



Responsible growth

BAA's response to the Government
consultation *The Future Development
of Air Transport in the United Kingdom:
South East (SERAS)*

A summary of BAA's submission

A sustainable aviation policy for the UK over the next 30 years will require the Government to choose up to three runway sites in South East England, from, in effect, a field of four: Heathrow (one), Gatwick (one) and Stansted (two). These expanded airports should continue to be operated as a single system, in order to obtain the maximum efficiency and flexibility from this expensive but vital national infrastructure. In choosing between options for new runways in the South East, the Government will have to make a trade-off between economic benefits and environmental impacts associated with each scheme.

BAA is publishing its response to the Government's SERAS consultation some weeks ahead of the closing date for responses, in order to allow others the opportunity to consider our thinking. We reserve the right to make a further submission before the consultation period closes.

UK aviation: the case for growth

The UK aviation industry is one of the UK's success stories. It directly employs 180,000 people and is responsible for generating a further 370,000 jobs. Our airport and airline industries are not just globally competitive in their own right. They also play a crucial role in promoting growth in the productivity and competitiveness of the wider UK economy, and in supporting the wealth, investment and employment potential of the UK's regions.

High-knowledge and high value-added activities such as information and communications technology, electronics, pharmaceuticals, biotechnology, research and development, insurance, banking, finance and communications, in which the UK is globally powerful, are critically aviation-dependent, as is the UK's largest employer, tourism. International air services are also a key decision factor in attracting inward investment and corporate headquarters to the UK and its regions. The provision of substantial new airport capacity in the South East of England is therefore a critical issue for the UK economy and its competitive future.

Other European governments have shown strong recognition of these arguments, providing enlarged runway and terminal capacities which have enabled airports at Paris, Frankfurt and Amsterdam to grow more rapidly than the UK's main airports in recent years. Amsterdam's Schiphol Airport now has more runways than Heathrow, Gatwick and Stansted combined.

Aviation has also brought considerable social benefits to the UK and its citizens. Flying is now within reach of the vast majority of the population and is a fully integrated part of the national public transport system. The increasing availability of air travel promotes social inclusion and enhances personal mobility. Modern, lower-cost air transport has opened up important opportunities for leisure travel and made it possible for friends and families to visit each other, however far apart they have become geographically. This represents a crucial aspect of Britain's response to the process of globalisation.

A high-quality, efficient air transport industry also gives people the chance to experience cultures and heritage previously only accessible through television and museums. This works both ways, as the UK is an important cultural destination for travellers from all over the world. The UK – and London in particular – is still one of the most cosmopolitan, culturally-diverse and ethnically-tolerant places in the world. Air travel has helped make this possible.

Why we need more runways

The Government forecasts that demand for air travel in the South East will grow from 117 million passengers a year in 2000 to around 200 million in 2015 and 300 million in 2030. No-one can be certain about such forecasts, but we have concluded that the Government's figures are a sound basis for policy making. While some might argue that the forecasts look high, experience has shown that previous estimates have often been too conservative. In simple terms, these forecasts mean that the average London area resident who today takes an average of one and a half round

trips by air per year will, by 2030, take roughly three round trips. It is not difficult to imagine how a combination of holidays, family visits, sporting events and work will generate such a pattern of flying. In 1972, for comparison, every resident took an average of less than half a round trip, in an era when air travel was very much the privilege of the few, not the many.

We therefore believe that the forecasts provide the right framework for planning. They already take account of demand reductions resulting from anticipated environmental charges, so do not represent unfettered growth or a predict and provide approach. What they provide is a sound basis for planning for future needs, so that sites for runways can be safeguarded and development delivered in the most effective and flexible way. If the predicted demand does not emerge, our approach allows for runway provision to respond accordingly.

There are no alternatives

While regional airports outside the South East are properly expected to grow faster than airports in London and the South East, they have only a very limited ability to contribute to meeting the forecast demand for air travel in the London area. It would be a serious mistake to think of expansion at regional airports as a substitute for additional capacity at London's main airports.

Neither is it possible for smaller regional airports in the South East to provide significant alternative capacity to that needed at the main airports. Government policy should, nonetheless, continue to extract maximum performance from smaller South East airports and to support regional airports in meeting the demand that they can reasonably be expected to accommodate, subject to the achievement of other social and environmental policy goals, for both point-to-point demand to London as well as access to London for onward transfer.

