

House of Commons Transport Committee: Aviation Inquiry

A Submission from the British Air Transport Association

BATA welcomes the opportunity to submit evidence to the House of Commons Transport Committee's inquiry into aviation. BATA represents UK-registered airlines, both scheduled and charter. Our members produce over 90% of UK airline output.

Introduction

Aviation is a vital part of the UK's economy and adds to the quality of life of many ordinary people by providing them with opportunities for travel abroad. Aviation itself directly employs over 180,000 people and supports up to three times as many through the supply chain, induced effects and jobs depending on inbound and outbound travellers. Aviation contributes about 1.4% to UK GDP or £10.2 billion in added value.¹ Air transport is essential to modern business supporting the efficient delivery of goods and services. The range of international services is a key factor supporting many of the UK's growth industries and promoting inward investment in the UK. London's pre-eminence as an international finance centre, for example, depends on aviation.

Inbound tourism is the UK's biggest invisible export, accounting for 4-5% of GDP and 7% of all jobs. Some two thirds of overseas visitors arrive by air, spending £10 billion per year (80% of all spending by overseas visitors).²

The UK's active engagement in Europe relies on good air transport links to a far greater extent than continental states simply because we are an island.

In recent years the industry has been increasingly constrained by a shortage of infrastructure capacity - especially runways in the South East. No new full-length runway has been built in the South East for 50 years. We agree with the Government that doing nothing is not an option. The need for action is urgent.

Summary of the BATA Position on Airport Capacity

South East

The airlines are unanimous that the first priority is a new runway at Heathrow to be built as soon as possible. Following that there should be a new runway at Gatwick and another runway at Stansted.

This balanced 3-runway package, together with making maximum use of Luton, London City and Southampton airports, meets about 90% of the Government's forecast 2030 demand for the South East. However, there are many uncertainties in forecasting and planning over a 30-year period and we suggest that the position should be reviewed after 10 years and the package modified accordingly. Options for developments at Luton and a third runway at Stansted should be safeguarded.

Other Regions

In the regions outside the South East, the situation is less urgent but if the trend of better regional access to foreign destinations is to continue then extra capacity will be needed at regional airports. We prefer the development of existing airports rather than building

new.³ The RASCO studies have shown that all the regional growth can be accommodated by the timely expansion of existing airports.

A new runway will be needed in the Midlands, at Birmingham or East Midlands; one in Scotland, at Glasgow or Edinburgh; and probably one at Manchester or elsewhere in the North of England. The decision as to which option to develop in each region is complex and we do not advocate a particular solution. We believe it is more appropriate for the regional stakeholders (e.g. airports, local authorities, RDAs, business, environmental and consumer groups) to decide. The important point is to ensure that capacity is provided to meet demand in a timely manner where it arises.

Further comments on the various options included in the consultation papers are shown in later sections (see pages 5 - 8).

We will now address those issues identified as being of particular interest to the Committee in its press notice of 22nd November.

Forecasts for the development of UK aviation industry in the medium and longer term.

The DfT 2000 mid-point forecast predicts that the growth in passenger traffic, unconstrained by capacity restrictions, in the UK will rise from 180mppa in 2000 to 500mppa in 2030. In the South East, passengers numbers are forecast to grow from 120mppa to 300mppa. These forecasts have been subject to sensitivity tests including the effect of aviation meeting all its external costs – including environmental costs. The DfT judged that this could suppress demand by up to 10%.⁴ These forecasts are similar, perhaps slightly lower, than those made by other organisations. For example, IATA in 2000 produced a separate forecast for the South East, predicting 360mppa in 2030, a figure broadly similar to the Government's high point forecast.

Events since 2000 have clearly had an effect on short-term demand but we believe that traffic will recover and there will be growth in the medium and long term. Indeed the forecasts assume that there will be short term fluctuations as currently being experienced. For planning purposes therefore, we believe the DfT forecasts are sound - but they should be regularly reviewed.

Slot and access issues:

The implication of the recent European Court of Justice decision on negotiating landing rights.

