

# Airports Commission Discussion Paper 06

## Utilisation of the UK's Existing Airport Capacity

### SUBMISSION BY THE RICHMOND HEATHROW CAMPAIGN

July 2014

This submission is the response from the Richmond Heathrow Campaign (RHC) to the Airports Commission's *Discussion Paper 06: Utilisation of the UK's Existing Airport Capacity*. We do not consider that the contents of this submission are confidential and we have no objections to its publication.

The Richmond Heathrow Campaign represents three amenity groups in the London Borough of Richmond upon Thames: The Richmond Society, The Friends of Richmond Green, and the Kew Society, which together have over 2000 members.

The members of our amenity groups are adversely affected by noise from Heathrow Airport's flight paths, particularly at night. We favour a ban on air traffic at night at Heathrow. We are opposed to the introduction of mixed mode and to the development of additional runways at Heathrow.

We nevertheless recognise the importance of air transport; and the need to make provision for handling additional air passengers. We therefore wish to make a positive contribution to the Airport Commission's work.

We understand that the focus of the Discussion Paper is about connectivity and capacity provided by airports other than those short listed (i.e. Heathrow and Gatwick) but this still includes the impact of these two airports and their expansion on the other airports and vice a versa.

We have responded to earlier Airport Commission Discussion papers, 01 to 05, and we have presented a set of three short term proposals and a set of four long term proposals. *We apologise that there is some inconsistency in that the evidence provided here refers to 2010 and to 2011; we have not had the time to update the evidence and in any event much of it was provided as such in earlier submissions to the Commission.*

Our short term proposals in May 2013 were in part designed to improve the hourly/daily resilience at Heathrow. We understand from the Commission's Interim report and the Government's recent response to that report that the 20 or so short term proposals made by the Commission could indeed materially improve resilience and other operational parameters at Heathrow and other airports, subject to trials etc. Our focus here is therefore on the long term demand/supply balance.

Our long term proposals in July 2013 impacted both demand and capacity and involved (1) fairer taxation that removed market distortions with a consequential impact on demand generally but also specifically international transfers which arise mainly at Heathrow, (2) market led rebalancing of demand away from the Southeast to the regions, (3) larger aircraft and therefore passenger capacity per runway and (4) gradual replacement of international transfer demand at Heathrow with local demand and in tandem promotion of the five dispersed London airports with point-to-point capacity instead of concentration of capacity at a Heathrow transfer hub. We still stand by these proposals and the net outcome which obviates the need for any new runways in the UK for the foreseeable future (i.e. 2050 and beyond).

Our long term proposals set the stage for the comments to the questions raised in this Discussion Paper. While all four proposals have relevance to the specific questions in the Discussion Paper, we only comment here on the proposals for regional balance (2) and transfers at Heathrow (4) and only to clarify certain points. The Commission may wish to refer back to the original proposals for further detail.

Since the Interim Report further developments on the subject of climate change suggest the potential for serious distortion in the carbon economics between Heathrow (should it be expanded) and other southeast airports and the regions and other sectors of the economy. This leads to the conclusion that the only viable policy lever that the Government has is to avoid adding any new runways. We comment on this later.

## **1. Regional Balance**

The Commission concluded in its Interim Report that there is relatively little scope to redistribute excess demand away from London and South East airports to the regions, as such efforts would either have limited impact or have a negative effect on UK connectivity and capacity as a whole. Specifically in response to our proposal the Commission said *“The Richmond Heathrow Campaign argues that forecasts should reflect the higher rates of demand growth that have been seen over recent decades outside the South East. The Commission’s forecasts indicate, however, that these higher rates of growth may be a consequence of the long-standing capacity constraints in the South East system, and the pattern of growth would be likely to change if those constraints were alleviated.”*

Our Proposal on regional balance was based on CAA historical data and the DfT forecast (2013) which were included with the Proposal. A key assumption behind the DfT forecast is that the present distribution between the number of passengers in the South East and in the other regions of the United Kingdom (including Scotland, Wales and Northern Ireland) will remain largely unchanged through to 2050. But this assumption ignores the faster rate of growth in passenger numbers in the other regions compared with the South East in the thirty-five year period between 1972 and 2007, before the financial crisis and the subsequent downturn in the economy. For most of this trend, if not all, there were no capacity constraints as far as we can ascertain so we find it difficult to see how southeast constraints played much part, if any, in this historical trend.

