Developing a Sustainable Framework for UK Aviation: Scoping Document – Consultation
London First Response
20 October 2011

London First welcomed the announcement by the previous Secretary of State for Transport of his intention to develop an aviation policy framework. Our response to the scoping document is informed by extensive discussions with London First members as well as with the Commission of business leaders London First has established to examine the capacity and quality of London's transport infrastructure links with the rest of the UK and the wider world. This Commission will publish its final report, with recommendations, in January 2012, and will provide greater detail on the headline positions set out below. Further background to the Commission can be found in the Annex to this response and at www.londonfirst.co.uk/connectivity-commission.

London First is a business membership organisation with the mission to make London the best city in the world in which to do business. We represent the capital's leading employers in key sectors such as finance and professional services, property, ICT, creative industries, hospitality and retail.

Executive summary

- **London's ability to grow as a leading centre for world trade and commerce is critically dependent on its access to global markets.**

  London is a leading world city whose success depends on international trade and commerce. Over ninety per cent of respondents to a London First survey[1] stated that international air links were critical to their business and that these links will need to grow if London is to remain globally competitive. The IMF predicts that in the next ten years approximately half of all the economic growth in the world will be in emerging market countries.[2] Business, Government and the country is increasingly looking to these markets for demand and growth.

- **Much of the air transport infrastructure – and particularly hub infrastructure – underpinning London's connectivity is heavily congested and lacking in resilience.**

  London First members have expressed concern that the consequences of demand outstripping supply – diminishing access, quality and resilience – are being felt now and represent a clear and present threat to London's competitiveness. These consequences are clearest at Heathrow, the UK's only international hub airport, which is operating at or near the very limits of its capacity.

- **London requires a world-class hub airport able to meet growing demand.**

  Without additional hub capacity, London is unable to meet current demand – let alone cater for growth. Airlines are having to make difficult choices about where not to fly. Without new capacity at Heathrow, they are forced to recycle existing slots to establish new services. This has resulted in the growth of services on more profitable routes at the expense of, amongst other things, long-haul services to new markets which are both risky and, to begin with, unprofitable. This constrains the ability of businesses located in London to do business with growing markets and weakens the UK's prospects of securing new inward investment from these areas.

- **The growth in demand for travel appears unlikely to reduce significantly as a result of ICT. Meeting growing demand can be compatible with the UK's carbon reduction targets.**

  The Committee on Climate Change concluded that meeting rising demand for air travel could be compatible with achieving overall carbon reduction targets.[3] Moreover, business believes that while substitutes for travel will grow in importance, the need for face-to-face meetings will endure and increase with economic growth. The view of London business is unambiguously that demand for London's air links will grow at, or near, historic rates.

- **The development of a sustainable policy framework for aviation should not, *ex ante*, rule out options for new capacity in London and the South East.**

  A new aviation policy framework should be informed by an understanding of which new air transport infrastructure is most likely to yield the greatest contribution to sustainable economic growth, including wider economic benefits. It should not rule out options for new capacity in London and the South East before proper analysis of their costs and benefits. Government should develop an objective framework that sets the criteria for expansion and its local environmental impact, alongside an effective mechanism for their enforcement.

Detailed response

Our response focuses on the scoping document's questions that are of greatest relevance to business and will be further developed by our Connectivity Commission in its final report. It groups these questions accordingly.

<u>International connectivity</u>

5.9 How important are air transport connections – both international and domestic – to the UK at both national and regional levels?

5.11 Are direct connections from the UK to some international destinations more important than others? If so, which and why?

5.12 How will the UK's connectivity needs change in the light of global developments in the medium and long term (twenty to fifty years)?

1. London is a leading global city whose success depends on its international trade and commerce rather than its hinterland. It is a major trader with the world, accounting for around a third of all UK services exports. It is Britain's principal gateway to capital and labour from overseas and is home to the European headquarters of one-third of the Fortune Global 500 companies and a leading European destination for foreign direct investment (FDI),4 accounting for almost forty per cent of the UK's FDI.5

2. London's principal competitors as a location for economic activity are other world cities, whether traditional rivals such as Paris or New York, or cities in or close to high growth[6] and fast emerging economies.[7] These cities are increasing their efforts to attract business and talent, not least by investing to increase and improve the infrastructure that connects them to the rest of the world. London is in competition with other European cities to secure good connectivity to growing markets to enable more two-way trade and commerce.