The most significant ECJ decision concerns bilateral agreements between an EU state and a non-EU state. The ECJ ruled that agreements cannot exclude airlines from other EU states from operating on the approved routes between the two parties to the bilateral. For example, this could enable Lufthansa to operate from London to the USA or BA to operate from Paris to USA. In practice this could only come about with the co-operation of the non-EU party to the bilateral and therefore it is unlikely that there will be any changes in the short term. The shortage of slots at key airports also limits the scope for change.

However the judgement is important because it sets the scene for changes in international aviation agreements. It will lead to a more liberalised aviation market and an end to bilaterals in favour of bloc agreements between the EU and non-EU states.

What priority should be given to regional access to London?

The RASCO studies have shown that access to London is important for the economic health of the regions, not only to provide links to London itself and the South East but also for access to international services. For example, analysis undertaken in the Thin Routes study⁵ by DETR in 1999, suggests that benefits of £5-10m per annum were at risk if the Inverness to Gatwick route were to be lost⁶ and £8.4m per annum for the Gatwick to Plymouth and Newquay route as well as “reducing the scope for local regeneration and inward investment”.⁷ Access to London and South East airports is the “most important aviation issue which affects Northern Ireland”.⁸

The current shortage of capacity at Heathrow has meant that the number of regional airports served by Heathrow has reduced by about half since 1990. Some of these have been replaced by services to other London airports. The free market and competition has ensured that access to London has been preserved - albeit not necessarily in the most desirable way. However, access to Heathrow’s international services from some regions has reduced to be replaced in some cases by feeder services to continental hubs - to the detriment of UK aviation. (The importance of a hub airport to the UK is dealt with later on page 6.)

Regional services are also under threat from the recent recommendations from the CAA for airport charges at Heathrow over the next quinquennium. Under the proposal, charges will rise by about 9% next year and by RPI+6.5% in each of the following years. This will threaten the commercial viability of regional services since airport charges are a comparatively high proportion of costs on short haul flights.

However we do not believe that it is necessary or desirable to single out regional services for special treatment. The best way of ensuring that the regions can access international services from London via the airport of choice is to provide a new runway at the nation’s main hub airport.

The use and potential extension of Public Service Obligations in the UK both for peripheral areas and to guarantee access to specific congested London airports.

We support the use of Public Service Obligations to provide lifeline services to peripheral areas, such as the Highland and Islands.

We are concerned that the use of PSOs would distort the free market in an attempt to tackle the symptoms of the problem rather than the problem itself. We believe that the most effective approach in the UK is for the industry to provide the necessary capacity in which a highly competitive market will provide the required services.

Capacity issues:

Can and/or should demand be managed?

In the narrow sense demand can always be ‘managed’ by restricting supply or by increasing prices by imposing taxes or charges. There is already excessive demand management at Heathrow and increasing so at Gatwick and Stansted. At Heathrow virtually all the available daytime slots are being used and there are tight restrictions on

night movements. This has been the situation for many years. Gatwick has very few spare slots and is at capacity for large parts of the day. Stansted has no spare slots in peak periods.

However if demand is not met then:

- Consumer access and choice will be restricted, contrary to the Government's own consumer policy.
- The availability of "no frills" and low cost charter flights will be reduced at the busiest airports. This will reduce capacity and competition in the leisure sector leading to higher prices. Those with low incomes will be "priced out", contrary to the Government's policy on social inclusion.
- Scheduled flights will fill up with business travellers, further restricting the choice for leisure travellers. The impact is likely to be felt first by inbound tourists who tend to use scheduled flights rather than charters. The Government's policy to promote the UK tourist industry will be undermined.
- As less profitable services are dropped, business passengers will be faced with fewer routes, reduced frequencies, higher costs and difficulties in changing bookings. The Government's policies to reduce unemployment and create a favourable business environment will be undermined.
- Restricted capacity in the South East will lead to regional services to London being squeezed out in favour of more profitable long haul services. More UK regional long haul demand will be diverted to continental hubs thus exporting jobs and business. This is already happening. Alternatively some passengers will choose to make long car journeys to Heathrow or Gatwick increasing the impact on the environment.
- The trade gap between inbound and outbound tourism will increase. In 1998 the number of holidays taken abroad exceeded those taken in Great Britain for the first time. As UK prices rise or capacity is restricted inbound tourists will go elsewhere and jobs will be lost from the UK tourism industry. UK residents have no such choice and they will fly via continental hubs or go by surface transport – probably by car.
- There will be serious penalties for the UK economy. The availability of a good range of international services is a key factor in creating a favourable climate for inward investment and in the locational decisions made by international companies. It has been estimated that with no growth beyond current levels, by 2015, GDP will be 2.5% less than it would be without constraints – equivalent to £33 billion a year.⁹

