 minutes.

2.10 London trains currently take 95 minutes to reach Ramsgate station approximately seven kilometres from KIA. From December 2009 the service will be served by the high speed trains linking St Pancras to the Port of Dover. The upgrade to that service will reduce travel times between Ramsgate and St Pancras to approximately 80 minutes. The transfer time to Ramsgate Station from KIA is less than 10 minutes and there is potential for a parkway station located on the boundary of the airport, which would further reduce travel times. KIA is within a half hour drive of Dover and Ramsgate ports.

3. Current Traffic Levels

3.1 KIA currently serves a range of commercial aircraft operators and hosts scheduled long-haul freight services. These flights primarily carry fresh produce bound for UK supermarkets grown in Equatorial African countries such as Kenya and Ghana. Scheduled operators include Cargolux and Egyptair, with regular ad-hoc traffic from MK Airlines, Iris Air, Atlas Air and ACT.

3.2 During the financial year ended 31 March 2008 KIA handled 33,340 tonnes of air freight, placing the airport within the top 10 freight airports in the UK by volume and emphasising the significance of the airport in the air freight marketplace. The freight handling capacity at KIA has been significantly improved over the preceding two years with investment in new equipment and trained operators. This has led to the airport being regularly chosen as the preferred location to direct specialised, time critical cargo shipments. During the preceding financial year, such operations have included the A1 Grand Prix vehicles and equipment, oil field equipment exports, zoo animal shipments and many other cargo movements requiring the specialised handling of large aircraft.

3.3 Current passenger operators include Flybe, Newmarket Travel and Channel Island Travel. These operators serve a range of seasonal destinations including weekly scheduled flights to Jersey during the summer season (Flybe). Passenger traffic at KIA is currently low, with 9,602 departing passengers hosted at KIA during the year ended 31 March 2008. The level of current passenger traffic does not reflect the current demand for services from KIA, but the lack of scheduled passenger services currently available. During 2005, EUjet, the Shannon based low cost airline flew 330,000 passengers from KIA demonstrating the considerable demand for services from the airport.

4. Existing Capacity

4.1 The passenger terminal facility at KIA is capable of hosting around 1 million passenger movements per annum. This figure was tested during the operation of EUjet at KIA with the busiest month of operations seeing 62,709 passengers use the terminal. Depending upon aircraft types and schedules operated, the existing terminal can accommodate up to 80,000 passengers per month.

4.2 The area of hard-standing adjacent to the passenger terminal is capable of parking the aircraft numbers required to achieve this passenger throughput. Assuming Code C aircraft would operate the majority of routes, as many as six parking stands could be marked out adjacent to the terminal.

4.3 From an Air Cargo perspective, the facility is exceptionally well equipped. KIA currently services over 30,000 tonnes of air freight per annum and is far from reaching the capacity of the existing facility. The 3,200m2 warehouse and licensed Border Inspection Post is not fully utilised and the airport has available further warehouse space which can be used as an overflow if required.

4.4 The cargo apron area has sufficient aircraft parking and handling areas for three wide-body aircraft, with further off-stand parking areas available for staging if required.

5. Local Support for Expansion

5.1 The KIA draft Master Plan was released for public consultation in October 2008. The feedback received during this exercise has been excellent. The Thanet District Council, the Canterbury City Council, the Dover District Council and the Kent County Council all made submissions stating their support for the growth and development of KIA. The key reason driving the support for the expansion of the airport is economic growth. East Kent and Thanet in particular is an area of relatively high deprivation and there is a clear need for the promotion of economic activity and maximising the potential of the assets in the community.

5.2 KIA has been identified in the local structure plan and the draft South East Plan as a potential economic regenerator for the area, and as such the development of the airport is strongly supported in the planning framework. Further information relating to the supportive framework for expansion can be found in the draft Master Plan, attached to this submission for your information.
6. Kent International Airport Master Plan

6.1 Although KIA is not required to produce a Master Plan, Infratil, the New Zealand listed parent company of the airport has elected to produce one to facilitate the necessary discussion with regard to the future development of the airport. Infratil is a significant enterprise, owning majority stakes in four airports in New Zealand, Scotland, England and Germany and holding equity stakes in several others worldwide.

6.2 The draft Master Plan for KIA serves to highlight the excellent conditions present at KIA with regard to potential expansion. To summarise the key features of the Master Plan:

— KIA is a historically significant airport with existing rights for hosting all aircraft types.
— The land holding of the airport is sufficient for the proposed expansion.
— Existing planning permissions and policies promote further growth.
— The location of KIA in the South East, within one hour of the M25 is ideal to absorb the future demands of the region.
— The economic contribution of the airport will be a significant feature in the Kent Economy.
— The effects of growth at the airport can be managed sustainably and effectively.

7. Conclusion

7.1 It is anticipated that the Committee will take the key points from this submission and relate them to question number 2 of the enquiry, evaluating infrastructure provision. In essence, a significant aviation asset with existing capacity is in place at Kent International Airport. This asset can be further enhanced if required and can play a strong role in hosting additional traffic as the aviation market recovers and resumes its growth path.

7.2 Of particular interest to the Committee should be the upcoming enhancement to the rail service between London and Ramsgate, and the potential for further upgrades in future.

7.3 Kent International Airport is a heavily developed long haul aviation facility already operating in the South East of England. Ensuring the full utilisation of this asset, for the benefit of the local community and in the interest of delivering additional capacity at the lowest possible cost is clearly a key part of a sensible and practical solution to future airport capacity shortfall.

March 2009

Memorandum from Stanwell Moor Residents Association (FOA 92)

Bullet Points

— Stanwell Moor is located near to the western end of Heathrow’s southern runway; and its residents therefore wish to have confidence that Government policies deal effectively with aviation’s impact on society and the environment.
— Airport development decisions should take full account of environmental disbenefits, in particular that from noise, but the Department for Transport (DfT) has failed to fund high-quality research: reliable and up-to-date methodologies to assess noise impact damage are required.
— Existing aircraft noise compensation schemes do not match DfT policy statements: they must be made fully consistent.
— Government guidelines for airport operators must genuinely match the commitments to proper compensation clearly set out in the White Paper and other DfT policy statements.
— Airport operators should accept that paying full compensation for the disturbance caused by noise is a “necessary part of doing business” as a good neighbour.
— Aircraft noise compensation schemes should be fully evidence-based: DfT should not have introduced arbitrary technical hurdles.
— DfT should instigate studies to measure accurately people’s real-life perceptions of significant noise exposure changes.
— The use of rail noise criteria for aircraft noise compensation and assistance arrangements ignores the research evidence that road and rail noise are markedly less disturbing than aircraft noise for the same Leq value.
— The implementation of aircraft noise compensation schemes should be independently regulated.
— Governmental protection of people affected by aircraft noise deserves to have at least equal status as the existing consumer protection offered to aviation customers.
INTRODUCTION

1. The Stanwell Moor Residents Association welcomes the House of Commons Transport Committee Inquiry into the future of aviation.

2. Stanwell Moor is located near to the western end of Heathrow’s southern runway. It is exposed to a very high noise impact when the airport operates in its westerly mode. Stanwell Moor residents therefore wish to be confident that Government is dealing effectively with aviation’s impact on society and the environment. This evidence therefore focuses on the Inquiry question: “What costs does aviation impose on society and the environment?”

3. It must be stressed that this evidence is not antagonistic to the aviation industry or to specific individuals involved in implementing policies. The main thrust is that DfT principles, policies and practices, with which airport operators such as BAA comply, must demonstrably show that the industry is acting as a good neighbour.

COST BENEFIT ANALYSES

4. Aviation offers many benefits to society but also many disbenefits. One of the major disbenefits is the noise that affects people living near airports. This disbenefit needs to be taken fully into account when decisions are made about new airports/runways. Properly quantified disbenefits should then be the fundamental building block in the design of compensation schemes.

5. DfT’s Heathrow Consultation document includes a cost benefit analysis of various options for the development of Heathrow. This includes valuations of the disbenefits for noise disturbance. Page 140 of Annex B notes that the aircraft noise valuations are based on the study by Pearce and Pearce, whose research work was funded by DfT. Their estimates of environmental damage uses falls in house prices arising from aircraft noise disturbance.

6. The Pearce and Pearce work was carried out in the late-1990s. Since then, DfT has funded other research work into aircraft noise disturbance and its damage costs. Unfortunately, a range of top-class peer reviewers said the work was “unreliable” that they “counsel against using the detailed results and conclusions . . . in the development of Government policy”. [The problems with the work were noted in the Committee’s Inquiry into the “Management of Airspace”.] These studies cost the taxpayer about two million pounds at current prices.