3. Over ninety per cent of respondents to a London First survey[8] stated that international air links are critical to their business and that these links will need to grow if London is to remain globally competitive. The IMF predicts that in the next ten years approximately half of all the economic growth in the world will be in emerging market countries.[9] The country as a whole, Government and individual businesses are therefore increasingly looking to these markets for demand and growth. There is a clear correlation between volumes of trade and air travel.[10] London's ability to grow is critically dependent on securing adequate access and connectivity to growing markets.

4. The challenges are clear. The range and reach of London's air transport links to the UK and the wider world are extensive, but demand for them has outstripped supply. Heathrow, the UK's only international hub airport, is full. As the Department for Transport (DfT) states,[11] total demand for flights in the UK is forecast to double by 2050, and demand for business flights is forecast to grow eighty per cent by 2030. While there is some spare capacity at some London airports, notably at Stansted and London City, this in itself will be insufficient to meet demand at these airports in ten to twenty years. Heathrow, Gatwick, Stansted and London City airports are forecast to be full by 2030.[12]

5. London First members have expressed concern that the consequences of demand outstripping supply – diminishing access, quality and resilience – are being felt now and represent a clear and present threat to London's competitiveness. They believe that without new runway capacity in London and the South East, London's ability to compete for trade, talent and investment, and to support the UK's growth, will erode progressively over the next decade and beyond. Action is needed now to neutralise this threat.

Hub airports

5.10 As long as people and goods can easily reach their desired destination from the UK, does it matter if they use a foreign rather than a UK hub airport?

5.13 What are the benefits of maintaining a hub airport in the UK?

5.14 How important are transfer and transit passengers to the UK economy?

6. A hub airport is essential to London's connectivity with the rest of the world. London vies with other world cities as a centre of economic activity, and its success is critical to that of the country as a whole. It competes to attract talent and investment from around the world, and its ability to do so depends heavily on a wide and deep network of direct international connections to other world cities and cities in new and growing markets. The decisions made by international businesses to invest, locate or remain in London are heavily influenced by the ability to access efficiently, frequently and directly the markets, clients, staff and resources needed to maintain a critical mass of productive and growing activity. It is vital that London's direct international business connections are maintained and improved.

7. Heathrow is the UK's only international hub airport and supports frequent direct flights to 82 long-haul destinations.[13] The hub and spoke model – which allows airlines to bring passengers from a variety of locations together and, by concentrating demand in one location, fly a variety of routes efficiently – enables Londoners to fly direct to a wide range of destinations, and provides greater frequency of flights on key routes. London's ability to seek out new markets, compete successfully for global economic activity, and secure the jobs, investment and growth that should come to London and the UK is critically dependent on a growing range and frequency of direct flights.

8. But Heathrow is full. A policy framework that constrains Heathrow from growing will erode London's international competitiveness at a time when it is vital to securing economic growth and job creation. Without new hub capacity, London is unable to meet current demand – let alone cater for growth. Demand is already outstripping supply and as a result airlines are having to make difficult choices about where not to fly. One consequence is that regional flights within the UK are being cut; another is that flights to new markets are less attractive than those to established, profitable destinations. Thus:

    - Heathrow has good links with Hong Kong but only five flights a day to the rest of China (Beijing and Shanghai); while Paris has 11 daily flights to four Chinese destinations and Frankfurt has 10 daily flights to six Chinese destinations.
    - Paris has 48 flights a week to Brazil; London has 20.
    - There are a further 13 airports in emerging market countries with at least one weekly service to a European hub, but none to London.

9. Most of London's competitor cities in Europe have large hub airports with the headroom to operate more flights as demand increases and further increase their range and frequency of routes compared to Heathrow. Frankfurt is due to open a fourth runway imminently. This means that businesses located in London have poorer links with growing markets than their competitors in other European cities. London's attractiveness as a destination for new inward investment from the areas that cannot fly here directly is reduced, as is the prospect of creating new trade links.