Environmental Effects

Restricting capacity in the UK will not necessarily result in a net environmental benefit. The latent demand will not reduce just because capacity is restricted. At the global level the unsatisfied demand will be exported to continental hubs, resulting in more flights at those hubs and more surface travel. There will be more congestion, both in the air and on the roads, leading to more fuel consumption and pollution. Within the UK the shortage of connecting regional services will result in more car travel to airports with international flights. Charter flights will be squeezed out to airports further away from the main population centres and more people are likely to use their cars to go on holiday in Europe. A higher proportion of freight will have to go by road.

The potential for modal substitution.

We see high-speed rail as complementing rather than substituting for domestic air services on all but the shortest routes. BATA supports the case for improving Britain's rail

network, including provision for the many people who could use trains to travel to and from airports. Rail is already heavily subsidised compared to aviation. (Rail received £1,886M in 2001/2 and aviation received £105M, mainly for lifeline services in the Highlands and Islands.¹⁰) But if rail is to compete with air on speed and convenience, much more subsidy will be needed to improve its infrastructure.

However, as the SRA has found, there will be some, but only limited, opportunities for promoting the substitution of air services by rail in the UK. Most journeys from the English regions to London and the South East are by car (55%) or rail (42%).¹¹ Air travel accounts for less than 3% of the market. The real competition is between road and rail. The availability of domestic air services is important for people making connecting flights, for people starting or finishing their journey close to the airport, as an alternative when there is disruption to rail services or where there is no adequate rail alternative.

Many passengers on UK domestic flights are making connections at one end of the journey. The proportion interlining ranges from 30% from the more distant regions to 70% from those closer to London.¹² For these passengers rail is unlikely to offer a good substitute because in most cases the alternative rail journey involves changes of train, or a change onto the London Underground, in order to reach the hub airport. Catching a connecting flight to or from a local airport is not only quicker, it is more convenient because passengers can check in their luggage at origin and collect it at destination, and can avoid the hassle of changes between modes of transport.

In addition, some passengers on air routes which might appear substitutable by rail are making journeys whose origin or destination is close to one of the airports involved.

These passengers and connecting passengers will still create demand for air services even when there is a rail alternative. Experience has shown that, for example on London-Paris routes, there have been no significant trends in the total number of seats offered by airlines over the past five years.¹³ Between Paris and Lyon, France's first and premier high-speed train route, there are still 11 flights per day.¹⁴

High-speed rail will not be attractive to passengers transferring to an international flight unless:

- The services operate directly to the airport with no changes required.
- The journey time is reasonably competitive with air – no more than 3 hours.
- The services operate regularly, preferably at least once per hour, over the airport's operating day.
- There are facilities, such as lifts and trolleys, for passengers with baggage and the opportunity to check-in at major rail stations.

High-speed rail links to airports will not be attractive to train operators unless there is sufficient demand. The only domestic routes that might meet these criteria in the medium term are Manchester to Heathrow and Leeds to Heathrow.

Should development be at existing sites or new ones?

We believe that it is better to develop existing airports rather than to build new. It is far less costly, both in economic and environmental terms, to expand existing airports than it is to build a new airport. Furthermore, new airports require proportionately far more new surface access infrastructure leading to an additional environmental impact. In airspace

terms, it is doubtful whether the complex structure in the South East could support the introduction of arrival and departure routes for a major new airport in this area without serious capacity implications at the existing airports.

