

## **Baroness Jo Valentine**

### **A new direction for aviation policy**

**14 December 2010**

### **CHECK AGAINST DELIVERY**

#### **"The necessity of world class airport access for businesses"**

Good morning. I'm Jo Valentine, I am CEO of London First. London First is an independent business membership group representing the capital's largest employers. Our mission, shared with those businesses, is to make London the best city in the world in which to do business. We aim for London to build upon its prominent international status and open culture to be recognised as the world city for the 21st century.

It's a pleasure to be here. The title gives you a clue as to what I'm about to say. But I am delighted to explore this issue, since every business leader I have met, every decision maker whose company has headquarters or major operations in London, believes that access to a world class airport is necessary.

The real debate is not one of principle. London's links to the world are one of its greatest assets.

The real debate is about the definition: What does business consider to be world class? What does business require now from London's international links? And what will it need in the future to satisfy -- as the Prime Minister recently put it -- its hunger to grow and succeed as it constantly works to gain an edge in a competitive world?

The Chancellor wishes to see an economy rebalanced -- away from consumption and public sector dependent growth, towards business investment and net exports. To what extent does London's contribution to this aspiration depend on the quality and capacity of its transport links to the world?

#### ***London's place in the UK and the world***

Before we answer these questions, a reminder: London's success drives the country's success.

London and the South East generate a third of the UK's GDP. London is 30 per cent more productive than the rest of the UK.

It generates around a fifth of the country's total output. London makes a net annual contribution of between £14 and £19bn to the Exchequer.

Impressive facts? I have more:

London is:

- The major trading partner for all of Britain's other regions.
- A major trader with the world -- London's exports have doubled in the last ten years.
- Britain's principal international gateway to capital and labour from overseas.
- An international centre for business and finance, and the hub of the UK's service sector -- exporting a third of all UK services.

And more:

- London is home to the European headquarters of one third of the Fortune Global 500 companies.
- It's the number one European destination for foreign direct investment -- such investment into London is worth over £50bn per year to the UK economy, including the benefits of foreign exchange, tax revenue and employment.

We have been nervous in the last couple of years of celebrating London's success -- we shouldn't take it for granted. The sustainability of London as a fulcrum of the global economy is not a given. If London is the engine of the national economy, its high octane fuel is international trade. And international competition is increasing -- none of us are blind to that. Check out the ascendance of the big cities in emerging economies: Shanghai, Mumbai, Beijing, Cairo, Delhi, Istanbul, Guangzhou, Rio de Janeiro. They will be the fastest risers in global city GDP rankings in the next decade or so. By one analysis, the projected rise in Shanghai's GDP in, actual dollar terms, in the next 15 years is greater than London and Paris's GDP growth combined.

We shouldn't call them 'emerging markets' -- they are growth markets. London must continually sharpen its act if it wants to compete, must attract new investment, must draw in the most talented, must pursue new markets and sell its wares to the world. Success relies on accelerating investment in people and in infrastructure. And London business leaders point to investment in the capital's creaking, congested transport infrastructure as a top priority.

## ***Transport underpinning growth***

The Government recognises this. October's spending settlement for transport made real the Coalition's pledge to prioritise those projects that will support economic growth and job creation. The Tube's modernisation, plus Crossrail and Thameslink will provide precious capacity and permit another 20 years of growth in London. But there has been no comparable commitment to London's airports, despite the readiness of the private sector to invest. In an otherwise coherent and credible approach to critical transport infrastructure in difficult fiscal circumstances, this is a worrying blind spot.

London business leaders are clear -- London's international air links are critical to their business. They need direct flights to a growing range of destinations. They require airports which provide world class service. They already use video conferencing and other alternatives to flying, and plan to use them more, but these alternatives do not eliminate the need to 'do the deal' face to face. Business leaders believe that demand in London for flights will continue to grow over the next decade, at or near historic rates.

Let's have a look at those rates of growth: The number of passengers at UK airports more than quadrupled between 1980 and 2008, from 50 million a year to 213 million a year. The Government's own demand forecasts see passenger numbers at London's three largest airports growing by a further 60% by 2030.

If London is to remain globally competitive, its international air links will need to grow. For example, world-class engineering consultancies, in the face of public expenditure cuts in the UK, are seeking and gaining new business in China, driving exports and hitching a ride for London on the rapid convoy of Asian economic growth.

London's access to world markets is its trump card. You don't need to be a card sharp to know that we shouldn't throw our best card away. To remain competitive, we will require the best international connections.

## ***In the short term***

So what defines 'best' in this context? In the short term, it means improving passenger experience at London's airports. That should remain a focus of the industry and of government.

Progress has been made. Heathrow in particular is starting to see the results of a rigorous focus on operational improvements. We, and others, have pressed hard for this shift in focus in the last three years.