10. The lack of capacity at Heathrow also affects the quality of service that passengers experience, as there is no slack built into the schedule to allow the airport to recover from unscheduled events. The inevitable consequence of intense utilisation is that any delay – caused by anything from a technical fault, to bad weather or a late arriving plane – has severe knock-on effects. Flight delays from stacked planes are common

as a result. Users of Heathrow face the longest flight delays of all comparable European airports, and Air Traffic Control is regularly forced to impose restrictions because congestion reaches such a level that 'normal' operation levels have to be suspended.

11. Moreover, a lack of capacity has damaging environmental consequences. Sixty per cent of arriving flights circle in holding patterns above the capital for a total of 55 hours a day, burning 190 tonnes of fuel and discharging 600 tonnes of CO^2.[14]

5.16 Would it be possible to establish a new 'virtual' hub airport in the UK with better connectivity between existing London and / or major regional airports? Could another UK airport take on a limited hub role? What would be the benefits and other impacts?

12. We have not seen a detailed and costed proposal for a 'virtual' hub in the UK, so have yet to form a definitive view. However, following discussions with members and others, we are not at present persuaded that a 'virtual' hub model is likely to work for London in practice. Having considered examples from around the world, we have not been able to identify a successful virtual hub model with potential applicability to Heathrow. In particular, we are sceptical that the options being proposed could deliver:

- the minimum connection time required by passengers, compared to European hubs that have facilities co-located on one site, to make them competitive;
- the economies of scale required by airlines in pooling fleets and generating network benefits, to enable them to be competitive with European hubs (as was demonstrated when British Airways tried unsuccessfully to split operations in the 1990s).

13. We are concerned that these options represent a diversion from the hard choices facing policy-makers now.

Making better use of existing capacity

5.21 To what extent do UK airports meet the needs of their customers? How might those needs be more effectively met within existing capacity? What is the right balance between competition and regulation?

5.23 How can we support Heathrow's hub status within the constraints of its existing capacity? Can we do this in a way which is environmentally acceptable?

5.26 Could existing airport capacity be more efficiently used by changing the slot allocation process, for example, if the European Commission were to alter grandfather rights? If so, what process of slot allocation should replace it?

5.27 What provision, if any, should be made for regional access into congested airports?

14. The range and quality of London's air links is mixed. London is served by four point-to-point airports and Heathrow, which provide passengers with considerable competition

and choice, certainly for short-haul services. However, Heathrow is full, and unable to offer the range of international long-haul destinations that London needs to support growth.

15. In principle there are a number of ways in which Government could intervene to redistribute existing airport capacity. The scope for such action is limited by a mix of international treaties and EU-wide slot regulations and property rights, but the Government has some policy levers to change the incentives at Heathrow, most obviously the regulatory regime (which sets landing charges at Heathrow), and the tax regime on air journeys. Either or both of these could in principle be used to encourage flights to certain destinations at the expense of others.

16. However, we are sceptical that such an approach would deliver acceptable and efficient outcomes. Greater intervention is fraught with practical difficulties, and any attempt to optimise scarce capacity requires the Government to interpose its own views on the relative value of alternative slot usages in place of the current market-based approach. The current mismatch between supply and demand is already creating distortions. Intervention will create further, unanticipated distortions and gaming will result. And as demand grows, these distortions will increase. Critically, such an approach would serve as a diversion from the real need: more capacity to provide greater connectivity.

17. In the short term, operational changes – such as those identified by the South East Airports Taskforce – could make a substantial positive contribution to improving the quality of service. We support the tactical application of mixed mode to improve the passenger experience and cut delays, and look forward to seeing the results of planned trials. In the medium to longer term, however, additional new runway capacity is needed to rectify the fundamental mismatch between demand and supply.

Climate change and local environmental impact

5.39 What scope is there to influence people and industry to make choices aimed at reducing aviation's climate change impacts, e.g. modal shift, alternatives to travel, better information for passengers, fuller planes, airspace management (which can also help reduce local environmental impacts)?

18. Given the lack of quantitative evidence indicating long-term trends (the DfT itself, for example, has no empirical evidence on the uptake of alternatives to travel and the impact they are having on overall travel taken) policy-makers should guard against incautious statements on future demand based on a fundamental shift in attitudes to travel or technology. In the evidence we gathered from business, it is clear that while many large companies have reduced some demand for travel – mostly within the UK, and for routine or transactional work – this is being offset by increases in demand for travel elsewhere in the world. We found three common themes emerging.