The SERAS and RASCO studies have shown that all the projected growth up to 2030 can be accommodated without building new airports. In all the regions, options exist which meet the demand by using the spare capacity at existing airports and by expanding some airports with new runways and terminals.

Advantages and disadvantages of concentration on a limited number of airports.

The advantages of concentrating on a limited number of airports depends on the type of flights operated. Normally it is best to provide services, and therefore capacity, where the demand arises. This is convenient for passengers and freight and minimises surface access costs and impacts. However in the cases of a hub airport and all-freight services, the benefits of concentration outweigh those of dispersion.

A Hub Airport

Most long haul services are only viable if operated at a hub airport with short haul feeder services and local demand. A thriving and successful hub airport in the UK is essential to maintain the international connections from the regions which support international businesses throughout the UK and sustain London as a world city. Heathrow is the only realistic option for a hub in the UK in the short and medium term. An alternative could not be developed in the required time and it would be far more costly requiring 3 or 4 new runways instead of one at Heathrow.

A second hub in the South East is not plausible in the foreseeable future. The effectiveness of a hub depends on the range of destinations served. For two hubs to be successful each would have to have services to a large range of destinations. To a large extent they would have to duplicate each other and this could only be achieved if demand on each route was high enough to support duplicate services. BA's attempt to set up a second hub at Gatwick in the 1990s failed because there was insufficient demand to provide the critical mass for a successful operation.

A new hub, such as the Cliffe or large Stansted options in the SERAS consultation, would have to be seeded with services from Heathrow. This would be extremely risky commercially for the airlines that move, not only because of developing the market at a new airport, but also because the spare capacity at Heathrow would be back-filled by competitors. In practice, Heathrow would remain a rival hub and the viability of both would be compromised.

The only feasible way a new hub could be kick started would be to close Heathrow. This would leave West London and South West England without a convenient airport for most destinations and would have a massive negative environmental and economic impact.

The continental hubs at Amsterdam, Paris and Frankfurt also have to be taken into account. It would be far more attractive for an airline or an airline alliance to move from Heathrow to a continental hub than to risk moving to an untested new hub in the UK.

A second hub elsewhere in the UK may become feasible eventually if regional demand continues to grow. We do not foresee any potential for this to happen until towards the end of the 30-year policy horizon.

All-freight services

Although most freight is carried in the holds of passenger aircraft, there is an important and growing market for all-freight flights, especially express parcels services. These have to operate mostly at night and have to be concentrated at the few airports where the impact of night noise is small. The availability of night-time slots at these airports needs to be safeguarded into the future.

Candidates for dispersion

In contrast some types of flight, such as business and general aviation, charters and “no frills”, can operate at secondary airports to meet local demand and to relieve the pressure at primary airports. Indeed, charter airlines have for many years operated services from many of the UK’s regional airports. In recent years the development of “no frills” services has accelerated this trend. In this context, Gatwick acts as the local airport for the southern home counties and south London and must be expanded to meet demand.

Is the Government’s timescale for development of new runway capacity appropriate? Could or should anything be done to increase capacity by an earlier date?

New runway capacity is urgently required in the South East. No new runway has been built in the region for more than 50 years (except for the very specialised London City). In contrast, within the last 5 years, Paris Charles de Gaulle has built two new runways making four in all; Frankfurt has built a third and has a fourth approved for development; Amsterdam has built a third and a fourth and has a fifth approved for development.

One way to improve the timescale for provision is to shorten the planning process for major infrastructure projects. The Heathrow Terminal 5 Public Inquiry showed the need for such improvements. The Government has undertaken a wide-ranging review of the planning system which we fully support. Such improvements are essential, as an integral part of the outcome of the current aviation consultations and should be implemented as soon as possible. Without this, the airport development proposals will fail to meet rational objectives, through delay and prevarication.