BAA also welcomes enhancement of the UK rail network, but we believe that the scope for high-speed rail substituting for domestic and short-haul air services

is very limited, not least because if the Government was successful in delivering the kind of improvements needed to deliver a high-speed rail network, there may be potential for at the very most 4% of the domestic traffic at the London airports to substitute to rail. At that level, the transfer would make no material difference to the underlying need for new runways in the South East.

The Air Transport White Paper: the right approach

In the Air Transport White Paper, the Government has the opportunity to set out a robust and deliverable long-term framework for aviation to underpin its wider economic strategy. Failure to do this would not only damage the UK's national and regional economies, but it would also consign UK aviation to the same cycle of under-investment and gridlock that has characterised other parts of the UK transport system. That is why, in the Government's own words, 'on any view, doing nothing is not an option.'

The Government has taken the right steps so far in bringing forward options for consultation and is right to tackle aviation and airports policy on a UK-wide basis and across a 30-year horizon. But as soon as practicable, following the closure of the consultation, and certainly by the end of 2003, the Government should publish its White Paper, setting out a sustainable and deliverable 30-year aviation policy framework, so that work can begin on the complex issues which lie ahead.

It will be up to the Government to take the key, specific decisions on the number of runways to be provided and their location. In South East England especially, the impacts of airport expansion are so various and widespread that only the Government can make the necessary strategic judgments. In aviation, there are also numerous international regulatory obligations, upon which only the Government can speak.

A firm but flexible policy framework

In BAA's opinion, the White Paper policy framework needs to be firm enough to provide the necessary clarity to everyone involved, but flexible enough to be robust in the face of inevitable change in a dynamic industry.

For the UK, the optimal approach is one which enables capacity to be provided throughout the South East airports system, creating a flexible base for future developments in UK aviation. This approach would recognise the continued attractiveness of Heathrow as a network hub airport, with or without another runway. While Heathrow's hub role would diminish over time without another runway, relative to Paris Charles de Gaulle, Amsterdam Schiphol and Frankfurt, it would remain a very major global airport providing a network of routes to support London's World City status. This approach would provide a foundation for other South East airports to grow as network providers, as well as bases for point-to-point operations, ensuring that additional airport capacity exists to allow airlines to respond to changes in the market. It cannot be denied, however, that an approach which limits Heathrow to two runways risks damaging London's long-term status as an international aviation hub.

BAA consequently wishes to see clear Government decisions on the following points:

- i The airport location(s) in the South East where new runway development should not be provided during the period covered by the White Paper, so that unnecessary blight is avoided.
- ii The airport location in the South East where a new runway is most urgently needed, along with an indication of the type of runway envisaged and its associated infrastructure.
- iii The other airport location(s) in the South East where new runways will, in all probability, be needed during the 30-year period, and where land should therefore be safeguarded.
- iv The number of runways and the type of runway development, along with their supporting infrastructure, which would be provided at each of these other airport locations.

BAA believes that beyond the first runway, the timing and the sequencing of runways should not be prescribed in the White Paper, but that airport developers should be encouraged to bring forward detailed applications at specific locations identified in the White Paper in response to evolving conditions.

Responsible growth

BAA is committed to the principle of sustainable and responsible development and supports the Government's core sustainability objectives, namely:

- ➔ Maintenance of high and stable levels of economic growth.
- ➔ Social progress which recognises the needs of everyone.
- ➔ Prudent use of natural resources.
- ➔ Effective protection of the environment.

Responsible growth in air transport and airports should take place only where it is in accordance with these sustainability objectives. Nationally, however, there is still a balance to be struck in weighing up the economic benefits to the UK and the environmental impacts. However, we believe that there are certain known environmental limits, such as the earth's capacity to handle greenhouse gases, which demand a clear and specific response. BAA recognises such environmental capacity issues, in this case favouring a regime of international emissions trading.

But the discussion about airport development should not purely focus only upon environmental limits. It should also recognise economic and social costs and benefits, not least in the communities around airports, which enjoy significant employment benefits, as well as suffering adverse environmental impacts.