19. Firstly, large international businesses with headquarters in London or major operations in the UK are increasingly adopting strategies to cut the cost of travel and as a result, where possible, reduce the need to travel. This echoes research showing that significant cuts in corporate travel budgets in the last two years were accompanied by more explicit corporate travel policies, greater scrutiny of the need to travel and enforcement of formal pre-trip approval.[15] It is unclear whether this scrutiny

will remain permanent and widespread, and while it may have had some impact on the aggregate amount of travel taken, its effectiveness was largely dependent on access to appropriate, alternative forms of communication such as video conferencing (VC).

20. Secondly, while the recession has sharpened the focus on travel budgets, this focus was in place before the credit crunch. Carbon reduction has on the whole been a corollary to the drive for efficiency, although in a few cases (for example, the nine companies[16] that have signed up to the WWF's 'One in Five Challenge'[17] and pledged to cut twenty per cent of their business flights within five years) it is a goal in itself.

21. Thirdly, corporate travel policies to cut the cost and carbon impact of travel have in many cases been supported by significant investment in VC and teleconferencing, as well as the increasing use of more low-tech forms of remote communication[18] for transactional work. However, it is not apparent that remote communication has radically altered demand for travel overall. It has led to reductions in travel, largely for internal meetings, and mostly within the UK. It has also spurred a trend to more flexible working patterns, with about one in ten UK employees now working at least one day a week from home.[19] But the commensurate reductions in travel are often offset by the enduring demands from clients in an increasingly globalised economy to meet face-to-face.

22. The view of our members is that the need for face-to-face meetings is unabated and that tech-mediated communication (email, teleconferencing and VC) remains a complement to face-to-face communication, not a substitute. Indeed, in some instances remote communication has supported greater initial reach into new and growing markets, particularly in Asia and the Middle East, with the consequent opening of new travel routes. It has also enabled better planning and preparation to optimise the time spent meeting in person, increasing the value of doing business face-to-face, and as a result has in some cases driven up the frequency of travel taken.[20]

23. We see broad consensus from our members around the proposition that as globalisation increases the tradability of goods and services and the flow of capital between countries and regions, revived economic growth will increase demand for travel. There are a range of powerful social and cultural reasons underpinning the basic human need to establish contact, trust and relationships face-to-face. The need to do business in person has not changed, nor has the call from clients to do so.

5.19 How could the benefits from any future high speed rail network be maximised for aviation?

24. We support a high speed rail network linking to Heathrow airport and to HS1, and urge further work to identify the most efficient ways of doing so, to make competition between air and rail services as effective as possible. However, a high speed rail network that puts the cities of Britain in closer contact with our only hub airport will likely increase demand on that airport, and Heathrow is already full. An integrated approach to transport policy is required, ensuring high speed rail dovetails with increasing runway capacity in the South East – at our national hub and elsewhere.

25. The delivery of a new high speed rail network can complement an increase in runway capacity at airports in the South East and will, at the margins, be a substitute as some short-haul flights migrate to rail. But it can never be a substitute for a national aviation policy that supports economic growth. Around eighty per cent of all journeys to-and-from London to Manchester are already taken by rail, and there are currently no flights at all between London and Birmingham. Analysis indicates that there is the potential for around four per cent of air traffic movements at Heathrow to be substituted by a high speed rail network extending to Manchester and Leeds[21] – a marginal release that would quickly be consumed, given pent-up demand.

5.5 How, and within what constraints, can aviation growth occur as technological developments and improved operating procedures reduce CO^2, pollutant emissions and noise impacts?

5.31 What role should aviation play relative to other sectors of the economy in reducing greenhouse gas emissions in the medium and long term?

26. The DfT has responded to the Committee on Climate Change's 2009 report, which stated that passenger growth of sixty per cent by 2050 could be compatible with meeting national carbon reduction targets. The DfT has set out an analysis of the cost-effectiveness of measures and policies needed to reduce aviation's CO^2 emissions, and we look forward to hearing its final views on this matter.