We accept that local community interests have to be balanced against broader national strategic priorities but this must be addressed in a more effective and efficient manner. Firstly there must be a clear statement of Government aviation policy and a new approach to mitigation and compensation that meets the legitimate concerns of local communities. Long-term planning development controls must be sufficient to safeguard future projects. An example is Gatwick where, with no new runway allowed before 2019, it is nevertheless vital that this agreement does not preclude any development after that date.

There are steps that could be taken to increase capacity in the short term. At Heathrow, mixed mode operation should be introduced on the two existing runways as soon as possible in order to provide some extra capacity until the new runway is built.

In addition, Luton should be allowed to expand to meet demand up to the maximum possible capacity with its current runway configuration. Luton is one the few airports near

London that can be expanded in the short term and therefore has a key role to play in bridging the capacity gap until new runways are available.

Industry structure:

Is the current organisation and structure of the UK industry appropriate to meet air travel market requirements for the next 30 years?

Aviation has served the country well. The UK has the world's third largest aviation industry (behind the USA and Japan) and the second largest in terms of international passengers carried. UK consumers have access to a huge range of safe, high quality services from the most competitive and innovative aviation market in Europe. London is one of the world's best-connected cities with direct flights to more than 260 destinations. The real cost of flying has reduced dramatically through innovation, competition and investment in new technology by all airlines. Low cost fares on long haul and charter services were introduced many years ago and in recent times "no frills" airlines have provided the impetus for low cost fares on short haul scheduled services. This has brought the opportunity of travel, with all its social and cultural benefits, within the reach of most of the population.

The current structure and organisation of the UK aviation has allowed the industry to develop for the benefit of the UK as a whole. There is nothing fundamentally wrong with the existing structure but it needs to evolve to meet changing circumstances and there are some improvements we would like to see:

- Aviation is an international business and UK airlines and airports should not be burdened more than their foreign competitors. Aviation is already heavily regulated and we do not want to see more. The Government should not 'go it alone' in imposing new regulations or changing existing ones. Progress has to be made through international agreements. We will work with the Government in the sensible development and reform of international agreements, standards and regulations.
- We are concerned about the subsidies being enjoyed by US airlines. The US Government underwrites the third party war risks insurance scheme and pays for security measures. At least two airlines are operating under the "chapter 11" provisions which allow them to continue to trade without having to service their debts. They would be considered to be bankrupt in the UK. British and European airlines are at a competitive disadvantage. We urge the Government to seek agreement with US for the removal of these subsidies.
- We expect the trend for consolidation amongst airlines to continue and we would like to see a normalisation of ownership rules throughout the world, similar to those enjoyed by other international industries.
- UK safety and security regulations must be better aligned with emerging international standards. Within the UK, the requirements of the security, police and border agencies should be co-ordinated through a single authority. Current practice generates unnecessary costs by the duplication, confusion and incompatibility of the requirements.
- It is anomalous that, in a regulatory regime that promotes competition as the preferred approach to ensuring that there is an orderly market, the three largest London airports and the three largest Scottish airports are all owned by one airport company. This structure does not produce the right incentives to provide new capacity where it is needed. The government has decided not to break up this monopoly 'for the time being' since 'competition was constrained by the lack of unused capacity in the system'. Over a period of 30 years however, this situation should be reviewed at

regular intervals in full consultation with the airlines. Government policy should be aimed at achieving competition amongst airports.

Economic impact, social impact and environmental impact – what should be the balance?

The Government's own analyses carried out for the SERAS and RASCO studies show that the economic and social benefits of providing extra capacity far outweigh the costs of the environmental impacts. The South East alone will gain at least £12 billion (net present value) through the addition of 3 runways.¹⁵ At least 70,000 jobs will be created (but with no development jobs will decline). If extra capacity is provided, the tourism "trade gap" will be closed.¹⁶

The UK simply cannot afford to restrict capacity but aviation should, and is willing to, pay for the verifiable external costs generated by its activities. To a large extent this already happens. The airlines pay for the infrastructure that they use and the Government's own research has shown that the known external environmental costs roughly equate to the Air Passenger Duty already paid by passengers.¹⁷

Environmental policy needs to distinguish carefully between global and local effects.

