



House of Commons
Transport Committee

**Aviation strategy:
Government Response
to the Committee's
First Report of Session
2013–14**

**Sixth Special Report of Session 2013–
14**

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The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are Mark Egan (Clerk), Farrah Bhatti (Second Clerk), Richard Jeremy (Committee Specialist), Helen Agnew (Senior Committee Assistant), Adrian Hitchins (Committee Assistant), Stewart McIlvenna (Committee Support Assistant) and Nick Davies (Media Officer)

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First Special Report

On 11 July 2013 we received a response from the Government to the Transport Committee's First Report of 2013-14, *Aviation strategy*.¹

Government Response

Introduction

The Department for Transport is pleased to have the opportunity to respond on behalf of HM Government to the conclusions and recommendations of the Transport Committee's ("the Committee's") Aviation Strategy. The Department along with HM Treasury welcomes this report, and the contribution it has made to the debate around aviation's valuable contribution to the UK economy and the way to secure these benefits for the future.

Growth in demand

Recommendation 1. Growth in demand for air travel is inevitable. The UK is currently well connected to the rest of the world but there is no room for complacency at a time when the UK's hub airport is faced with increasing global competition. Building greater capacity—in the form of new runways, terminals, or airports—takes time. It would therefore be prudent to acknowledge the long-term upward trend in demand for air travel and act now to maintain the UK's international standing in aviation. We set out our recommendations on how this should be achieved later in our report. (Paragraph 27)

The Government acknowledges the long-term upward trend in the demand for air travel. The DfT report *UK Aviation Forecasts* (January 2013) provides a central forecast for passenger numbers at UK airports to increase from 221 million in 2012 to 315 million in 2030 and 445 million by 2050. The Government established the independent Airports Commission, led by Sir Howard Davies, to examine options and make recommendations that will maintain the UK's status as a leading global aviation hub through into the long term. This requires long term thinking and consensus building.

Recommendation 2. While forecasting is inherently uncertain we have no reason to doubt the overall analysis of national demand. There are, however, questions remaining about the long-term forecasts. We welcome the Airport Commission's discussion paper on aviation demand forecasts and hope that the Commission will address some of the anomalies we have identified. We note that it is important that the drivers of hub demand are better understood as this will help to identify the extent to which hub demand might be relocated. (Paragraph 35)

The Government through the Department for Transport is currently working on developing its aviation forecasting model to better represent the choices available to international transfer passengers. The aim is to better model the competition between

1 HC 78, published on 15 May 2013

overseas and UK hub airports which should help address the Committee's concern which was also raised in the Airports Commission's discussion paper on demand forecasts.

Dealing with the impacts of growth

Recommendation 3. Aviation can and should be permitted to grow. Despite existing spare capacity, demand could not easily be switched between different geographical locations. We therefore consider that an increase in capacity will be necessary to accommodate sustainable aviation growth. We recommend that any future plans for increased aviation capacity take into account progress on global initiatives to deal with emissions. (Paragraph 40)

The aviation sector is a major contributor to the economy and the Government supports its growth within a framework which maintains a balance between the extensive benefits of aviation and its costs, particularly its contribution to climate change and noise.

The Government outlined this framework with the publication in March 2013 of the Aviation Policy Framework. This document sets out the Government's policy to enable the aviation sector to continue to make a significant contribution to economic growth across the country.

The UK currently enjoys excellent aviation connectivity both on a point to point basis and through the London hub. The five airports serving London offer at least weekly direct services to over 360 destinations worldwide; more than either Paris, Frankfurt or Amsterdam. We have the third largest aviation network in the world after USA and China.

The Government established the Airports Commission, led by Sir Howard Davies, to examine options and make recommendations that will maintain and secure the UK's status as a leading global aviation hub through into the long term. The Airports Commission will look at the issue of capacity and hub status in a way which seeks to establish a broad consensus on the solution. The Government is awaiting the interim report of the Airports Commission at the end of this year and the full report in the summer of 2015. The Government does not intend to prejudge any of the Commission's work or possible recommendations and therefore will not be able to comment on some of the Committee's recommendations at this time.

Recommendation 4. Stacking of aircraft, particularly over London, generates unnecessary emissions. We recommend that NATS carry out modelling work to identify the extent to which stacking might be reduced if an additional runway is built at Heathrow. This work should be reported to the Airports Commission, ahead of its final report. (Paragraph 42)

The Government notes this recommendation. We are aware that NATS is undertaking work for the Airports Commission. The nature of that work however is entirely for the Airport Commission to decide on. The Government will carefully consider any recommendations that the Airports Commission may choose to make on this issue.