Deteriorating quality at the UK's largest airport and gateway to the world was threatening the international perception of London. When two thirds of all business passengers terminating in London do so at Heathrow, the need to identify and address the drivers of service quality -- waiting times in particular -- is clear. So in parallel to new legislation that will put the passenger unambiguously at the heart of the regulatory regime, short term improvements are being sought; some are already in place. From Gatwick Airport's £1bn capital investment programme set to deliver significant improvements for the passenger to, through and from the airport in the next three years; to Heathrow's £5bn investment in renewed and refurbished infrastructure -- Terminal 5 having already raised the bar. From service level agreements with the Borders Agency to bring down immigration queues, to a sharper incentive regime on operators to drive up service quality. But there is still work to do.

For example, the 45 minute queue time target for non-EU passengers at immigration (YES, 45 minutes is a target queue time) was breached more than 20% of the time at Heathrow Terminal 4 in the first two weeks of September this year. It cannot be right that we should accept a target of queuing for 45 minutes and it is appalling that over a fifth of passengers waited even longer than that.

So the Government's Taskforce, created to find ways of making London's three largest airports better -- and on which London First sits -- has vital work to do to identify operational improvements which key players and the industry can deliver.

## ***The medium term***

But as critical and immediate as that work is, it will only take us so far. The biggest driver of poor service quality remains flight delays. And when it comes to delays, quality and capacity are not strangers, not even distant cousins; they are closely related like mother and child!

Heathrow is one of the most delayed airports in Europe because its runways are congested. Gatwick is nearly full at peak times. No airport of Heathrow's size and economic significance can ever be truly world class when it runs -- as our only hub airport does -- at 99% of maximum permitted capacity. Its rival European hubs have headroom -- operating at around three quarters of permitted capacity. Without that headroom, Heathrow will remain fragile and bedevilled by delays.

High levels of suppressed but uncontained demand at London's airports will have further, arguably more damaging consequences. In the face of scarce capacity, airlines will continue to consolidate on the most profitable routes. Their distinctive business models mean new routes are opened up only once a sufficient level of feeder, or transfer, traffic makes them viable. Airlines are consolidating and forging alliances. Increasingly they hunt in packs for markets, congregating at those hub airports that can most efficiently meet growing, global demand. All the trends are pointing one way. Continental hubs in France, Germany and Holland, in Middle East and Far East countries, and in North and Latin America, are expanding the range and frequency of long haul destinations to business centres. Meanwhile, London and the UK will have fewer direct long haul links to the world. Heathrow's offer will continue to shrink.

The writing's not on the wall -- it's on the destination boards. Already, Heathrow serves the lowest number of destinations it has done since the early 1980's. And while London has direct flights to 3 Chinese cities, Amsterdam has 5, Frankfurt has 6. Other than a couple of charter operations to Goa, no UK airport other than Heathrow has any direct services to Brazil, Russia, India and China. But while Frankfurt has 47 flights a week to China, and Paris 45 -- London has 30. While Frankfurt has 88 flights a week to Russia -- London has 74. While Paris has 48 flights a week to Brazil -- London has 20. They're growing while we're struggling.

So faced with insufficient runway capacity in London, what are our options?

### ***Demand management***

One option is to continue to, in effect, manage demand downwards by the constrained capacity at London's airports. Is the stacking of

aeroplanes over London queuing to land (because of congestion on the ground) a price worth paying for limiting flight capacity into and out of London? Or is this a counsel of despair?

This approach will surely constrain flights -- but not in a way that supports London's ability to compete in the world. A restricted choice of direct long haul flights to high growth economies will make London less attractive as a place to locate and do business, and will limit the UK's ability to attract investment and trade.

### ***High Speed Rail***

What if we use an extended High Speed Rail network to generate a shift away from short haul domestic and European flights towards quicker and more convenient rail journeys?

Assuming some form of High Speed link to Heathrow, assuming that all journeys to Manchester, Newcastle, Edinburgh, Glasgow and Paris were taken by rail, about 10% of runway capacity at Heathrow would be released -- that's after 30 years of building a full domestic high speed railway; and bearing in mind an already mature and growing market: 80% of all journeys from London to Paris are now taken by rail; similarly, 80% of all journeys to Manchester.

In any case, even if all of this freed capacity were somehow kept back as headroom to improve reliability and bring down delays, it would still not bring Heathrow's headroom in line with its European rivals. And of course, current demand would remain suppressed -- the consequences of which I've set out. So an alluringly nice idea doesn't deliver on the arithmetic -- and there's a good chance that a high speed rail link to Heathrow will in fact increase journeys to the airport, to connect to long haul flights.