In the annexes to the Interim Report, and specifically the Sift 1 response to the RHC proposal for rebalancing of demand, the consultant, Leigh Fisher, suggests RHC assumed there would be government policies to support this assumption [the rebalancing]. First and foremost we believe the markets determine the trend. But since the Interim Report we have become increasingly aware of the concern in the regions from the travel sector, regional businesses and the aviation sector that there is an unacceptable economic and aviation imbalance between the regions and the southeast. Arguably this is evidence of a discontinuity appearing in the trend. Should this be the case then we would propose increased Government intervention to support regional economies. The Discussion Paper outlines some of the support mechanisms specifically for aviation and more widely. We support these, as hopefully will the Commission and Government, so that the trend of an increasing regional share of the aviation market can be sustained over the longer term. We hope that the Commission’s forecasts will reflect this trend. Substantial regional aviation capacity is available and making good use of this to increase connectivity both to support and as a consequence of regional economic growth underpins our answers to other questions in this Discussion Paper.

In our Proposal we said *“Our analysis suggests that when the economy has fully recovered passenger numbers would again increase at a faster rate in the other regions than in the South East, particularly as the Government has stressed the need to re-balance the economy away from over-concentration in the South East to a more equal level of activity across all regions. We consider that by 2050 the split between passenger numbers in the South East and the other regions would have shifted from the post-recession 3:2 split in favour of the South East to an even 1:1 split between the South East and the other regions.”* This split would reduce the DfT forecast of under-capacity in the South East in 2050 by more than 45 million passengers a year (mppa), thereby reducing the need for additional runways in the South East.

The focus of our Proposal was on Heathrow but the corollary is that aviation should grow at a faster rate in the regions than in the southeast, which is the point we wish to make in response to this Discussion Paper.

## **2. Impact of a 3<sup>rd</sup> Heathrow runway on the regional and other airports**

We focus here on the HAL proposal for a 3<sup>rd</sup> runway at Heathrow but the Hub Limited proposal we believe will have a similar impact on other airports. HAL’ proposal dates the first use of a third runway in 2025 and full use by 2040. The growth rate during these years is predicted to be faster than the long term trend on account of suppressed demand at the start. We would expect airlines to be keen to take up the new slots at Heathrow as quickly as possible and that in doing so to take market share from regional and other airports. There is likely to be some spill from the Heathrow catchment area to other airports prior to the new Heathrow capacity being available and this could quickly return to Heathrow. In fact, the DfT 2103 forecasts show the suppressed demand in 2030 as 7 mppa and the spill 20.6 mppa (Gatwick 0.8 mppa, Stansted 9.4 mppa, Luton 4.6 mppa and the regions 5.8 mppa). These figures are based on constrained

demand without an additional runway but they give some idea of level of spill in the market place. We suggest that the re-alignment of market share would go further than recovery of the spill and that the shift in market share could be higher than forecast in the HAL proposal. So the long term trend we discussed in section one, above, could be materially distorted by a 3<sup>rd</sup> runway at Heathrow. The shift in demand from the regions and other airports could be temporary but more likely would be permanent as airlines become established with their new Heathrow slots. The result would not only be contrary to shifting the balance of the UK's economic growth to the regions but mean that Heathrow would fill up again much sooner than anticipated with the consequential demand for a 4<sup>th</sup> runway well before 2040. In fact HAL's forecast of 740,000 flights in 2040 appears not to make allowance for resilience; the practical limit of, say, 650,000 flights per year could be reached as early as 2035. If we add in a rapid shift in market share then Heathrow could be seeking a 4<sup>th</sup> runway in operation perhaps as early as 2030.