27. We support the approach the Government has taken to prioritise transport infrastructure most likely to underpin economic growth. A new aviation policy framework should be informed by a similar understanding of which new air transport infrastructure is most likely to yield the greatest contribution to sustainable economic growth, including wider economic benefits. There are of course other objectives for transport policy beyond maximising economic growth. They include carbon reduction, which will be spurred by consistently pricing carbon across all investment decisions, and reducing the local environmental impact of flights (and the surface transport which services them). Whether monetised or not, these should be inputs to a credible, transparent and consistently applied aviation policy. A new aviation policy framework should not rule out options for new capacity in London and the South East before proper analysis of their costs and benefits.

28. Government should develop an objective framework that sets criteria for expansion and its local environmental impact, alongside an effective mechanism for their enforcement.

Annex – London's Connectivity Commission

London First has established a Commission to examine the capacity and quality of London's transport infrastructure links with the rest of the UK and the wider world, (rail, road, air, and digital where it offers an alternative), which will make recommendations for the short, medium and longer term to Government (and others as appropriate).

Its start point is the proposition that London's continued success as a leading centre for world trade and commerce is critically dependent on improving and increasing the movement of people to and from the capital.

The Commission is chaired by Peter Robinson, Chairman and Partner, Berwin Leighton Paisner, and has as commissioners:

Peter Damesick – EMEA Chief Economist, CB Richard Ellis
Chris Elliott – Managing Director and Head of Infrastructure Investing, Barclays Capital
Sir Adrian Montague – Chairman, 3i, Anglian Water and London First
Ruby Parmar – Senior Partner, PwC
Mike Redican – Managing Director, Deutsche Bank
Francis Salway – Group Chief Executive, Land Securities
Andy Street – Managing Director, John Lewis
John Vincent – Director of Strategic Planning and Advisory Services, AECOM

The Commission has gathered evidence, both written and oral, from businesses, policy-makers and experts, and will launch a final report in January 2012. It began by publishing a Call for Evidence.

Further details can be found here - http://www.londonfirst.co.uk/connectivity-commission/.

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[1] London First survey, November 2010.
[2] World Economic Outlook (WEO), IMF, April 2011.
[3] Meeting the UK aviation target - Options for reducing emissions to 2050, Committee on Climate Change, December 2009.
[4] Ernst & Young European Investment Monitor 2009.
[5] Ernst & Young, Destination UK: Sustaining success in the new economy, 2011.
[6] Brazil, Russia, India, China, Mexico, Korea, Turkey and Indonesia - together they account for 23 per cent of world GDP now, source: Goldman Sachs, January 2011.
[7] Emerging Markets are fast growing economies but lower contributions to total world GDP growth. They currently contribute 12% of world GDP. In order of the size of their economies they are: Poland, Saudi Arabia, South Africa, Argentina, Iran, Venezuala, Colombia, UAE, Malaysia, Egypt, Nigeria, Chile, Czech Republic, Philippines, Pakistan, Romania, Peru, Ukraine, Hungary, Qatar, Kuwait, Bangladesh, Vietnam. Source: Goldman Sachs, January 2011.
[8] London First survey, November 2010.
[9] World Economic Outlook (WEO), IMF, April 2011.
[10] See Flying on Business, A study of the UK Business Air Travel Market, CAA, December 2010.
[11] UK Aviation Forecasts, Department for Transport, August 2011.

[12] Ibid.
[13] By airlines offering daily services or better.
[14] NATS data as reported in The Telegraph, 28 June 2011 ('Heathrow data shows capacity crisis costing thousands').
[15] See Flying on Business, A study of the UK Business Air Travel Market, CAA, December 2010. Cf surveys undertaken by both the Institute of Travel and Meetings (ITM) and the Guild of Travel Management Companies (GTMC), which together represent over £20bn of corporate travel purchases a year.
[16] Arkadin, Capgemini, Marks & Spencer, Premier Global Solutions, Skanska, BT, BSkyB, Microsoft, Vodafone.
[17] The One in Five Challenge is a guided programme and award scheme which suggests practical ways for companies and organisations to reduce the number of business flights they take, and pursue lower-carbon ways of staying connected. C.f. 'One in Five Challenge Annual Report 2009/10, WWF, 2010.
[18] For example skype, webex, office communicator.
[19] Labour force survey, ONS, September 2011.
[20] From analysis undertaken by ITM.
[21] High Speed Rail Access to Heathrow: BAA 2nd Submission to the Lord Mawhinney Review, April 2010.