7. DfT should fund high-quality research focusing on reliable and up-to-date methodologies to assess noise impact damage.

COMPENSATION POLICY

8. The Government’s policy on compensation was set out in the Future of Air Transport (2003), in particular:

   “3.15 Our approach to noise impacts is first, to seek to control the scale of impacts; second, to mitigate remaining impacts; and third, to compensate for those impacts which cannot be mitigated . . .

   3.16 . . . We believe, therefore, that in addition to controlling and reducing aircraft noise impacts, a proportion of the large economic benefits provided by airport development should be used to mitigate their local impacts.”

9. There are two important points in this extract. First, the DfT uses the word “compensate” without qualification, ie it is not “partial”. The Government is therefore committed to ensure that proper compensation is paid. Second, the DfT uses the word “proportion”: compensation must be proportionate, ie not a tiny fraction of the gains made by airport owners and their customers. Thus, the Government policy is that compensation should meet the damage costs to homeowners, and should not be withheld merely for the airport operator’s commercial interests.

10. An example based very loosely on the Heathrow Consultation analyses may help to illustrate the point. Suppose that over a period the gains from the airport to BAA (and others) are £10,000,000,000 (ten thousand million). Suppose that over the same period the damage to people from noise—as estimated by top-flight economists—is £500,000,000 (five hundred million). If this full amount is compensated to those affected, then the industry profits reduce by 5%. If half the amount is paid then profits reduce by 2.5%. Thus, the industry profits can be increased by neglecting to pay proper compensation—but only by a small percentage. In contrast, the people damaged lose half the proper compensation amount through such a subsidy to the industry.

11. What legal or ethical basis would there be to justify a reduction in compensation to people damaged by airport operations from the amounts estimated by competent economists based on up-to-date and reliable research? Government’s policies must be implemented in ways that prevent the aviation industry from getting significant financial benefits through “reduced compensation” subsidies. Government guidelines for airport operators must genuinely match the commitments to proper compensation clearly set out in the White Paper and other DfT policy statements.
12. There can be no problem about profits being made—but only if they are not artificially enhanced by a withholding of proper compensation to those people who are suffering “externality damage”. Airport operators should accept that paying full compensation for the disturbance caused by noise is a “necessary part of doing business” as a good neighbour.

**DfT’s Arbitrary Technical Hurdles for Compensation**

13. There are problems about the technical underpinning of “trigger mechanisms” to implement aircraft noise compensation policy. Ministers have presumably agreed to specific mechanisms based on the advice of civil servants and others, but these mechanisms have not been demonstrated as appropriate to the real world of people exposed to aircraft noise. Aircraft noise compensation schemes should be fully evidence-based: DfT should not have introduced arbitrary technical hurdles.

14. The 2003 Government White Paper states:

“To address the impacts of future airport growth we expect the relevant airport operators to . . . offer to purchase those properties suffering from both a high level of noise (69dBA Leq or more) and a large increase in noise (3dBA Leq or more)”.

Thus, this policy instrument uses a trigger of 3dBA. However, in the course of extensive correspondence, neither DfT nor BAA has been able to put forward that such a criterion is based on reasonable evidence about the nature of the effects on real people. In other words, the 3dBA appears to be an arbitrary number. A 3dBA increase corresponds to a doubling—!—in the number of flights, given constant aircraft noise levels.

15. DfT’s own publications show that a 3dBA increase in Leq has “very large” effects in the real world rather than just “large” ones. A 3dBA increase could effectively move somebody much nearer the airport runways, perhaps a mile or more nearer. This is more than just a “perceptible” worsening in the noise climate—it is highly significant to the lives of the people damaged in this way. DfT’s own figures on the effects on house prices show that this is a very large difference. For example, somebody lucky enough to live in a £500,000 house would find that a 3dBA increase in Leq would reduce its value by around £7,500: this is hard tangible evidence—to repeat, based on DfT’s own estimates of the effects of a worsening noise environment—that people see a 3dBA increase as having a very large impact.

16. DfT should instigate studies to measure accurately people’s real-life perceptions of significant noise exposure changes.

**BAA and DfT Failure to Use Evidence on Road/Rail/Air Comparisons**

17. Technical evidence has been presented to DfT and BAA comparing research results on the disturbance from rail, road and aircraft noise. They show that disturbance at a particular Leq value is much greater for aircraft noise than either rail or road traffic. The sources are reputable technical journals; they are typical of research results on this topic; and this information has been available to DfT and BAA for some years.

18. This omission shows that there is no technical justification for the high threshold used in BAA’s “Home Owner Support Scheme” for “blighted” homes, ie newly experiencing 66 + Leq. BAA’s rationale is: “66 decibels is the threshold which other developers have used in recent years for their voluntary blight schemes (such as for the Channel Tunnel Rail Link). We believe that this is a reasonable threshold and we do not therefore intend to lower it.” But neither DfT nor BAA has attempted to counter the body of technical evidence on differential noise disturbance.

19. The use of rail noise criteria for aircraft noise compensation and assistance arrangements ignores the evidence that road and rail noise are markedly less disturbing than aircraft noise for the same Leq value.

**Scheme Failings and Regulation**

20. An example of a BAA scheme for Heathrow is HRAS—“Home Relocation Assistance Scheme”. This scheme is intended to help home-owners to move away from noise. BAA says that “It is not designed to cover all moving costs, although we estimate that the package will meet the whole or most costs for a large number of home-owners”—but this grossly exaggerates the compensation. For some typical calculations presented to DfT and BAA, HRAS provides less than a third of the money needed.

21. Another practical example of problems with mitigation schemes is deterioration of past noise mitigation implementation. The occurrence of “failed windows”, ie windows that have completely failed, or whose performance is markedly below current best practice, should be investigated, and, where necessary, replaced at no additional cost to the householder?

22. One of the difficulties is that the airport operator not only implements the compensation or assistance scheme, but is in effect the arbiter when there are issues about the details of the scheme’s operation. A conclusion is that the implementation of aircraft noise compensation schemes should be independently regulated.
“Consumer Protection” Comparability

23. One of the most puzzling aspects of UK Government aviation arrangements is the great difference between the protections it affords to airline passengers as compared with that available to people exposed to aviation’s environmental effects. Surely, there should be a degree of comparability between the two?

24. The interests of airline passengers are covered by a wide range of UK and European legislation. In particular, there are two different bodies, one part of the Civil Aviation Authority (CAA) and the other associated with it—but both funded by the CAA—that act to protect passengers. These are the CAA’s Consumer Protection Group (CPG) and the Air Transport Users Council (AUC).

25. CPG’s tasks are to ensure the rights of UK air travellers and help protect the consumer’s money. Its duties include managing the UK’s largest system of consumer protection for travellers, Air Travel Organisers’ Licensing, and enforcing European Council requirements in relation to “airline finances, nationality, liability of passengers for death or injury and insurance”.

26. The AUC has the task of complementing and assisting the CAA in its duties to further the reasonable interests of users of air transport services. Its Terms of Reference include:

“To investigate complaints against the suppliers of air transport services where the person or body aggrieved has not been able to obtain satisfaction from the supplier concerned and to seek a resolution where appropriate.

To formulate and promote policies furthering the reasonable interests of passengers and to represent them to regulatory authorities (both in general and in relation to specific proposals), service providers and the media.”

27. There are no obvious equivalent funded bodies to help protect and provide support to people affected by aviation’s external impacts. Governmental protection of people affected by aircraft noise deserves to have at least equal status as the existing consumer protection offered to aviation customers.

May 2009

Memorandum from Gatwick Airport Limited (FOA 93)

Executive Summary

— Aviation is vital to the UK economy. At this time of economic difficulty, a robust aviation sector is particularly invaluable in promoting trade, tourism and investment, and therefore will play a pivotal role in helping the country emerge from the current economic situation.

— As the UK’s second largest airport, Gatwick is absolutely central to the efficient functioning of the air transport infrastructure in both London and the UK as a whole.

— Going forward, with passenger numbers expected to grow, we believe that Gatwick is optimally placed to service future demand for air travel in the UK.

— We expect Gatwick’s annual passenger traffic to reach 40 million within a decade. We are keen that all options, including the possibility of a second runway at Gatwick after 2019, are explored as the UK works towards the necessary and sustainable growth of its aviation capacity.

— At Gatwick, we recognise the importance of meeting the challenges both of environmental sustainability, and of providing a high quality passenger experience which does not compromise on the need for vigilance against the very real security threat that UK airports face.