Recommendation 5. We recommend that airport operators develop action plans to reduce air pollutants that are generated by vehicles travelling within airports. These should include a timeline for the introduction of low carbon airport vehicles, including

aircraft towing vehicles. We note that many airports already produce surface access strategies setting targets for reducing the number of staff and passengers travelling to and from airports by car. Where air pollutants exceed EU limits Government should draw up plans to ensure that EU limits are met. (Paragraph 44)

The Government is committed to achieving full compliance with European air quality standards. With regard to the impact of aviation related emissions on air quality, our policy is to seek improved international standards to reduce emissions from aircraft and vehicles and to work with airports and local authorities as appropriate to improve air quality

EU air quality limits are met in the vicinity of all UK airports except for nitrogen dioxide (NO₂) levels in the vicinity of Heathrow.

Heathrow Airport has in place an Air Quality Strategy to help meet compliance with EU limit values at sites around Heathrow and works closely with central and local Government to achieve goals set out in the strategy and reduce NO₂ emissions.

Many of the other larger UK airports also have already in place air quality plans and airport surface access strategies to help reduce the impact of emissions on air quality.

Recommendation 6. Aircraft noise is an annoyance to a large number of people. We note that airlines value an aircraft's environmental performance and that new aircraft are quieter than their predecessors. Aircraft manufacturers should continue to develop quieter aircraft and, to facilitate this, we recommend that the Government seek to influence global noise standards through its involvement with the International Civil Aviation Organization. Airports should encourage airlines to take older, noisier aircraft out of service at the earliest possible opportunity. (Paragraph 51)

The Government supports the use of ICAO standards to encourage manufacturers to develop and market quieter aircraft. In February 2013 largely as a result of pressure from the UK, officials secured agreement to a new standard that is both tighter to meet and enters into force earlier than many other states wanted. The more forward thinking airlines will now be ordering aircraft aiming to meet and exceed the Chapter 14 standard. Given that new aircraft types applying for certification after 30th December 2017 must meet this new standard we are already planning how and when a further stringency increase might be assessed.

Airports are able to set differential landing charges to reflect environmental impacts and many do so. For example, Heathrow Airport's Noise Action Plan has a target to achieve 97% Chapter 4 equivalent aircraft by 2015 and the airport uses differential landing charges as an incentive to airlines to use quieter aircraft. Chapter 4 remains the current minimum certification requirement until Chapter 14 replaces it. The Government's Aviation Policy Framework states that airports should consider using differential landing charges to incentivise quieter aircraft. The Department for Transport has asked the CAA to investigate the use of these charges and the CAA will be publishing their findings later this year.

Recommendation 7. We urge the Civil Aviation Authority immediately to review existing flight paths and landing angles to reduce noise pollution, especially over London. (Paragraph 52)

The Government has noted the recommendation for the Civil Aviation Authority to immediately review existing flightpaths and landing angles to reduce noise pollution, especially over London. We anticipate that the CAA will respond to this in the context of its Future Airspace Strategy as will NATS with its London Airspace Management Programme (LAMP).

Recommendation 8. People living in the vicinity of airports must be properly compensated—for example through the provision of noise insulation—for the noise annoyance they experience, especially when growth in Air Traffic Movements at a given airport result in the level of noise they experience increasing significantly. We recommend that the Government and the aviation industry develop a comprehensive nationwide approach to noise compensation. As part of this work, an assessment should be made of the minimum standards of compensation that are acceptable, and of the costs and benefits associated with providing different types of compensation to those experiencing different levels of noise (for example, 55 dB Lden and 57-63 dB LAeq16h). We consider that this work should be carried out in parallel with the work of the Airports Commission so that the compensation package is clearly defined by the time the Commission makes its final recommendations. (Paragraph 53)

The Government's Aviation Policy Framework sets out the minimum levels of noise exposure at which airports should offer financial assistance towards noise insulation or moving costs, including in the case of airport developments which lead to an increase in noise. The Government also expects airport operators, to review their schemes to ensure they remain reasonable and proportionate including where compensation schemes have been in place for many years and where there are few properties still eligible for compensation.