### 3. International (I to I) Transfers at Heathrow

We continue with Heathrow in this section because it has bearing on overall UK capacity constraints and also our preference for a dispersed London airport model rather than single concentrated hub.

In our long term Proposal for gradually replacing international transfers with local demand we submitted evidence that in the case of Heathrow the transfers did not appear to increase the number of destinations (trends showed increasing transfers against reducing destinations) but instead transfers increased the service frequency of already popular routes. In 2010 Heathrow served 65.7 mppa. This total is divided into terminating passengers (42.1 mppa), international transfer passengers (20.8 mppa) and domestic transfer passengers (2.8mppa). The Annex attached here provides greater detail. Transfer passenger numbers count each person on arriving and again on departing.

Furthermore, our Proposal examined the full list of Heathrow's 191 international destinations in 2011 and transfers are involved with 100% of the high density destinations, 67% of medium density destinations and only 7% of low density destinations. Few long haul low frequency routes are supported by transfers. The number of transfers for the 70 destinations with less than a daily service (arrivals and departures) from Heathrow is only 0.5 mppa or 2% of all transfers and the average transfer per destination is 17% or around half that for all the other destinations with higher frequencies. Examination of the 70 low frequency services shows that 37 were long haul but did not rely on any transfers at all. Out of the 70 destinations only 9 had transfers and only 7 of these were long haul. (see Table below). One of these, Islamabad, had relatively high loads of 333 passengers and if the 13 transfers per ATM were not available then it seems unlikely the service of once every 2 days would be at risk. In most of the other cases if there were no transfers there could be a service at least weekly.

Heathrow Low Frequency Long Haul Destinations with Transfers 2011							
	Destination	Distance km	Passengers '000 per yr.	Transfer passengers '000 per yr.	Transfer Passenger %	Frequency ATMs per day (Arr. & Dep.)	Aircraft Passenger Loads
USA	Raleigh	6218	111	48	43%	1.9	157
Argentina	Buenos Aires	11140	155	91	59%	1.9	220
USA	Phoenix	8465	179	104	58%	1.7	288
India	Chennai	8304	115	67	58%	1.4	220
India	Hyderabad	6391	96	76	79%	1.4	184
Uganda	Entebbe	6499	71	47	67%	1.4	137
Pakistan	Islamabad	6068	136	13	10%	1.1	333

Source: CAA

Further examination of the data suggests that Heathrow has become a high frequency airport with frequencies inflated by international transfers; we accept that frequency is positive for connectivity, although probably with diminishing returns on high frequency routes. In conclusion our analysis of the high frequency routes and low frequency routes leads us to believe that the value of international transfers to the UK economy is overstated. We estimated that reducing international transfers at Heathrow, for example by removing the current APD exemption, would release 35 mppa of Heathrow capacity in 2050 for use by local demand. This result also supports our preference for a dispersed model for London's five airports as discussed in the next section.

#### **b) Dispersed Point-to-point Demand between Existing Runways at London's Five Airports**

In the absence of international transfers the issue then is how the existing capacity of London's five airports might best share the growing point-to-point demand in a dispersed airport structure.

We expect some transfers, particular domestic transfers, to continue at each of the London airports and therefore to varying degrees the continuation of the physical and operational components of what might be described as a hub or focal airport. The missing dynamic is the need for ever increasing aggregation by way of transfers and associated growth in transfers and capacity that this requires. The dispersed model that we envisage would not involve a high enough level of transfers to justify any of the airports being described as a hub or focal airport.

The Competition Commission has already sought to introduce more competition by separating the ownership of Gatwick, Stansted and Heathrow. In dealing with competition the marketing concept of product differentiation and market segmentation is relevant. We cannot predict with certainty how the lines of segmentation will be drawn in a dispersed airport model. There are a number of structural dimensions – namely, the individual airport facilities, the location and access from the southeast catchment area, the type of passenger (residency - UK or foreign and purpose - business or leisure), the type of airline service (scheduled, LCC or charter) and the airlines themselves and their various alliances.