— As we prepare to enter the next phase of our development as an airport, we are confident both in the successful future of aviation in the UK, and of the leading role Gatwick Airport will play in ensuring that this becomes a reality.

Introduction to Gatwick Airport

1. Gatwick is the second busiest airport in the UK, the sixth busiest international airport in Europe and the 10th busiest international airport in the world, and has the busiest single-use runway globally. Approximately 35 million passengers currently use the airport in a year.

2. As the UK’s second airport, Gatwick is a leading contributor both to the UK’s transport infrastructure and to the economic competitiveness of the whole country.

3. The Committee will know that last year BAA announced plans to sell Gatwick Airport. We are going through the sale process, with completion currently expected later this year. This sale, as well as Gatwick’s existing £1 billion investment programme to enhance the passenger experience, will make an essential contribution to the development of a more competitive and passenger-focussed aviation market in the UK.
THE IMPORTANCE OF AVIATION TO THE UK ECONOMY

4. The economic benefits of aviation are well documented. You will undoubtedly have received comprehensive and convincing evidence on this point from other organisations. We would therefore simply like to draw the Committee’s attention to the Oxford Economic Forecasting report in 2006 which found that:

- The aviation industry contributed £11.4 billion (1.1%) to the UK’s GDP in 2004.
- Aviation directly employed 186,000 people in 2004, and up to 520,000 indirectly.
- The industry contributed around £3.6 billion to the Exchequer in 2004–05.
- Nearly three-quarters of tourists to the UK arrive by air.
- 55% of the UK’s export of manufactured goods to countries outside the European Union is by air.

5. There is overwhelming evidence that aviation is vital to the UK economy. At this time of economic difficulty, a robust aviation sector is particularly invaluable in promoting trade, tourism and investment, and therefore will play a pivotal role in helping the country emerge from the current economic situation.

THE ROLE OF GATWICK AIRPORT IN SERVICING UK AND LONDON AVIATION NEEDS

6. As the UK’s second largest airport and the world’s busiest single runway airport, Gatwick is vital to the smooth functioning of the air transport infrastructure in London, the South East and the UK as a whole. During the past five years Gatwick Airport has experienced passenger growth of 14%, and now accounts for approximately 15% of all UK air passengers. In 2008, 34.2 million passengers travelled through the airport: this clearly demonstrates that Gatwick is a major economic driver and significant contributor towards the aviation sector.

7. UK airports collectively are nearing full capacity in terms of servicing demand for air travel. Without a high-performing Gatwick Airport, neither London nor the UK could aspire to meeting the current levels of demand for both passenger and cargo air transport.

8. Gatwick also plays a major role in the South East, as the region’s principal airport. As a significant employer, a strategic transport hub and importantly the local airport for many of the region’s business and leisure travellers, Gatwick is an invaluable resource for the people and businesses of London and the South East, particularly Kent, Surrey and East and West Sussex. A robust, thriving Gatwick will be imperative for London and the South East to maintain their position as a globally-competitive economic region.

9. Going forward, with passenger numbers projected to grow, we believe that Gatwick airport is well placed to service future demand for air travel in the UK, and to do so in a way which puts an optimum passenger experience at the heart of that growth.

DEVELOPING AVIATION INFRASTRUCTURE AND MEETING FUTURE CAPACITY

10. We support the Government’s objective of facilitating the growth of aviation, within stringent environmental limits, as we believe it has a vital role to play in protecting the UK’s trade competitiveness and tourist industry. Expansion of airport infrastructure is also important to address the overcrowding and delays experienced by passengers, such as those in the summer of 2006.

11. The UK Government published The Future of Air Transport White Paper in 2003, setting the strategic policy framework for airport development in the UK up to 2030. The Air Transport White Paper identified that the first priority was to make best use of existing runways. It also highlighted that land should be safeguarded for a second runway at Gatwick after 2019, in case a new runway at Heathrow could not meet the required environmental limits.

12. Gatwick is bound by a Legal Agreement with West Sussex County Council that prevents the construction of a second runway before 2019. Any future runway development in the south-east is a matter for the Government to decide. We are committed to responsible growth, in line with Government policy.

13. This means that we want to achieve maximum use of the airport’s single runway, and so we expect Gatwick’s annual passenger traffic to elevate to approximately 40 million within the next 10 year period. However, we are also keen for all options, including that of a second runway at Gatwick after 2019, to be fully explored as the UK works towards the necessary and sustainable growth of its aviation capacity.

THE ENVIRONMENTAL IMPACT OF AVIATION

14. At Gatwick we recognise that climate change is a vitally important issue, and we are committed to reducing the airport’s carbon footprint. We also have a part to play in addressing emissions from aviation in general, within the context of the wider national and international framework.

15. Historically, our approach has been to work through BAA and our trade associations to influence and respond to the wider sustainability agenda, while focusing on managing here at Gatwick the issues over which we have greater direct control. Moving forward under new ownership, we will be developing our own strategies to manage the core issues of corporate sustainability and environmental responsibility.
16. The impact of Gatwick’s flights and airport operations also affect the daily lives of the community who live around the airport and its flight-paths. Issues such as noise nuisance and air pollution are the main concerns: we work hard on a constant and continuing basis to reduce and mitigate such impacts.

17. At Gatwick we have well-established links with people, communities and businesses around us. We continue to develop and maintain our relationships with key stakeholders, including local government representatives, community groups, local businesses and economic groups. Our consultative committee (GATCOM) is an important way of engaging more formally with a representative group of our stakeholders on a regular basis. We consider it an important operational requirement that we understand and respond to the views of all of our stakeholders, and that they in turn know about our plans and ideas.

**Impact on the Aviation Sector of Changes in the Security Environment**

18. The UK has experienced a number of serious security alerts since 2006, including a direct attack at Glasgow Airport in June 2007. The International Civil Aviation Organisation and the EU have introduced additional security measures to combat these risks.

19. At Gatwick we work closely with the government and our airport partners to pioneer new ways of sharing intelligence. The established MATRA (Multi-Agency Threat and Risk Assessment) process brings together all organisations involved in airport security, including the Home Office, customs and immigration (now the UK Border Agency), security services and business partners. MATRA makes sure that they are all aware of threats, are working to the same security plan and that optimum controls are in place to assess and mitigate security risks.

20. We operate in many ways to maintain a safe and secure airport, undertaking both overt and covert security exercises. Our activities are driven by joint threat assessments and Department for Transport regulations, coupled with the need to be sensitive and responsive to passenger requirements, and our aim of providing the best and smoothest passenger experience possible.

**Conclusion**

21. Aviation in the UK is entering a critical time, with the slowdown in the global economy in the short-term affecting airlines and airports alike, and expected strain on capacity in the medium- to long-term as demand for air services grows.

22. The aviation industry is one of the UK’s great success stories. A robust aviation sector is vital to the future of the British economy. We believe that Gatwick Airport, in turn, will be a vital part of this future.

23. With passenger numbers expected to grow, we believe that Gatwick Airport is well placed to service future demand for air travel in the UK. In particular, our experience, operating practices and commitment to providing the best possible passenger experience will ensure Gatwick’s long-term position as a leading UK airport.

24. As we prepare to enter the next phase of our development as an airport, we are confident in both the successful future of aviation in the UK, and of the crucial and leading role Gatwick Airport will play in ensuring that this becomes a reality.

*June 2009*

**Memorandum from UK Ultraspeed (FOA 94)**

**Reality: Maglev in Public Service**

Using the same German Transrapid maglev system as proposed for the UK Ultraspeed network, magnetic levitation [maglev] technology has been proven in full public service in Shanghai since 1 January 2004. The illustration shows two units passing at a combined closing speed of 860 km/h [537 mph].

High speed ground transport is now universally agreed to be a pressing priority for Britain. This briefing summarises the strategic commercial, economic and policy case that, in the specific conditions of the UK, maglev is: faster, better, cheaper and greener than high speed rail.

The full business case, which substantiates all figures cited in this summary is available to Members of the Committee.
THE STRATEGIC CASE FOR 500 km/h (311 mph) MAGLEV

UK Ultraspeed is the proposal to use the proven German Transrapid maglev system (as pictured on title page), to transform connections between Britain’s major cities. This briefing paper summarises the strategic case for maglev in the UK. A fuller document has been made available to members of the Committee.