As circumstances will vary from airport to airport, the Government does not believe that it would be appropriate develop a 'one size fits all' national compensation scheme. However, our Aviation Policy Framework recognises that any proposals for new nationally significant airport development that may emerge from the Government's response to the Airports Commission may require the consideration of tailored compensation schemes, which would be subject to separate consultation. We note in its discussion paper on aviation noise, published on 4 July 2013, that, the Airports Commission has asked how a system of fair, robust compensation arrangements can be established in relation to the addition of aviation capacity to the UK.

The case for capacity at the UK's hub airport

Recommendation 9. The UK's hub airport is of great importance to all the regions of the UK. It plays a unique role in connecting the country to the rest of the world—a role that could not be adequately fulfilled by a non-hub airport. It is imperative that the UK maintains its status as an international aviation hub. (Paragraph 56)

As previously stated the Government believes maintaining the UK's excellent international connectivity is important and the Airports Commission is investigating the importance of a "hub" to this in the longer term. The recent public Airports Commission Dissection Paper 4 on airport operational models sought views on this topic. The Government notes the Committee's view on the role a hub plays.

Recommendation 10. There is a specific capacity problem at Heathrow Airport. It is the UK's only hub airport, it has been short of capacity for a decade, and it is currently operating at full capacity. Furthermore, there is a lack of capacity to meet demand during peak hours across all airports in the south east. There may be some scope to shift small business aircraft to designated business airports. However, this will have limited impact. The vast majority of aircraft movements at Heathrow are commercial flights, which carry a mixture of leisure passengers, business passengers and cargo. It is therefore impractical to suggest that Heathrow's capacity problem can be resolved by shifting commercial flights of a "specific" type (for example, leisure flights) to another airport. Furthermore, we note that airlines make decisions on where services operate based on commercial reasons. We also note that some non-hub airports may have a role to play in providing flights to emerging markets and that the HS2 rail project offers the potential for other airports such as Birmingham and East Midlands to attract more passengers from London and the South East. For example, with HS2 the rail journey time from central London to Birmingham airport will be less than 40 minutes, not dissimilar from journey times to the main London airports. This, however, is not a substitute for increased hub capacity. (Paragraph 33)

The Government, in its Aviation Policy Framework, identified a number of strategies aimed at making the best use of the existing airport capacity in the South East of England. This includes measures to improve performance and resilience at Heathrow. The Government welcomes and agrees with the Committee that there is scope for other airports to attract a growing range of services including long-haul services to emerging markets. The Government believes that these airports do have a role to play in relieving some of the strain on South East airports through increased passenger choice. The Government notes the Committee's view that additional hub capacity is required.

Recommendation 11. Any increase to capacity at the UK's hub airport must address the need to improve airport resilience, particularly in the event of bad weather, but this should not restrict the overall benefits derived from increasing runway capacity. (Paragraph 57)

The Government notes this recommendation with regard to any future capacity. We can confirm that Heathrow Airport has already incorporated all fourteen recommendations from the 2011 independent *Heathrow Winter Resilience Enquiry* (chaired by Professor David Begg) as part of a £50million improvement programme, and by January 2013 had invested over £36million of this on more snow clearance vehicles, improved operational command and control procedures, and passenger welfare arrangements. These improvements have enabled Heathrow to reduce disruption significantly compared to 2010. Moreover the Civil Aviation Act 2012 that this Government introduced now permits the Civil Aviation Authority to include operational resilience conditions, including in relation to weather, in licences for the operators of economically dominant airports. The CAA has set out and consulted on how it proposes to do this in respect of Heathrow.

Notwithstanding these improvements, the Government acknowledges that Heathrow Airport is likely to continue to experience some measure of disruption during severe weather events due to the airport operating so close to its full operational capacity.

Option 1: A new hub airport to the east of London

Recommendation 12. While there is some support for a new hub airport to the east of London we note that there are significant challenges associated with such a development. These include: designating airspace in an already crowded environment, mitigating birdstrike, and dealing with environmental challenges such as potential future sea-level rise and the risk of flooding. There are also potential impacts on habitats in and around the Thames estuary to take into account. Furthermore, uncertainty remains over the number of people that would be affected by noise from a new hub airport as both it and the surrounding community grew. (Paragraph 66)

Recommendation 13. We reject the proposal for a new hub airport east of London, in part due to the challenges described above, but primarily on the following bases:

- a new hub airport will not be commercially viable without significant public investment in new infrastructure, as shown by the research we commissioned;
- a new hub airport will only be viable if Heathrow closes as a commercial airport;
- a new hub airport will increase passenger movements from centres of population, potentially generating more carbon emissions as passengers have to travel further to and from the terminals; and
- the closure of Heathrow would, in our view, be unacceptable due to the impact on the local economy and the huge disruption caused by the potential relocation of businesses and individuals in the vicinity of Heathrow.