### ***[Carbon***

Now of course, one cannot seriously consider aviation policy without addressing the issue of climate change. So another medium term option: Can we rely on the growing cost of carbon pricing out all but the most economically valuable flights?

Too often the arguments about global carbon impact are misconstrued and misunderstood. Policy should not confuse the global impact of

flights -- carbon emissions -- with their local environmental impact -- noise and air pollution. They are often plaited for political purposes!

So let us consider carbon on its own. If the Government is to meet its commitment to reduce the UK's carbon emissions, a framework is required that prices carbon consistently across all investment decisions -- not by the location of a piece of tarmac in the form of a runway in one part of the globe, let alone the EU, let alone the south-east of England.

This is the only credible way a society can comprehensively value flying alongside all other forms of consumption and production -- and capture its carbon cost.

But if the right approach is to price in the carbon cost of all forms of production and consumption, there are as yet no mechanisms to do this internationally, at European level or even nationally. The European Emissions Trading Scheme is far from perfect, but is establishing a market mechanism and may, at its most efficient, reflect the carbon cost of flying from 2012.

But while we have the technologies to decarbonise energy -- and the technical means to decarbonise land transport -- and while the aviation industry continues to innovate -- there are as yet few serious alternatives to kerosene. So growth in demand for flights will require the EU to secure carbon reductions from other activities, so that overall EU emissions do not grow.

The same principle applies to the UK's own targets for carbon reduction. If the Government is serious about shrinking the country's total carbon footprint, it shouldn't be picking winners and losers, favourites or pariahs. The Climate Change Committee analysis says significant growth in flights can be commensurate with reducing overall carbon. Blaming aviation is no substitute for an holistic carbon reduction strategy and is unlikely to be the main plank of its economic growth strategy, when it emerges.

The Government has set tough national targets for emissions reduction by 2050. But where is the policy certainty and where are the incentives to underpin private sector investment which would help achieve these targets?

There is lack of strategic coherence in policymaking and presentation. Business and the public are bewildered; the field is open for easy scapegoats -- flying being primary among them. Which is one reason why a partly informed public finds it difficult to accept the Climate Change Committee's conclusion that the UK's carbon reduction targets can be met, even with 55% growth in flights.

The UK unilaterally denying itself the benefits of sufficient airport capacity won't necessarily reduce flights, even it does cut the direct flights our economy needs.

Passengers and flights poorly served or unserved by Heathrow will catch a fast train to Paris, Schipol or Frankfurt and fly from there. It might not be long until they ask themselves: "why don't we move our offices near to where we fly from?"...

### ***Growing demand***

So what is left to meet growing demand? Well, London's success faces clear and present dangers. A policy that ruled out the growth of London's three largest airports, and rules out new runway capacity in the South East, would be a lame response to them.

The industry and Government need to apply fresh thinking, beyond old, dogmatic mantra. New runway capacity is needed, and a review of the UK's aviation policy that ruled out options for London and the South East would be neither comprehensive nor credible.

Let me be clear. I'm not wedded to any one solution. Business is not wedded to any one solution. We are wedded to being able to go about our business, to competing for trade, to growing our businesses. That will generate investment, tax revenue and jobs for Britain, but it will require a plan to grow our international transport links in both the medium and the long term. If the last government appeared fixated by Heathrow, this government risks... being fixated by Heathrow.

There are difficult balances to strike. But they can -- and must -- be struck. The local environmental impact of new runway capacity must be firmly and credibly contained. Having set thresholds for acceptable levels of noise and air pollution, flights should be removed if they are breached. Any new runways should be conditional on entrenched and continuous improvement in service quality -- there should be no new flights unless service levels compare to the best in Europe. Scheduling

and slot allocation should be managed so that runway use doesn't always ratchet upwards. The passenger has had enough of reliability damaged by squeezing in yet more flights.

A standard should be set for delays which, if breached, would require flight numbers to reduce. And why not, in contrast to flight numbers, which presently ratchet upwards, guarantee that noise and air pollution be subject to a ratchet downwards, encouraging technological innovation, so that in time the local environmental impact diminishes.

So to those in the aviation industry -- talk to us; engage business on the options. If you draw any lesson from the previous Government's consultation on Heathrow's third runway, it is that beating us over the head with an answer, before we understood the question, does not work. We're ready to discuss the best ways of delivering world class international links, and the capacity required to support them.

And to Government -- if you are serious in wanting to rebalance the economy towards exports, to deliver the infrastructure that will underpin private sector investment and trade, then don't begin your policy discussions by ruling out half the options.

If you seek partners in driving forward the country's prosperity.... Commit to developing a plan not just for the long term but for the medium term too -- that grows London's links to the world.

Business is willing to join this debate but let's not define the answers before we ask the right questions.