MAGLEV ADVANTAGES IN UK APPLICATION

Maglev is not a railway. It is a new 300 mph + system, developed from a British idea, at German taxpayers’ expense, in a sustained R&D programme covering roughly 1970 to the present. It has now been proven in public service since 2004. It is substantially faster and massively more efficient than the 20th Century, TGV-style or Shinkansen-style, wheel-on-rail systems which will constrain Britain’s overseas competitors for 100 – 150 years to come. (Hereinafter “TGV-style rail” for brevity.)

In environmental terms, only 500 km/h maglev offers journeys that are faster than flying from London as far north as Glasgow and Edinburgh, whilst also stopping in every major market between London and Scotland en route, yet producing emissions around 10% those of aviation, assuming maglev draws its electric power from today’s UK-average generation-mix. If, over time, maglev is eventually powered by 100% zero-carbon sources, maglev offers Britain the world’s absolute fastest ground transport with absolute zero emissions.

The fundamental advantages of maglev versus high speed rail are seen at their clearest on the North:South scale, illustrated by the map below. 500 km/h maglev can do with one route what 300 km/h TGV requires two routes to deliver.

Only maglev is fast enough to provide:
— a faster-than-air North:South link to all the major city-regions of both the “West Coast” and “East Coast”; and
— East:West connections fully integrated into the same system; of which examples are:
  — both a sub-15 minute Edinburgh—Glasgow non-stop trip [shown in blue]; and
  — a sub-60 minute connection from the Tyne to the Mersey [red].

Maglev reaches Glasgow, via the Midlands, North West, Yorkshire, the North East and Edinburgh in 2 hours 40 minutes from London or Heathrow. This includes stops at the M25, Birmingham, Manchester, Leeds, Teesside and Tyneside en route. This maglev trip is faster, including all the stops, than using air to get from Central London to Central Glasgow or Edinburgh, once the time taken to get to/from airports, check-in and to pass through security is taken into account.

Yet maglev typically causes 10 to 12 times less CO2 emissions per seat-km than domestic short-haul jets, even when its electric power is generated at the 2008 UK generation mix, which has only 22% of generation from non-carbon sources.

MAGLEV IS UNIQUELY SUITED TO UK CONDITIONS IN BOTH REGIONAL AND INTERCITY APPLICATIONS

Britain has now sunk investment in 300 km/h [186 mph] domestic TGV-style railways. Transrapid maglev is the only ground transport system in the world licensed to convey passengers at 500 km/h [311 mph]. It offers a strategic opportunity to “leapfrog” all Britain’s major competitors. No rail system can match maglev’s combination of inter-city and short-sector performance, nor can rail match maglev’s efficient multi-task utilisation of fleet assets.
In Britain, put simply, there are 100s of km of long-and-thin economic geography, which include several highly-congested corridors 10s of km long. Only maglev can effectively serve in both roles (regional-scale super-metro and intercity) and do so using the same vehicles.

Maglev would largely replace rail for many longer intercity journeys, freeing up paths on Network Rail and allowing more, and more-efficient, use of existing capacity. With capacity-eating long-haul, limited-stop, intercity services removed, more rail trains, serving more intermediate communities, could use the rail network. These would also act as feeder/distributor links between maglev hubs and the city-regions along the route. Freight paths would also be liberated on rail.

Over shorter sectors, the acceleration advantages of maglev enable ultra-rapid connections to combine cities, and typically one or more airports, to create super-cities capable of competing with the world’s leading locations for investment and jobs.

Amongst the shorter links Glasgow—Edinburgh and Liverpool—Manchester—Leeds have strong business cases for maglev deployment on a stand-alone basis. Over many of these shorter corridors, TGV-style solutions are simply impossible. The routes are either too short for poorly-accelerating “heavy metal” trains (eg Glasgow—Edinburgh) and/or too steep and sinuous (eg Manchester—Leeds) for adhesion-based trains, unless unfeasibly costly tunnels are bored.

**Maglev Advantages Relating to Aviation**

Maglev largely replaces domestic aviation with a faster, more reliable and far greener alternative. Once time to get to/from airports and check-in times are taken into account, North/South maglev trip times are faster than city-to-city journeys involving domestic air travel.

To summarise the maglev advantage, consider two journeys starting in Westminster, in which an air traveller uses the Heathrow Express to travel via Heathrow to Manchester Airport, whilst another traveller uses the Jubilee Line to access maglev at Stratford and then travels North.

— By the time the 200 seat aircraft has reached Manchester, a maglev with up to 1,196 seats on board has arrived in Glasgow, having stopped at M25 P&R, Birmingham Airport, Birmingham, Manchester Airport, Manchester, M62 P&R, Leeds, Teesside, Tyneside and Edinburgh en route.

— On its simple airport-to-airport trip the plane produces 60,000 seat-km of capacity and links only a single point of origin to a single destination. In the same time, the maglev has produced over 100 origin:destination pairs and produced 630,000 seat-km of capacity (assuming a very relaxed 840 seats in 10-car configuration).

— The plane produces around 150g of carbon-dioxide per seat-km, the maglev produces only 29g (or as low as zero emissions if fully powered by electricity generated by carbon-free means.)

On a strategic level, maglev enables Britain to make better use of existing airport capacity and significantly reduces the need for its expansion.

— Maglev liberates tens of thousands of runway slot pairs a year at LHR (with proportionate releases at North England and Scottish Airports) as a beneficial side-effect of replacing domestic aviation to/from Heathrow. This air capacity can then be used for more economically beneficial, and less environmentally destructive, international links.

— Maglev reaches Manchester for the same cost as Heathrow Runway 3. If the current estimate of ±£9 billion for the controversial Heathrow expansion is used, the ±300km maglev route to Birmingham and Manchester could be built for the same capital investment.

— Maglev reaches the North East for the same cost as Heathrow Runway 3 and the Heathrow Hub rail infrastructure. Adding the current estimate of ±£4.5 billion for the mooted Heathrow Hub, produces a maglev route connecting London, Birmingham, Manchester, Leeds and Tees/Tyne for the same capital investment. In a further advantage, maglev is planned to connect directly into Heathrow, not (as per the rail proposals) to the Great Western mainline some miles away.

— Maglev means that Heathrow’s third runway already exists. It is at Birmingham International Airport, around a 30 minute maglev trip from Heathrow, that is to say less time than it currently takes to transfer from Heathrow T4 to T5.

— Maglev empowers Manchester Airport to take the load off London. By putting a catchment of tens of millions (from North London—accessing maglev at M25 P&R—to Tyneside) within a 45–60 minute access time of Manchester airport, this empowers the growth of a genuine second UK hub. Supported by this major new market, Manchester’s two runways will relieve the pressure on Heathrow by serving more international destinations directly from the North.
Maglev Advantages Compared to Road Transport

Maglev is typically five to eight times faster than driving, yet produces between 12.5% and 50% of the emissions, depending on the route in question, the type of car, and carbon-mix of the power stations generating maglev’s energy and the occupancy rates of both vehicles.

Design sketches for motorway signage on the approach to the maglev P&R station at M62 J21 illustrate the point, in this instance over a short 17km commuter trip from the area of the M60/M62 in Central Manchester. Over longer sectors, maglev’s advantages are even more marketed.

The imposed economy of motorway-standard signage encapsulates the issue. Maglev enables a fundamental rethink at the very personal level at which journey choices are made.

This first sign captures the advantages in the time and money terms that are most directly relevant to the consumers.

The second set of signs (below) spell out the case in environ-mental terms, comparing DfT numbers for various types of car with a reasonably-loaded maglev, powered by an ambitious, but achievable, low-carbon power generation mix over the same commuter trip.

The sign above assumes the system is operating at an (aggressive, but peak-hours typical) 70% Load Factor. It also assumes that maglev will use its buying power as a strategic wholesale electricity consumer capable of predicting, and contracting for, its energy requirements to the kilowatt and to the second for decades ahead, to incentivise and secure an above-average proportion of its electricity from carbon-free generators.

Even with today’s generation mix (shown below; with only 22% from carbon-free sources) and at a Load Factor typical only of today’s much less attractive UK rail system, maglev is still 2 to 3 times greener than the car, whose emissions remain the same.
And that’s the point: as electricity generation gets cleaner, maglev gets greener. Oil-fueled cars (and planes or diesel trains for that matter) will never achieve this step change; their core technology prohibits it.

_Full detail on all emissions calculations, and substantiation for every other figure included in this summary paper, is given in the full document available to the Committee._

500 _km/h Maglev Advantages Compared to 300 _km/h Wheel-on-rail Systems

The growing emphasis on the environment as a “top three” issue in UK politics is shifting debate firmly on to maglev territory. No plane, car or diesel train can ever achieve zero emissions. In practical terms only electrified railways and maglev are able to do so. Indeed it is “rail or maglev” that is the basic choice facing Britain’s strategic transport for the decades-to-century ahead. The side-by-side map above highlights the key policy issues, which the following bullets expand.