We are also unconvinced that the aviation industry—which would ultimately pay for using the new hub through airport charges—would support a new hub airport at the level of costs which are likely to be required. It should not be assumed that all traffic would automatically transfer from Heathrow to a new hub as many passengers, particularly those with journeys originating in or destined for west London, might choose to use Gatwick, Birmingham, Bristol, Cardiff, Exeter or Luton airports instead, even if that meant connecting through a hub airport overseas. (Paragraph 67)

The Government notes the Committee's view on this topic. The Government does not intend to pre-empt the work of the Airports Commission by commenting on potential longer term capacity solutions.

Option 2: A split hub airport

Recommendation 14. We conclude that a split hub would not be a viable solution to the hub capacity problem and we reject these proposals. (Paragraph 68)

The Government notes the Committee's views on this topic. The Government does not intend to pre-empt the work of the Airports Commission by commenting on potential long term capacity solutions.

Option 3: Expansion of existing airports

Recommendation 15. We note that since the change in ownership, Gatwick has attracted new long-haul services and is keen to compete with Heathrow. We note Gatwick's vision for a second runway and we encourage the airport's operator to develop a robust business case to demonstrate the role that a two-runway airport could play in increasing airport competition. However, on their own, new runways distributed across a number of airports will not provide a long-term solution to the specific problem of capacity at the UK hub airport. (Paragraph 72)

The Government notes the Committee's views on this topic. The Government does not intend to pre-empt the work of the Airports Commission by commenting on potential long term capacity solutions.

Our conclusions on the expansion of Heathrow

Recommendation 16. The current situation is unsustainable. A two-runway hub airport is not adequate for the needs of the UK. We have considered the options put to us and on the basis of the evidence we have heard we recommend that the Government allow Heathrow to expand. Heathrow is the jewel in the crown of international aviation and we believe that a third runway is long overdue. British businesses are overwhelmingly in favour of this option. An expanded Heathrow might require improvements to surface access that would build on existing infrastructure and we make recommendations on this subject later in our report. (Paragraph 76)

Recommendation 17. We note the concerns that a third runway at Heathrow may not be sufficient to meet long-term increases in demand. However, we do not believe that question can properly be addressed until we can more accurately predict the long-term changes in demand resulting from factors such as HS2 in rebalancing the economy and making airports in the Midlands more accessible, and from the potential of additional capacity at other airports such as Gatwick. This, however, does not remove the real need for a third runway at Heathrow to address capacity constraints in the foreseeable future. (Paragraph 77)

Recommendation 18. We acknowledge the very real environmental concerns that have been expressed by residents living in the vicinity of Heathrow. People affected by noise from an expanded Heathrow must be adequately compensated and our recommendations on noise compensation are set out in paragraph 53. (Paragraph 78)

Recommendation 19. We would also like the Airports Commission to assess what conditions may realistically be applied to an expansion of Heathrow in order to mitigate noise pollution. (Paragraph 79)

Recommendation 20. We have also considered the proposal to build new runways at Heathrow 3 km to the west of the existing site. While there is currently not much

detailed information on this proposal we believe that it has merit, particularly as relocating the runways could reduce the noise annoyance currently experienced by people affected by the flight path. We recommend that the Government also consider the option to expand Heathrow to a four runway airport to the west of the existing site. We recommend that the Airports Commission assess the feasibility of this proposal and its implications on noise levels. (Paragraph 80)

The Government notes the Committee's view on this topic. The Government does not intend to pre-empt the work of the Airports Commission by commenting on potential long term capacity solutions.

Where the Committee has suggestions for topics and factors that it feels the Airports Commission should look at or investigate further, the Government would encourage the Committee to submit these directly to the Airports Commissions for consideration, if it has not already done so.

Recommendation 21. We welcome changes to operational procedures at Heathrow that will make the airport more efficient and more resilient. Some changes, such as the introduction of mixed-mode operations, may help in the short-term to address the capacity problem. However, mixed-mode operations are inherently undesirable because they deprive local residents of periods of respite from aircraft noise. We recommend that the Government consult residents in the vicinity of Heathrow Airport and others affected by noise under the flight path before any final changes to operational procedures are introduced. (Paragraph 82)

Our desire is to strike the right balance between enabling Heathrow, the UK's biggest and busiest airport, to operate as effectively as possible and to protect local communities from its environmental impacts. This is why in September 2010 the Coalition Government made clear its commitment to runway alternation at Heathrow.