Global effects

Aviation is unique as regards possible measures to reduce its environmental impact. There is no competitive alternative mode of transport for journeys over about 500kms, or for most journeys over water, and there is no alternative fuel for the foreseeable future. We therefore believe that for global impacts, such as greenhouse gas emissions, open international emissions trading is the best way to deliver targeted improvements. This will not be without costs to airlines and consumers. We believe that APD should be replaced by economic mechanisms (such as emissions trading) that are more directly related to the environmental impacts.

Local effects

There should be a national framework for local environmental agreements. A wide variation in standards will create operational difficulties and add to costs.

The two most important environmental issues for local communities are noise and local air quality. The impacts are best tackled by employing technology and operational measures to reduce the outputs at source and by land-use planning to reduce the population exposed.

Noise

The aviation industry has a good record over many years in reducing noise from aircraft and will continue to press ahead with improvements. Government policy should be focussed on securing international agreement to the ICAO balanced approach to noise management.¹⁸ This advocates giving equal consideration to:

- Reduction of noise at source,
- Land use planning and management,
- Operational noise abatement procedures, and
- Operating restrictions.

However, operating restrictions are not to be applied as a first resort.

Air Quality

Whilst road transport is the major contributor to NOx emissions around many airports, the aviation industry is working hard to develop technology and procedures to reduce NOx levels:

- New engines are being developed with low emission combustors. Existing engines can be improved and modifications on Boeing 747-400s have already resulted in a significant decrease in NOx emission levels at Heathrow.
- Using reduced thrust on take-off. It should be noted that a small reduction in take-off thrust produces a large reduction in NOx emissions.
- Reducing the use of auxiliary power units (APUs) whilst aircraft are on the ground by providing pre-conditioned air (PCA) on aircraft stands. For example, PCA should be available at Heathrow T5 and probably on most stands at the other Heathrow terminals. APU use could be reduced by about 80% with PCA.
- Switching to low emission fuels or electric propulsion for all airport ground vehicles.
- Improving public transport links to reduce the use of cars and taxis.
- Encouraging the remaining taxis to use low emission fuels such as LPG.

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¹ The contribution of the Aviation Industry to the UK Economy. Oxford Economic Forecasting. Nov 1999.

² Ibid.

³ We do not oppose new airports as such. If they can be shown to be fundable, economically viable and environmentally sustainable, we would support them. It is up to the regional stakeholders to develop the business case for any new airport.

⁴ SERAS Consultation Document paragraph 5.5 et seq.

⁵ Plymouth/Newquay and Inverness to Gatwick "Thin Routes" Study – A Synopsis DTLR (2001).

⁶ RASCO Consultation Document Scotland paragraph 9.2.6.

⁷ RASCO Consultation Document South West paragraph 7.2.3.

⁸ RASCO Consultation Document Northern Ireland paragraph 7.2.1.

⁹ The contribution of the Aviation Industry to the UK Economy. Oxford Economic Forecasting. Nov 1999.

¹⁰ Central and local government expenditure on transport. DfT, 1998/99-2001/2.

¹¹ Regions to London and London's Airports – SRA study, Booz Allen Hamilton, April 2001, referred to in The Future Development of Air Transport: North of England, DfT July 2002.

¹² DfT statistics quoted in a DfT seminar "Regional Access to London and PSOs" 12th September 2002.

¹³ OAG data quoted in Feedback, Airline Business, October 2002.

¹⁴ OAG Executive Flight Guide: Europe, Africa, Middle East, October 2002.

¹⁵ SERAS Consultation Document paragraph 14.23.

¹⁶ SERAS Consultation Document paragraph 14.37.

¹⁷ Valuing the External Costs of Aviation, Department for Transport, December 2000.

¹⁸ ICAO CAEP Working Group 2 Draft guidance in preparation.