— Maglev capital cost averages £30 million per km, substantially cheaper than the UK’s only precedent for TGV-style railway, the £56.42 million per km for Channel Tunnel Rail Link (around £60 million/km at today’s values). This is due in part to elevated construction of guideway, which would be employed for around 62% of the total route. This has 45x lower land-take than a six lane motorway and 6x–8x less than TGV lines. Land under the guideway remains usable for its original purpose. An upfront payment of 10% of capital value is made to the landowner to secure:
  — the land where the piers physically stand;
  — access during construction; and
  — Right Of Way plus Right Of Access in perpetuity.

A rental payment is then made annually thereafter in respect of land and air rights under the guideway, which remains usable for its original purpose. Based on the National Grid precedent, rentalising land costs has the benefit of saving significant upfront capital expenditure.

— Using TGV-style trains, only London is connected to every other city whilst 500 _km/h maglev connects every major city-region to every other city-region along route.

— With TGV-style trains, twice the fleet is required, yet the service is slower to all destinations. Take, for example, a trip of 292 km (182 miles) Heathrow–M25–Midlands–Manchester Airport–Central Manchester. The journey takes 58 minutes by maglev all including the stops, but 85 minutes by TGV-style train.

— The longer the system, the more maglev wins. If TGV and maglev both hypothetically follow the “Big-S” route shown on the Ultraspeed map, by the time a non-stop northbound TGV has reached Glasgow, a maglev has served all the stops between London and Scotland, has turned round, served Edinburgh Airport on the return journey and is now travelling south at 300 mph on the way to Newcastle.

— TGV-style wheel-on-rail lines cannot readily cross the Pennines without a prohibitively expensive very large diameter twin bore tunnel (say 30 km @ £62 million/km = £1.86 billion just for the tunnel). However, maglev gradient and curve parameters permit an overground route alongside the M62, avoiding any new intrusion into the National Park.

— This fundamental technical advantage enables maglev to include East:West connections on a super-regional scale (eg trans-Pennine and Forth-Clyde) as an integral part of the fundamentally North:South trunk route.

— In the specifically British conditions discussed above, many of the disadvantages of TGV flow from the unavoidable need for any TGV-style line to fork south at a point south of the Pennines into two routes if it is to attempt to offer air-competitive journey times to both the North West and Yorkshire, a goal which would require a proper 300 _km/h alignment throughout both routes.

— This result, depending on route selection and junction location, would be between 100 and 200 km more infrastructure for TGV-style rail.
— With recent estimates suggesting a budget of £50 million per km for TGV in the UK, that equals £5 billion to £10 billion more capital expenditure alone, before even beginning to take into account the year-after-year-after-year waste in additional ongoing operating costs that would be caused by these duplications of route and fleet. This wholly unnecessary waste would be entirely avoided by maglev.

— Whole-life costs of maglev are significantly lower than TGV-style rail. This is due to more intensive fleet utilisation enabled by higher speed, and to lower maintenance costs (in the range 35% to 50% of rail). This latter is due in large part to the fact that maglev does not physically touch its guideway. It simply does not abrade and degrade its own infrastructure as is the case with TGV.

300 km/h TGV would be of negligible competitive advantage to Britain (because all our major European competitors already have such systems) but it also risks actually exacerbating the predominance of London, for all the reasons summarised above. By contrast, 500 km/h maglev is fast enough to empower autonomous economic growth in the economies of England’s Greater North and Scotland.

The table below summarises a number of generic maglev advantages versus TGV-style railways.

### SUMMARY OF MAGLEV ADVANTAGES COMPARED TO TGV-STYLE RAIL

<table>
<thead>
<tr>
<th>Maglev</th>
<th>TGV-style rail</th>
</tr>
</thead>
<tbody>
<tr>
<td>500 km/h [311 mph] cruising speed</td>
<td>300 km/h [186 mph] cruising speed</td>
</tr>
<tr>
<td>Acceleration to 300 km/h: 97 sec &amp; 4.1 km</td>
<td>Acceleration to 300 km/h: ± 6 mins &amp; ± 20 km</td>
</tr>
<tr>
<td>Guideway (track) integrates guidance, power supply, propulsion motor, signalling and operational control feedback into one system</td>
<td>Rail for guidance, overhead line for power supply, motor on board train, signalling via separate ERTMS systems, feedback via track circuits etc</td>
</tr>
<tr>
<td>Elevated guideway by default. As little as 2.1 m² per linear metre land-take. Flexible routing able to follow existing corridors and brownfields by climbing 1-in-10 gradients and exploiting tight turn radius of 1,600m @ 300 km/h.</td>
<td>Ground-level track by default. 8–16 m² per linear metre land-take. Less flexible routing: only 1-in-25 maximum gradients and turn radius twice as inefficient, at 3,200m @ 300 km/h.</td>
</tr>
<tr>
<td>Flexible routing enables maglev to penetrate city cores without the need for expensive tunnelling, using DLR precedent for elevated, automated, mass transit guideway.</td>
<td>Typically requires expensive tunnelling into city cores. Example CTRL, required tunnel from outer fringes of London to St Pancras to enable TGVs to maintain speed into city.</td>
</tr>
<tr>
<td>2008 average infrastructure cost estimate including land per km in UK conditions ± £30m/km.</td>
<td>CTRL out-turn costs £56.42 million/km. If adjusted to directly comparable 2008 values ± £60m/km.</td>
</tr>
<tr>
<td>Does not physically touch guideway when in motion, leading to major maintenance savings. Sheer speed enables more intensive operations of a smaller fleet. Again leads to lower O&amp;M costs. O&amp;M costs typically 50%–65% of wheel-on-rail systems. Whole-life costs typically ± 50% of rail.</td>
<td>Wheel-on-rail systems physically grind down their track with every run. Schedules calling for speeds greater than 300km/h have been abandoned (eg Madrid-Barcelona) due to excessive maintenance burden. Köln–Frankfurt rails are reported to require replacement twice as quickly as predicted.</td>
</tr>
</tbody>
</table>

**Journey practically achievable in 2 hours 40 minutes including stops:**


**Energy consumption 5-car maglev (440 seats)**

<table>
<thead>
<tr>
<th>Energy consumption</th>
<th>12.3 kwh/km @ 300 km/h</th>
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</thead>
<tbody>
<tr>
<td>15.4 kwh/km @ 350 km/h</td>
<td></td>
</tr>
<tr>
<td>19.1 kwh/km @ 400 km/h</td>
<td></td>
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<tr>
<td>23.2 kwh/km @ 450 km/h</td>
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</tbody>
</table>

**Energy consumption 8-car ICE3 (415 seats)**

<table>
<thead>
<tr>
<th>Energy consumption</th>
<th>18.0 kwh/km @ 300 km/h</th>
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<tr>
<td>23.7 kwh/km @ 350 km/h</td>
<td></td>
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<tr>
<td>not achievable</td>
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<td>not achievable</td>
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**Transport Committee: Evidence**

Ev 469

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**Noise: dB(A) measured @ 25m from pass-by**

<table>
<thead>
<tr>
<th>Series</th>
<th>dB(A)</th>
<th>Speed (km/h)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TR08</td>
<td></td>
<td></td>
</tr>
<tr>
<td>series</td>
<td>67–69</td>
<td>(less than urban background)</td>
</tr>
<tr>
<td></td>
<td>86</td>
<td>@ 200</td>
</tr>
<tr>
<td></td>
<td>79</td>
<td>@ 300</td>
</tr>
<tr>
<td></td>
<td>86</td>
<td>@ 400</td>
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<tr>
<td></td>
<td>90</td>
<td>@ 500</td>
</tr>
<tr>
<td>TR09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>series</td>
<td>even</td>
<td></td>
</tr>
<tr>
<td>TGV</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A series</td>
<td>86</td>
<td>(also classic rail diesel unit</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>@ 200</td>
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<tr>
<td></td>
<td>95</td>
<td>@ 300</td>
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<tr>
<td></td>
<td>not achievable</td>
<td>@ 400</td>
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<tr>
<td></td>
<td>not achievable</td>
<td>@ 500</td>
</tr>
</tbody>
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**Maglev Demands Detailed Consideration on Equal Terms with Rail**

The detailed studies which underpin the strategic case summarised in the present paper consistently and very strongly indicate that maglev, deployed in the specific conditions of the UK, would:

- be faster than wheel-on-steel High Speed Rail [HSR];
- provide capacity similar to, or higher than, HSR;
- have lower emissions than HSR on like-for-like trip-time basis;
- have lower land-take than HSR;
- have lower noise emissions than HSR;
- have lower up-front capital costs than rail (largely as a result of lower land-take);
- be capable of extension to other Northern England and Scottish cities at substantially lower capital cost than rail (the optimum North-South maglev would be 100–200 km shorter than HSR and would require no expensive under-Pennine tunnel);
- be capable of more intensive and more automated operation the HSR; and
- require less intensive maintenance than HSR, and thus
- have lower whole-life costs than HSR;
- offer more direct connection to LHR than the proposed Heathrow Rail Hub;
- offer air-beating journey times all the way from London to Scotland;
- offer faster journey times to/from the Continent from Manchester and beyond than any “simple” extension of CTRL; and
- release capacity on the existing rail network, rather than create capacity bottlenecks at existing classic rail stations as any proposal to “run-off” TGVs on to classic rail lines would do.