The Government agrees that changes to operational procedures at the airport can have significant benefits. For example, we confirmed the ending of the Cranford agreement, an informal but long standing agreement not to use the northern runway for departures when the wind was from the east. Once the enabling works have been completed by the operator, this will distribute noise more fairly around the airport by extending the benefits of runway alternation, and deliver operational benefits by letting the airport operate consistently whether there are easterly or westerly winds.

In addition, we have also completed an 11 month, phased trial of operational freedoms at Heathrow involving the more flexible use of its runways and departures routes. The results of the trial are being analysed by the airport operator and CAA and an announcement on a consultation will be made in due course.

Surface access to airports

Recommendation 22. Surface connections to major airports in the south east are poor. Road access to each of these airports is far from optimal. In terms of rail access, Gatwick and Stansted are on already congested commuter lines. Heathrow is not yet on the national rail network (with the exception of the limited Heathrow Express rail link which connects to London Paddington), although it will shortly be served by Crossrail

and a western rail access to Reading and the Great Western network was announced in July 2012. Our view is that Gatwick and Stansted should each be served by a dedicated express rail service that is fit for purpose. (Paragraph 85)

Recommendation 23. While the Government has identified the need to improve railway links to major airports as one of its strategic priorities for Control Period 5 it does not go far enough in setting out exactly what its strategy is. In preparation for the next control period, we recommend that the Government develop a coherent strategy to improve road and rail access to the UK's major airports. As part of this, an assessment should be made of the surface access requirements from the growth of aviation, and in particular, the changes to surface access infrastructure that will be necessary if Heathrow expands. The Government should ensure that the service requirements of major UK airports are incorporated into future rail franchise agreements with rail operators. Also, if as we recommend Heathrow is allowed to expand, the Government must ensure that the High Speed 2 rail network serves Heathrow. (Paragraph 86)

The Government does not agree with the Committee's view that surface access to major airports in the south east is poor. In particular, we feel that it is inaccurate to describe the Heathrow Express service as "limited" – newly refurbished trains run between London Paddington and Heathrow every 15 minutes, with 94% of passengers describing the service as good or satisfactory.² As the Committee notes Network Rail is also continuing to develop plans for a western rail connection to Heathrow as announced in the 2012 Rail Investment Strategy.

In addition, there are good national road links to south east airports and the Government has set out plans to further improve the M25, M4, M3 and M23.

Gatwick and Stansted Express services operate every 15 minutes to central London. A £53m project to enhance Gatwick Airport station (including two new platforms) is due to be completed this year. Stansted Express services are now operated exclusively with new class 379 rolling stock.

As well as linking Gatwick and Stansted with central London, the Brighton Mainline and West Anglia Mainline provide essential services for commuters and local users. Any proposals to provide dedicated airport express services must therefore be carefully designed to take account of the needs of all passengers.

The development of our long term strategy for surface access to airports will be subject to further development on the basis of the findings of the Airports Commission. However, we will continue to encourage existing rail operators and bidders for new franchises to engage with airports to improve services.

The Government's position is to support access to Heathrow through high speed rail, for example by constructing a spur off the main HS2 line as part of Phase Two of the HS2 network. However, the Government has since established the Airports Commission to recommend options for maintaining the country's global hub status. We have therefore

taken the decision to pause work on the spur to Heathrow until after 2015 when we expect the Airports Commission to publish its final report

Airports outside the south east

Recommendation 24. There is a potential role for local authorities and Local Enterprise Partnerships to ensure that there is robust research on demand for new routes and to ensure that this is communicated to airlines. (Paragraph 88)

We note the Committee's recommendation and would consider that there is scope for local authorities and Local Enterprise Partnerships to work closely with aviation stakeholders in their localities to encourage the best possible information on likely demand for air routes. Such collaboration would need to be determined locally.