In our Proposal on International Transfers we examined segmentation along the lines of the five London airports specialising in global regions. Unfortunately, it appears that the Commission took this as the main result of our proposal on replacing transfers which in the first instance was to free up capacity at Heathrow (equivalent to 35 mppa by 2050). The Commission made no comment on our extensive analysis of international transfers and their replacement with local demand. The Interim report said “*Redistributing services between the major South East airports to make better use of existing capacity. As set out in this chapter, the levers available to redistribute traffic are limited and the historical precedents are not encouraging. The Richmond Heathrow Campaign proposes that the removal of market disincentives would enable the segmentation of traffic between airports, but industry experience indicates that a highly interventionist approach would in practice be needed.*” We had sought in the Proposal to explore segmentation by global regions only as an illustration of just one of many ways the market could be segmented and not as a specific Proposal. Our view, as stated in the Proposal, is that it will be for the markets to determine how segmentation evolves so as to include a mix of the structural dimensions mentioned above (such as routes, type of airline, etc). Our Proposal on this point went only as far as proposing the removal of market disincentives for a dispersed airport structure to prosper.

#### **4. Domestic Transfers at Heathrow**

Domestic transfers into Heathrow, which are a relatively small proportion of Heathrow passengers (around 4%), are unlikely to provide much if any increased connectivity of Heathrow either in supporting the viability of low frequency destinations (see similar argument for international transfers) or increasing the service frequency of more popular routes. We would not seek to discourage domestic transfers except to the extent they can be substituted by rail. The transfers may be important to the domestic passengers themselves as being the most convenient, cheapest and in some cases the only route to an overseas destination and for this reason are potentially important. But even this overstates the significance to the UK economy of domestic transfers into Heathrow.

In 2010, for example, the breakdown of domestic transfers into Heathrow was 0.3 mppa UK resident business passengers, 0.3 mppa non-UK resident business passengers and 0.8 mppa non-UK resident leisure passengers, as shown in the Annex. These travel purposes are the most important segments for the UK economy but the number of transfer passengers in these categories is small. The remaining domestic transfers were 1.3 mppa UK resident leisure passengers which generate a trade deficit but of course are important to the individuals themselves.

The regions and the southeast are well served in terms of short haul destinations and the regions have the capacity to serve increased long term demand for short haul destinations. UK passengers do not need to transfer at Heathrow or anywhere else for short haul destinations.

So domestic transfers into Heathrow are only justified in so far as the regions do not provide specific direct long haul routes with desired frequency for a small number of economically valuable passengers. The Discussion Paper illustrates how regional airports are increasing the number of long haul destinations. We conclude that the apparent reduction in recent years in domestic transfers into Heathrow does not give rise

to material harm to the UK. However, it is important to seek ways to provide for outlying regions that have no alternative but to transfer on specific routes.

#### **5. Transfers at overseas hubs**

In the same way that we conclude that the value of international transfers to the UK economy is overstated we believe if people travelling to/from the UK need or wish to transfer to long haul flights then doing so at Amsterdam, Dubai or other overseas hub does not harm the UK economy or result in lost opportunities. The caveat is that it might impact the volume of business by British airlines but the number of transfers is relatively very small.

#### **6. Domestic flights other than transfers**

We have not examined the domestic aviation market other than flights connecting to London. We broadly agree with the analysis in the Discussion Paper. We suggest the reduction in domestic services with London in recent years is more to do with demand than with London capacity constraints. The downturn in the economy must surely have reduced demand and possibly in the years leading up to the downturn a bubble developed with the new low cost airlines and others over estimating the underlying demand which itself has recently been experiencing pressure from improved rail services.

#### **7. Climate Change**

We refer to two recent reports - one by the RSPB - "*Aviation, climate change and sharing the load*" and the other by WWF jointly with AEF - "*Implications of south east expansion for regional airports*".

The context is that in order to avoid a dangerous rise in global temperature the Climate Change Act 2008 requires the UK to reduce GHG emissions by 80% between 1990 and 2050. Aviation is limited in 2050 to 2005 levels, i.e. 25% of total UK carbon emissions in 2050.