In the specific conditions of the UK, there is a strong probability that maglev is likely to deliver better value for the taxpayer and better outcomes on transport, environmental and macro-economic grounds. Hence the public interest clearly requires both rail and maglev cases to be taken forward, to enable an informed policy decision to be taken in due course.

UK Ultraspeed has directly approached Ministers and Sir David Rowlands at High Speed 2 with the proposal that a maglev solution should be studied in detail, and in parallel with, the TGV-style option currently being funded by DfT & High Speed 2. We further proposed that a broadly similar amount of Government funding should be input to support the development of the maglev case.

However, the current Government has stated that it does not wish to see a maglev proposal considered further and is concentrating instead on High Speed 2’s very limited project to develop a TGV-style railway from London to the West Midlands.

Regrettably, Government’s stance has been founded on a series of factual inaccuracies about maglev. These most notably include wildly inaccurate power consumption figures, and the arbitrary, and provably incorrect, doubling of maglev capital costs which was used to tarnish maglev in the Summer 2007 Rail White Paper. There also appears to be a confusion between the £30 million-per-km Transrapid system, which will be used by Ultraspeed, and the £100 million-per-km, still experimental, Japanese MLX system.

Although Ultraspeed has repeatedly written to successive Secretaries of State and Transport Ministers, both pointing out these materially prejudicial inaccuracies and offering constructive engagement to develop an accurate maglev case, the current Government has rejected all such overtures. This has led to the establishment of Government’s High Speed 2 Company on the discriminatory and anti-competitive basis of maglev being ruled out from the outset.

This stance is clearly prejudicial to the interests of the taxpayer, because it makes an ab initio technology choice, without giving equal consideration to the development of a maglev solution which could well offer taxpayers better value. It also unnecessarily shuts down the possibility of genuinely competitive strategic procurement, under which rail and maglev would compete on merit.
Rather than closing down options, a better course would be for Government to invest instead in having the business cases for both potential solutions taken forward to the same level of detail. Both rail and maglev would thus be empowered to compete on their respective merits, on the facts, and on whole-life costs, when Britain’s high speed ground transport is procured.

Premature exclusion of maglev is prejudicial to competition, to Britain’s strategic transport future, and to the interests of the taxpayer.

UK Ultraspeed therefore requests that the Transport Select Committee bring its influence to bear to ensure that, in all work undertaken by Government to study high speed ground transport, maglev receives consideration, resources and funding equal to those given to wheel-on-rail solutions.

Jones 2009

APPENDIX

OVERVIEW OF TRANSRAPID MAGLEV TECHNOLOGY

In order to reach a maximum speed of 311 mph and to accelerate to 250 mph in less than three minutes, Transrapid maglev vehicles eliminate friction by literally floating above a fixed guideway track on an electromagnetic “cushion”. They are guided, propelled and braked by variable frequency electric currents passed through the guideway. The system consists of three main elements, all of which are fully integrated with each other:

1. A fixed guideway (track) housing an electromagnetic linear motor. This can be built at ground level, or elevated at any height up to 20m above the ground, thus passing over existing infrastructure without complex and costly civil engineering. The linear motor is analogous to a conventional, rotating, electrical motor which has been unwound and laid along the entire length of the guideway. Electric current is passed through the motor to propel the maglev vehicles, with the frequency of the current controlling the speed at which they move. UK Ultraspeed planning calls for two tracks, one in each direction, with points at various locations—including each end—to enable switching from one track to the other. Both tracks are fully bi-directional, allowing flexibility of operation.

2. Maglev vehicles, each with up to 10 cars, which are capable of seating up to 1,200 passengers in total, although 3-car to 5-car units can be used for ramp-up services a stand-alone route. The vehicles levitate above the guideway and are steered along it by magnetic “cushions”. Constant measurement, thousands of times a second, maintains a 1cm (0.4 inch) gap between the vehicle and the guideway. The vehicles are propelled and braked by variable electrical current passed through the linear motor. There is no engine in the vehicle, the guideway is the motor, the signalling system, the power supply and the positional feedback system all combined into one.

3. Operational Control System [OCS]. The power supply to the guideway, and hence the movement of all maglev vehicles upon it, is overseen by the final part of the system, a highly automated OCS. The OCS engineers in to Transrapid levels of safety and reliability which are impossible to achieve in rail, air or road transport. The OCS constantly monitors every vehicle’s speed and position and adjusts propulsion power supplied through the guideway to ensure that every vehicle operates at the prescribed speed for each route section, maintains the correct separation from other maglev units and operates precisely to a timetable defined to the second.

Only the section of guideway through which a maglev is actually passing is powered up by the OCS. Sections in front and behind are switched off to ensure that it is physically impossible for two maglev units ever to collide.
Memorandum from Mr B Ross (FOA 95)

**DfT Forecasts**


2. On 15 January 2009, the DfT published “UK Air Passenger Demand and CO2 Forecasts” revising the 2030 demand projection down to 465 mppa (central case).293

3. In the same document and same table (Table 2.10 on page 44), DfT also showed if the November 2008 Pre-Budget Report (“PBR”) GDP projections were applied demand would fall to 445 mppa in 2030. DfT also explained (para 2.35) that the PBR GDP information only became available late in the day and so was shown as a sensitivity test. It would otherwise have been the central case forecast.

4. On 17 March 2009, the Secretary of State for Transport announced an errata to the DfT’s January 2009 air traffic forecasts advising that the PBR-based forecast for 2030, shown as 445 mppa in Table 2.10 of the document, should in fact have been 435 mppa.294 Thus, as matters stand, the DfT’s “official” central case unconstrained demand forecast for UK air travel in 2030 is 435 mppa.

5. However, the 2009 Budget Report, on 22 April, includes HMT’s latest GDP forecasts and these are lower than the GDP forecasts made at the time of the PBR. Using a modelling spreadsheet SSE has calculated that the average annual impact of this reduction over the period to 2030 is equivalent to a 0.254% per annum compared to the PBR assessment.

6. Returning to Table 2.10 in the DfT’s January 2009 publication, this shows that a quarter point annual change in GDP results in + or — 35 mppa on 2030 demand. Therefore, if the quarter point reduction in GDP growth which is apparent from the 2009 Budget Report is applied, the DfT’s revised central case forecast for 2030 will now be 400 mppa.

7. DfT has not yet acknowledged that its 2030 demand forecast is now about 100 mppa less than predicted in the ATWP. The significance is however very clear. A 100 mppa reduction is equivalent to more than the capacity of two new runways.

*July 2009*

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Memorandum from Mr B Ross (FOA 95A)

**Clarity on Where the 100 mppa Reduction [in the DfT Forecast for 2030] Falls**

You have asked if there was “any clarity on where the 100 mppa reduction [in the DfT forecast for 2030] falls”. The answer is that it falls mostly—and possibly entirely—in the south east.295 The evidence for this is in two main parts as follows:

1. **The DfT Forecasts**

   We can establish from the latest DfT forecasts296 that there is a reduction of 58.4 mppa between the DfT’s December 2003 airport-specific forecasts and its latest forecasts, of which 33.5 mppa (57%) is in the south east and 24.9 mppa (43%) is in the regions. This is before the DfT has taken account of the revised GDP forecasts published by HMT in the April 2009 Budget Report, and my estimate (based on the DfT’s published sensitivity tests as explained in my earlier note) is that the revised HMT forecasts result in a further 35 mppa reduction in the DfT’s 2030 forecast of unconstrained UK demand.