Recommendation 25. We recommend that the Government take a more active role in promoting airports outside the south east, however, this seems to be at odds with the DfT prioritising the views of British based airlines who have objected to new international routes to our regional airports. (Paragraph 89)

We note the Committee's recommendation that the Government should take a more active role in promoting airports outside the south east. Promotion of such airports is already included in our bilateral air services negotiations with countries outside the EU. Of course, whether or not to operate is a commercial decision and, ultimately, market forces determine whether or not a route is viable. However, to enable airlines to be able to make such commercial decisions, we seek to ensure in our negotiations with countries outside the EU that that the necessary traffic rights are available and that our bilateral agreements are not burdened by archaic administrative, commercial or legal barriers to market entry. When preparing for such negotiations, we consult a range of stakeholders, including UK airports. Our prime consideration is what might be in the overall best interests of the UK consumer, not just, for example, UK airlines. Nevertheless, this does not mean that airlines from outside the EU should be granted traffic rights automatically. Strict rules on fair competition and state aid are a fundamental determinant for access to the European single aviation market. With this in mind, we work hard in our bilateral air services arrangements to negotiate and agree provisions designed to help ensure fair competition and a level playing field.

More broadly, the Government's Aviation Policy Framework, published in March, affirmed that we want to see the best use made of the UK's existing airport capacity, and therefore supports the growth of airports in Northern Ireland, Scotland, Wales and airports outside the South East of England. The Aviation Policy Framework recognises the important role of these airports in helping to accommodate the wider forecast growth in demand for aviation in the UK, which could help relieve some pressure from London's main airports. The availability of direct air services locally from these airports can reduce the need for air passengers and freight to travel long distances to reach larger UK airports

The Aviation Policy Framework also recognises the vital contribution that these airports can make to the growth of regional economies by acting as focal points for business development and employment providing rapid delivery of products by air and convenient access to international markets.

However, the Aviation Policy Framework also acknowledges that the development of airports can have negative as well as positive local impacts, including on noise levels. We therefore consider that proposals for expansion at these airports should be judged on their individual merits, taking careful account of all relevant considerations, particularly economic and environmental impacts.

Recommendation 26. We welcome the Government’s moves towards further liberalisation of air service agreements. However, we question whether the current approach goes far enough in reducing the barriers faced by airports outside the south east that are trying to secure new routes and still leaves the door open for UK airlines to restrict access by claiming unfair competition. An open skies policy which allowed airlines from foreign countries to land and pick up new passengers to a third destination would make some routes commercially viable which they would not be on a point-to-point basis. There are arguments for the introduction of an unrestricted open skies policy outside the south east, covering both point to point services and fifth freedom rights, and we recommend that the Airports Commission assess the impact that such a policy would have. (Paragraph 93)

The Government notes that the Committee recommend that the Airports Commission should assess the impact of an unrestricted open skies policy outside the south east, covering both point to point services and fifth freedom rights. Whether they choose to do so is of course a matter for the Commission. The UK has long had a general presumption in favour of liberalisation, unless there are very good reasons³ otherwise and before deciding whether to grant additional traffic rights we consult not just UK airlines but a range of stakeholders, including UK airports, as part of determining what is in the overall best interests of the UK consumer. Strict rules on fair competition and state aid are a fundamental part of the open market access granted by the European single aviation market, and, on the face of it, it would appear odd to apply less strict rules to the grant of open market access to the UK by non-European airlines.

Recommendation 27. Transferring through overseas hubs provides customers in regions outside the south east with connectivity that they cannot at present achieve through the capacity constrained UK hub airport. We hope that as capacity increases at the UK’s hub airport, connectivity between London and other UK regions improves. In the short term, the Government should investigate whether it would be possible—within the framework of current European regulations—to protect slots at Heathrow for feeder services from poorly served regions. (Paragraph 96)

In circumstances where vital air connectivity between regions would be lost, the EU airport slot regulations (the EU regulations), and the associated UK implementing regulations (the UK regulations), provide some scope to protect regional air services by allowing Member States to impose public service obligations (PSOs) to protect air services to airports serving a peripheral or development region, or on thin routes considered vital for a region’s economic and social development (EC Regulation 1008/2008). Where a PSO has been approved, this would permit slots to be ring-fenced at a London airport.

3 See paragraphs 1.35 and 1.81 of the Aviation Policy Framework (Cm 8584) published in March 2013

We stated in the Aviation Policy Framework that we would be inclined to support applications by devolved administrations and regional bodies to establish a PSO on an air route to London, provided that this complied with the specific conditions for Public Service Obligations set out in EU law. We also announced as part of the 2013 Spending Round that where the case for a PSO to support an air link to London has been made, the Government will agree, subject to periodic review, the appropriate level of funding support it will provide alongside regional support.