Forecast unconstrained air passenger demand is expected to double between today and 2050. But to meet the statutory carbon target the Climate Change Committee (CCC) and Airports Commission estimate demand will need to be constrained to between 60% and 67% growth.

The CCC and Commission have both said that an additional runway in the southeast to provide for growth is possible within the carbon constraint. But to date we do not believe there has been an examination of the regulatory means and factors that may prevent aviation meeting its target and even if it does then at what cost to the rest of the UK economy and regional airports and economies. The two reports consider these issues and it is clear there is a major issue of control of aviation emissions.

Regulating aviation carbon emissions, say with a carbon tax, could cost as much as £22 billion a year by 2050, which we suggest is unfeasible economically and politically. Regulation through an emissions cap and trading scheme is the alternative control assumed by the Commission. This enables the aviation industry to arrive at compliant net emissions by buying carbon credits from industries that are less carbon intensive. However, in consequence the expansion of regional aviation would be severely curtailed as might the use of other southeast airports. This outcome conflicts with the aims of the Government and Commission in their support for growth of regional aviation and economies. Furthermore, an effective carbon trading scheme for aviation is proving very difficult to get off the ground.

The reports say the only viable policy lever left to the Government is to control airport capacity and not approve an additional runway in the Southeast but even then the emissions may overshoot the statutory aviation carbon target in 2050. Furthermore, with aviation taking 25% of the UK carbon target, other sectors of the economy will have to reduce their carbon emissions by 90% compared to 1990 which is very challenging and will require zero emissions from much of the economy.

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## ANNEX

### Heathrow: Passenger Profile in 2010

<i>Passenger Categories</i>	<i>Terminating</i>		<i>Transfer</i>		<i>Total</i>	
	000's	%	000's	%	000's	%
<b>1. International flights</b>						
<i>Business passengers</i>						
- UK resident	6 402	9.7	549	0.8	6 951	10.6
- Non-UK resident	6 159	9.4	4 798	7.3	10 957	16.7
<b>Business passenger total</b>	<b>12 561</b>	<b>19.1</b>	<b>5 347</b>	<b>8.1</b>	<b>17 908</b>	<b>27.3</b>
<i>Leisure passengers</i>						
- UK resident	15 440	23.5	1 468	2.2	16 908	25.7
- Non-UK resident	12 059	18.4	13 952	21.2	26 011	39.6
<b>Leisure passenger total</b>	<b>27 499</b>	<b>41.9</b>	<b>15 420</b>	<b>23.5</b>	<b>42 919</b>	<b>65.3</b>
<b>International total</b>	<b>40 060</b>	<b>61.0</b>	<b>20 768</b>	<b>31.6</b>	<b>60 828</b>	<b>92.6</b>
<b>2. Domestic flights</b>						
<i>Business passengers</i>						
- UK resident	1 143	1.7	346	0.5	1 489	2.3
- Non-UK resident	59	0.1	341	0.5	400	0.6
<b>Business passenger total</b>	<b>1 202</b>	<b>1.8</b>	<b>687</b>	<b>1.0</b>	<b>1 889</b>	<b>2.9</b>
<i>Leisure passengers</i>						
- UK resident	768	1.2	1 293	2.0	2 061	3.1
- Non-UK resident	107	0.2	783	1.2	890	1.3
<b>Leisure passenger total</b>	<b>875</b>	<b>1.3</b>	<b>2 076</b>	<b>3.2</b>	<b>2 951</b>	<b>4.5</b>
<b>Domestic total</b>	<b>2 077</b>	<b>3.2</b>	<b>2 763</b>	<b>4.2</b>	<b>4 840</b>	<b>7.4</b>
<b>3. Combined total</b>	<b>42 137</b>	<b>64.2</b>	<b>23 531</b>	<b>35.8</b>	<b>65 668</b>	<b>100.0</b>

**Source:** Compiled from data in the Civil Aviation Authority's *Passenger Survey Report 2010*. The percentages are calculated from the total number of passengers (terminating and transferring combined) at Heathrow in 2010. Where the totals do not sum this is due to rounding.

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