   Adding 58.4 mppa and 35 mppa gives 93.4 mppa—ie less than 100 mppa. The main reason for this is that the DfT’s airport-specific forecasts assume some localised capacity constraints which result in UK unconstrained demand not being fully met. The DfT assumes that, faced with a local capacity constraint, most people would switch to an alternative airport but some “would-be” passengers would decide not to fly at all. This probably accounts for about 5.5 mppa of the 6.6 mppa difference.

   The second reason for the shortfall arises because the DfT only produces airport specific forecasts for the UK’s main 31 airports. Some 33 small UK airports are excluded and so any trimming of demand at these airports will not be reflected in the DfT’s airport specific forecasts. The effect is however minor (probably less than 1 mppa) since these 33 small airports cater for only 1.2% of UK demand.

   Annex A shows the revised DfT forecasts for the 31 main UK airports.

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292 UK Air Passenger Demand and CO2 Forecasts”, DfT, Jan 2009, Table 2.10, p 44.
293 http://www.dft.gov.uk/press/speechesstatements/statements/co2forecastserrata
294 Note that the DfT’s definition of the south east includes East Anglia.
295 Information provided to SSE by DfT on 31 March 2009 in file ref: “SCAB26_02c_psdh2”.
2. MARKET TREND TOWARDS REGIONAL AIRPORTS

The DfT evidence suggests that 57% of the reduction in the national forecast will be in the south east but there is considerable evidence to suggest that the DfT may be under-estimating the trend towards regional airports. Between 2000 and 2008 regional airports increased their passenger throughput by an average annual rate of 5.5% whereas airports in the south east increased by only 2.2% per annum.

The following table, taken from the Air Transport White Paper (“ATWP”) SERAS consultation document shows that in the base year (2000) airports in the south east catered for almost two-thirds of all UK air travel and regional airports for about a third. This is virtually the mirror image of the UK’s population distribution. The DfT predicted that this over-concentration in the south east would reduce over the period to 2030 but only modestly so. It expected the south east’s share to decline from 66% to 60% of total national demand, viz:

<table>
<thead>
<tr>
<th>DFT’s 2003 (ATWP) FORECAST FOR UK AIR TRAVEL (mppa)</th>
<th>2000</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Total</td>
<td>181</td>
<td>501</td>
</tr>
<tr>
<td>South East</td>
<td>117</td>
<td>301</td>
</tr>
<tr>
<td>% Other regions</td>
<td>34.4%</td>
<td>39.9%</td>
</tr>
</tbody>
</table>

However, regional airports exceeded a 40% share in 2004, 26 years ahead of the DfT’s expectation and within a year of the ATWP being published. They continued to increase their share until last year, when they experienced a dip due to airlines consolidating their operations in response to the economic downturn. However, it is reasonable to assume that when growth returns, regional airports will resume the pattern of growing faster than airports in the south east.

<table>
<thead>
<tr>
<th>ACTUAL UK AIR TRAVEL 2001–08 (mppa)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

This redistribution is occurring not because of any current capacity constraints in the south east but rather, I would contend, is market led because of consumer preference to travel from a local airport. There is also a sense that those living in the regions have been under-served by their local airports in the past, in terms of the number and choice of direct flights available. Moreover, the fact that regional airports, which are there to serve two thirds of the country population, were catering for only one third of the national demand in 2000 does, of itself, suggest considerable scope for rebalancing as overall demand increases.

The redistribution of demand also in my view reflects the evolution of the no-frills carrier (“NFC”) sector. Having initially established itself and achieved commercial viability on routes from bases in the south east such as Stansted and Luton, the NFCs can now interrogate their customer databases (including, obviously, passengers’ home address details) and identify viable opportunities for direct routes from regional airports.

I can see no reason why the trend towards greater use of regional airports should not continue for the foreseeable future and at least to the point where regional airports would be handling 50% of all UK air passenger traffic, a threshold which—on current trends—seems likely to be achieved in the early 2020s.

If so, and based on national unconstrained demand of 400 mppa in 2030, then airports in the south east would need to cater for “only” about 200 mppa in 2030 compared to the current (2008) figure of 139 mppa and to 301 mppa predicted for the south east in 2030 by the DfT at the time of the ATWP. That would mean that the 100 mppa reduction in the DfT’s national forecast for unconstrained demand would fall entirely upon airports in the south east and especially upon Heathrow, which had—by far—the largest unconstrained demand in the original DfT forecasts (200 mppa by 2030). As more direct flights from regional airports become available, there will be a progressive reduction in the need for “hubbing” at Heathrow by people living outside the south east and in the need for surface access journeys to and from Heathrow.

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298 CAA Airport Statistics, Table 1 (http://www.caa.co.uk/default.aspx?catid = 1288&pagetype = 90).
299 Ibid.
Heathrow, however, seems likely to continue to dominate the UK market for long haul travel. Long haul accounts for 19% of all UK air travel and Heathrow had a 71% share of this in 2008. Even by 2030, few regional airports will have the critical mass to offer long haul services other than to the most popular destinations. That is why, in my view, the UK’s regional airports are unlikely to capture much more than a 50% share of the total UK market for air travel by 2030.

The one proviso I would make to this is that NFCs may well enter the long haul market between now and 2030 and establish point-to-point long haul services from regional airports. NFCs have shown in the past that they have an appetite for innovation and so this possibility may even be viewed as a probability. If it came to be, regional airports may be able to capture 55% of the total UK market for air travel by 2030.

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**Annex A**

<table>
<thead>
<tr>
<th>Modelled airport</th>
<th>Comparative DfT Forecasts for 2030</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 2003</td>
<td>March 2009</td>
</tr>
<tr>
<td>Heathrow</td>
<td>131.6</td>
<td>131.6</td>
</tr>
<tr>
<td>Stansted</td>
<td>70.1</td>
<td>46.5</td>
</tr>
<tr>
<td>Gatwick</td>
<td>39.4</td>
<td>40.0</td>
</tr>
<tr>
<td>Luton</td>
<td>26.8</td>
<td>16.9</td>
</tr>
<tr>
<td>Southampton</td>
<td>5.4</td>
<td>3.6</td>
</tr>
<tr>
<td>London City</td>
<td>3.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Norwich</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Sub-total: south east</strong></td>
<td><strong>277.5</strong></td>
<td><strong>244.0</strong></td>
</tr>
<tr>
<td>Manchester</td>
<td>48.0</td>
<td>40.5</td>
</tr>
<tr>
<td>Birmingham</td>
<td>30.8</td>
<td>22.5</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>21.5</td>
<td>18.8</td>
</tr>
<tr>
<td>Glasgow</td>
<td>15.4</td>
<td>15.1</td>
</tr>
<tr>
<td>East Midlands</td>
<td>12.1</td>
<td>8.8</td>
</tr>
<tr>
<td>Bristol</td>
<td>11.0</td>
<td>10.7</td>
</tr>
<tr>
<td>Newcastle</td>
<td>9.6</td>
<td>9.9</td>
</tr>
<tr>
<td>Belfast International</td>
<td>8.9</td>
<td>9.7</td>
</tr>
<tr>
<td>Liverpool</td>
<td>7.5</td>
<td>7.3</td>
</tr>
<tr>
<td>Leeds Bradford</td>
<td>6.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Prestwick</td>
<td>5.6</td>
<td>4.9</td>
</tr>
<tr>
<td>Cardiff</td>
<td>5.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Aberdeen</td>
<td>4.6</td>
<td>5.7</td>
</tr>
<tr>
<td>Belfast City</td>
<td>4.2</td>
<td>4.0</td>
</tr>
<tr>
<td>Bournemouth</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Blackpool</td>
<td>2.4</td>
<td>2.1</td>
</tr>
<tr>
<td>Coventry</td>
<td>2.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Exeter</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Durham Tees Valley</td>
<td>1.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Doncaster Robin Hood</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Humberside</td>
<td>0.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Inverness</td>
<td>0.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Newquay</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Plymouth</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Sub-total: Regions</strong></td>
<td><strong>204.5</strong></td>
<td><strong>179.6</strong></td>
</tr>
<tr>
<td><strong>UK total</strong></td>
<td><strong>482.0</strong></td>
<td><strong>423.6</strong></td>
</tr>
</tbody>
</table>

**Notes:**

(i) The DfT’s airport-specific modelling assumes some localised capacity constraints and this is the main reason for the difference between the above totals of 482.0 mppa and 423.6 mppa and its 2030 unconstrained demand forecasts of 500 mppa and 435 mppa, respectively.

(ii) The second reason for the difference is that the DfT’s airport-specific forecasts cover only the UK’s 31 main airports. Some 33 smaller airports are excluded and these handled 1.2% of total UK airport passengers in 2000. If they maintained that share, they would account for another 5–6 mppa on top of the above figures.