In the context of the European Commission's proposals to recast the EU Slot Regulation (included within its *Better Airports Package*) the UK has highlighted the issue of regional connectivity and has sought the inclusion of measures to help to secure the ongoing provision of regional air services to congested London airports. However, it has proved challenging to devise a mechanism to protect commercially viable air services without seriously impairing and distorting the aviation market and competition across Europe.

There is no other mechanism for the Government to intervene in the allocation of slots at airports.

Recommendation 28. We are disappointed to hear that the CAA proposes to increase charges for nondesignated airports, particularly given that we were previously assured that the CAA was looking to reduce its costs and burden to industry. We consider that higher charges for these airports risk making them less attractive to airlines if passed on or, more likely, impact on their ability to operate profitably. We recommend that the CAA reconsider the need to impose these charges. (Paragraph 99)

The issue of charges is a matter for the CAA. However the Civil Aviation Act 2012, introduced by this Government, brought about two changes that should be welcome to aerodromes subject to the CAA's charging schemes.

Firstly the Act introduced a statutory obligation on the CAA to consult charge-payers on its charging schemes. While in practice the CAA has always carried out full consultation; aerodromes, airlines, and others affected by CAA charging schemes now have the comfort of a statutory right to be consulted before the CAA introduces a new or amended scheme. After both the industry and the Secretary of State have been consulted, charging schemes can only come into force 14 days after the CAA has published them.

Secondly from 1 April 2014 the CAA will be required to report on its efficiency more transparently than before. The CAA has already been required to report annually to the Secretary of State. From next year the Act require that the annual report contains both a statement by the CAA about efficiency in the performance of its functions, and also an assessment by the CAA's auditors of that statement.

The report is both laid before Parliament and published on the CAA's website, so that those who are subject to CAA's charging schemes can read both how the CAA reports on its efficiency, and the assessment that its independent auditor makes on that report. The Act also provides the Secretary of State with powers to direct the CAA about the matters that must be covered in the efficiency statement. Taken together, these changes provide for better transparency of the CAA's efficiency measures and better accountability for both charging and efficiency.

Air passenger duty

Recommendation 29. We recommend that HM Treasury conduct and publish a fully costed study of the impact of APD on the UK economy. We would, in particular, like to know what the Government’s view is of the PwC conclusion that abolishing APD would pay for itself by increasing revenues from other sources. If such a study produces clear evidence that APD has a negative effect on the UK economy and Government revenue, we recommend that APD is significantly reduced or abolished. (Paragraph 105)

The Government disagrees with the findings of the PwC report. The Government believes that abolishing APD would have a smaller impact on GDP than the report implies and would cause a net loss of tax receipts. This reduction in receipts would need to be paid for through tax rises or spending cuts elsewhere, which would themselves have an economic impact. Furthermore, in contrast to PwC, the Government considers that APD is a relatively efficient and non-regressive tax. Abolishing it could, therefore, require us to increase more distortive and regressive taxes.

The Government has no plans to undertake a review of the economic impact of APD at this point. Rather than examining specific taxes in isolation, Government’s focus is on improving the efficiency and competitiveness of the tax system as a whole in order to achieve its objective of having the most competitive tax system in the G20. The 2012 KPMG Annual Survey of Tax Competitiveness looked at the tax regimes of six key competitor economies – including Ireland and the US - and found that the UK was the most commonly cited as being in the top three

Recommendation 30. There are complex issues and vested interests to be taken into account in any consideration of the merits of differential rates of Air Passenger Duty. We recommend that the Government carry out an objective analysis of the impacts such a policy might have. On the other hand, we see merit in the concept of an APD holiday and recommend that this be introduced for a 12-month trial period for new services operating out of airports outside the south east. After this time, the DfT should assess the extent to which it has led to the development of new routes. (Paragraph 106)

Changes to the structure of APD were considered as part of the 2011 consultation. Within the consultation, stakeholders were invited to demonstrate how any changes would promote more balanced economic growth. Some regional airports called for higher APD rates at congested airports in the South East, to encourage passengers to use less congested airports in the regions instead. However, the majority of airlines who responded were opposed to any regional variation of rates, arguing that it would distort the market without materially affecting decisions about where services are located.

More recently, a research report by HMRC ‘Modelling the effects of price differentials at UK airports’ provided valuable new evidence, which suggested that significant passenger redistributions to regional airports would only occur if APD rates at Heathrow and Gatwick increased substantially – for example by 50% or more. The report also suggested that, even with substantially higher rates at Heathrow and Gatwick, the benefits of passenger redistributions would not be widespread around the country but that the benefits would not be widespread around the country. In fact, some regional airports could lose out, with traffic and services going to other competing regional airports.

The Government is not convinced that varying APD rates by levels of airport congestion would materially help in rebalancing the economy across the regions. Budget 2013 announced that the Government has no plans to vary APD rates by levels of airport congestion. An ‘APD Holiday’ would be likely to lead to similar effects on passenger re-distribution and may also result in a shortfall in essential Exchequer tax receipts.

Recommendation 31. While we accept the need to devolve responsibility for Air Passenger Duty (APD) in Northern Ireland, we do not support further devolution of APD at this stage as it may have negative impacts, for example, in the north of England. (Paragraph 107)

The decision to devolve direct long-haul rates to Northern Ireland takes into account the country’s unique position, being the only part of the UK sharing a land border with another EU Member State, which has a lower rate of aviation tax. However, in response to the 2011 consultation on APD, a substantial number of stakeholders raised concerns about devolution complicating the APD system and creating distortions in the market for flights.

The HMRC report, referred to above, also suggested that devolution of APD could lead to market distortion as a result of passenger re-distributions between UK airports, without substantially increasing demand for aviation overall. The Government, believes that this is a complex issue that requires continued careful evaluation, if we are to be confident of the effects of devolution of APD across the UK as a whole. The Government has previously stated that it will only proceed with tax devolution where it has cross-party support, is based on evidence, and isn’t to the detriment of the UK as a whole

Our concluding remarks

Recommendation 32. It is immensely disappointing that a decade after the publication of the 2003 White Paper and the then Government’s decision to support a third runway at Heathrow, the UK is still faced with the unresolved problem of aviation capacity. Following decades of policy papers, inquiries, taskforces, and commissions, it is the lack of a long-term cross-party political strategy for aviation that is principally to blame for the very real danger that the UK could lose its status as an international hub for aviation. (Paragraph 108)

The Government accepts that aviation capacity, particularly in the south east, has been a controversial and difficult area to address for many years. However, the UK continues to enjoy excellent aviation connectivity and there remains a large amount of available capacity at present, including in the London area. However, as previously explained, the Government is determined to ensure that we retain our world leading connectivity in the long term. The desire to establish cross-party support was an important factor in our decision to establish the Airport Commission and choosing to make it independent of Government.

Recommendation 33. We have heard evidence from the main players in aviation and many other interested parties. We have found that there is a clear need for greater capacity at the UK’s hub airport. Our view is that a new hub airport should not be built at this time. A split hub is not a viable option. Although high speed rail connections within the UK and to the near continent, if properly connected to our main airports,

present opportunities to achieve a modal shift from domestic and short-haul international flights, thereby releasing additional capacity for long-haul routes. A third runway at Heathrow is necessary to meet existing and future demand that can be reasonably predicted. Longer term, further work is required to assess whether further expansion at Heathrow, potentially via a new airport to the west of the current site, is required. We recommend that the Airports Commission obtains this information so that an evidence-based decision can be made. (Paragraph 109)

The Government notes the Committee's conclusions on several long term capacity solutions. The Government trusts that the Committee will understand that the Government is not commenting on the potential long term capacity solutions, raised by the Committee, at this stage out of a desire not to pre-empt the work of the Airports Commission, rather than any other motive. As such Government would like to once again thank the Committee for its contribution to the debate.

Recommendation 34. It is less than ideal that the Airports Commission is working to a protracted timetable, with a final report not to be produced until after the 2015 General Election. We could complain that this is yet another example of important decisions on aviation being kicked into the long grass, but instead we challenge the Commission to use this opportunity to, once and for all, provide a robust and independent evidence base for future decisions. It is our hope that the Commission will produce an evidence base that is widely accepted across the political spectrum, and clear recommendations for action. The challenge for the post-2015 Government will be to quickly get to grips with the recommendations of the Airports Commission and not seek excuses for further delay. (Paragraph 110)

The Government welcomes the fact that the Committee has recognised the scale and scope of the work that the Airport Commission is undertaking. The Government is satisfied that the Airports Commission has set about gathering and establishing a robust and exhaustive evidence base to support any recommendation that it may make. The Commission has within its terms of reference a requirement to produce documents for a potential National Policy Statement in support of any recommendations. This will ensure that the Government of the day can take forward any recommendations it accepts quickly. Lastly the Government shares the hope that any recommendations are widely accepted across the political spectrum and believes the approach it has taken in setting up the Commission is the best way to achieve this.