(iii) DfT did not provide forecasts for Blackpool, Coventry or Doncaster airports in 2003 and, for the

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301 CAA Airport Statistics, 2008, Table 12.1 (http://www.caa.co.uk/default.aspx?catid=1288&pagetype=90). Note that Heathrow had a 76% share of scheduled long haul traffic but virtually no long haul charter flights, reducing its overall share of the long haul market to 71% (2008).

302 “Passenger Forecasts: Additional Analysis”, DfT, December 2003, Annex B.10, p 70, scenario 12s2, with Blackpool, Coventry and Doncaster airports added. (Scenario 12s2 assumes a second Stansted runway in 2011–12 and a third Heathrow runway in 2016.)

303 DfT modelling file ref: “SCAB26_02c_psdh2”. (This scenario assumes a second Stansted runway in 2015 and a third Heathrow runway in 2021, ie the same as the DfT’s Dec 2003 ’12s2’ scenario except that it is assumed the new runways become available a few years later than envisaged at the time of the ATWP.)
purposes of the overall comparison, December 2003 forecasts have been assumed for these three airports on the basis of a pro rata adjustment to the March 2009 forecasts, applying the average reduction for all other regional airports.

(iv) DfT’s March 2009 forecasts obviously take no account of the revised GDP forecasts published by HMT in the April 2009 Budget Report. SSE estimates that a further 8% reduction in the 2030 demand forecast arises from the revised GDP forecasts.

(v) Totals in the table may occasionally appear not to balance but this is due to data rounding.

**July 2009**

**Supplementary memorandum by Mr B Ross (FOA 95B)**

As requested, herewith some examples of statements made by proponents of a third Heathrow runway which exaggerate the consequences for the UK economy of not proceeding with the project. That was the point I was making in my oral evidence to the Committee.

The emphasis in bold text is mine unless otherwise stated.

— “It would be economic suicide for the Government not to approve a third runway at Heathrow.”

Lord (Clive) Soley, Future Heathrow lobby group,^304^ BBC World Tonight programme, 14.01.09.

— “If we as a country turn our back on expanding Heathrow, we are throwing in the economic towel—and must prepare ourselves for the consequences of a low-growth, or perhaps no-growth, economy in the future.”

Willie Walsh, Chief Executive, British Airways, speech to Guild of International Bankers, 20.11.07.

— “Aviation is a crucial part of the economy. Abandoning runway three is a step on the road to economic suicide.”


— “There cannot be a ‘business as usual’ model at the airport due to the increased level of competition faced from other European rivals, so the alternative is a managed collapse of one of the keystones of our economy, not a prospect Unite is willing to entertain.”

Derek Simpson, Joint General Secretary, Unite, Press Statement, 15.09.08.

— “The test for the UK is to plan now for the economic upturn to ensure that we can take full advantage of it rather than be sidelined in global trading. Heathrow is vital to our ability to do that.”

Brian Wilson, Chairman, FlyingMatters lobby group,^305^ Press Release, 10.11.08.

**July 2009**

**Further supplementary memorandum from Mr B Ross (FOA 95C)**

This note relates to the evidence given to the Committee by the Secretary of State on 15 July 2009 when being questioned by Mr Hollobone on the DfT’s forecasts.

Whilst Lord Adonis was correct to say that the DfT’s forecasts go up and down according to the prevailing GDP forecasts, this does not alter the fact that the like-for-like comparison between today and the 2003 Air Transport White Paper is 400mppa vs 500mppa, both being based on the long term GDP forecasts to 2030. Moreover, the current UK GDP forecasts are considered by most commentators to be quite bullish which suggests there may be more downside risk than upside risk in the 400mppa figure.

As further clarification, the impact of the current recession on the DfT’s long term forecasts for air travel arises because it reduces the current baseline (where we start from). It does not reduce the projected GDP growth rate beyond 2010; on the contrary, HMT projects a rapid bounceback from recession with three years of growth at 3.5% (2011–12 to 2013–14) followed by a return to the UK economy’s long term trend growth rate of 2.75% per annum. HMT takes a similar approach in its GDP forecasts for the EU and rest of the world, which are also factored in to the DfT forecasts—ie that’s the basis upon which we get to 400mppa.

**July 2009**

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^305^ Members include BAA, Manchester Airport Group, Macquarie, AOA, British Airways, Virgin Atlantic, Flybe, Easyjet, Monarch, Thomas Cook, Tui, Emirates, DHL, BIFA, FTO, BATA, ABTA, BAR UK, ACTE, BBGA, GTMC, Airbus, Boeing UK, Rolls Royce, SBAC, Amicus, GMB, TGWU, TUC & Tourism Alliance.

^306^ Budget Report 2009, para B.51 and Table C1, noting that the latter sets out the economic assumptions for the public finance projections and, in the interests of caution, uses the lower end of the 31% to 34% GDP forecast range (as explained in para 2.32 of the Budget Report).
Memorandum from UK Youth Parliament (FOA 96)

The UK Youth Parliament surveyed 124 young people (11–18 years) across the UK in June 2009 to find out how they feel about the future of flying. The results are as follows:

Q. When asked “what do you think is the biggest problem with the flying industry?” The majority (63%) of young people said climate change. Other issues were expense and the fear that the plane may crash.

Comments included:

Causing climate change is really important it’s sooo bad!!!!!!!!!

It’s an incredibly inefficient way to travel, particularly as the planes currently are one of the LEAST eco-friendly models possible.

The staff, the waiting, the ear popping, the meals etc but the biggest is climate change.

Young people said that the biggest benefit of the flying industry was that it was the quickest way to travel (44%) and meant that we had access to seeing different parts of the world (31%).

Q. When asked “Have you ever considered a career in aviation?”, 57% said no.

Some of the responses when asked why were:

Too much global warming. We really don’t need to fly. All measures should be taken to stop it. I like what a local representative said about going on a family holiday to Spain being as bad as going out and killing someone in the street.

Because I feel that it is a very dangerous job in which because of a mistake that you may have made it could cost the lives of the many innocent passengers on the plane, whether your on there or not because you could cause this as the engineer, air traffic or pilot.

Because it isn’t something I have thought about and I don’t think I could because the dangers and being away from home for long periods of time! And it seems quite boring and repetitive.

I don’t want to support the aviation industry in any way, which includes a career in the industry, as it greatly contributes to climate change. By working in aviation, you are giving the government a more legitimate reason for its expansion (because it provides jobs).

I do not think it would make for an enjoyable, healthy or sustainable lifestyle.

Dangerous environment—terrorist target.

Because of bombs.

Q. When asked “would you consider taking a train rather than a flight for a short distance?” 87% said yes.

Some of the reasons stated:

Because trains are considerably cheaper, there is no need to fly, it is much better for the environment, it is much more relaxed and comfortable and doesn’t make your ears pop.

Because the train will be cheaper and its not worth causing large amounts of co2 for a short distance, this is more effective in the long-term.

I would always consider it, but in some cases conclude flying is more suitable. If it’s within England, I’d prefer to get a train, if I was going to Scotland I would chose to fly on the grounds the flight is cheaper than the train ticket.

Short-haul flights should be abandoned and replaced by cheaper train journeys.

Because it would be cheaper, easier and would be greener.

Its soooooo much better for the environment I want to have a good future not one where everyone is at war with each other about fossil fuels and trillions are dying of drought!! I also think they are more sociable and you get to see the environment you are in.

Train stations are much easier to get to than an airport. They are also much more environmentally friendly, especially if the infrastructure is built properly. I also enjoy train journeys much more.

It generally seems a lot safer.
Supplementary memorandum from High Speed Two (HS2) Limited (FOA 97)

INTERNATIONAL AIR PASSENGER TRAFFIC
TO AND FROM REPORTING AIRPORTS FOR 2008

<table>
<thead>
<tr>
<th></th>
<th>Amsterdam</th>
<th>Paris</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edinburgh</td>
<td>465,654</td>
<td>279,476</td>
</tr>
<tr>
<td>Glasgow</td>
<td>314,759</td>
<td>118,879</td>
</tr>
<tr>
<td>Newcastle</td>
<td>289,550</td>
<td>196,214</td>
</tr>
<tr>
<td>Manchester</td>
<td>462,697</td>
<td>464,141</td>
</tr>
<tr>
<td>Birmingham</td>
<td>492,393</td>
<td>339,541</td>
</tr>
</tbody>
</table>

Sourced from: UK Airport Statistics 2008—annual