BAA has demonstrated a first-class track record of funding and delivering high-quality airport capacity infrastructure over the last 15 years, working within costs and to time. We are also the most successful airports company in the world at maximising passenger throughput with the minimum land-take. The Government can therefore have confidence that, where

its new airports policy relies on development at BAA's airports, it has the best possible chance of the relevant projects being successfully delivered and managed within its overall objectives of sustainable development.

BAA is also determined to maintain effective working relationships with a wide range of stakeholders, including local communities, passengers, airlines, staff and control authorities, so that they can help us ensure that our investment is made in a way which maximises the benefits, minimises the disbenefits, and secures the widest possible support. This is what we mean by stating that the company's goal is the responsible growth of UK aviation.

All of the SERAS options will cost several billion pounds. These options will provide capacity to meet growth in demand for the South East overall. It is therefore both right and necessary for the Government to adopt a policy towards regulation and financing which allows the resources of all BAA's London airports and their passengers to be available to support investment in additional runways wherever they are located.

Safeguarding the environment

BAA recognises that one of the most important environmental issues facing aviation is its contribution to greenhouse gas emissions. We believe that international aviation emissions should be brought within the Kyoto framework as soon as possible, and that the most efficient solution to address aviation's contribution to climate change is through a system of tradeable permits in emissions, involving an environmentally-credible emissions trading system which is open and international. This will force the aviation industry to make a choice: either cut its emissions, or pay for other industries to deliver matching emission reductions.

Because of the potential health impacts of ground-based pollutants, BAA also recognises that the Government needs to be confident that levels of all relevant pollutants could be consistently contained within the EU Directive limits due to apply in 2010. Aviation emissions should not cause breaches of the limits laid down on the EU Directive. But it is important

to recognise that aviation is not the only, or the predominant, source of such emissions and that any action must therefore involve a wide range of players.

Our work on the modelling and measurement of local air quality around Heathrow demonstrates that the Government's analysis is very pessimistic, and does not offer an accurate picture from which to devise effective mitigation measures. Having established this, we believe that advances in engine technology will bring about further reductions in aircraft fuel consumption, which will directly help reduce emissions of particulates and nitrogen dioxide. Meanwhile, our plan to provide fixed electrical ground power and pre-conditioned air on aircraft stands, together with operational procedures designed to reduce aircraft taxi times and the increased use of cleaner-fuelled vehicles, will all contribute to reduced emissions at airports. Our assessment is therefore that the Government significantly over-estimates the numbers of people predicted to fall within areas where the EU Directive limit for nitrogen dioxide would be exceeded.

We nevertheless recognise that uncertainty remains over how compliance with the EU Directive can be achieved. For example, it is unclear what action governments may need to take in order to ensure compliance in a number of UK and EU urban areas, as well as what action the Government considers might be achievable through the International Civil Aviation Organisation (ICAO), in order to require aircraft engines to comply with even stricter emissions standards. These are matters on which the Government itself is best placed to judge the likely future outcomes as it has the responsibility for these matters.

For the people living under a flightpath or close to an airport, noise is a major concern and its effective management is integral to locally sustainable and responsible development. And while aircraft have been getting progressively quieter, there is no escaping the fact that new runways will lead to increases in the noise footprint around airports. While the UK Government has a role to work with other governments in developing an international framework to incentivise aircraft and engine manufacturers, we accept that

responsible development means that airlines and airports must make further progress to reduce the noise impacts of their operations.

Where surface access is concerned, BAA believes that decisions on funding and delivery of future rail schemes to airports and the provision of road user charging powers for airports are vital elements in planning for the sustainable growth of aviation.

Paying for environmental impacts

BAA agrees that, in common with other industries, aviation should cover its external costs. However, we do not believe that simply monetising and internalising these costs is the solution to environmental impacts. Nor do we accept that the industry should be taxed or charged twice for the same impacts. It is possible – likely even – that cost internalisation, such as through a tax, would leave air users covering the value of the impacts of flying, but leave the impacts unresolved.

We therefore believe that smart, effective economic instruments need to be identified which internalise external costs by encouraging the aviation industry directly to reduce or mitigate its environmental impact. Such a mechanism would allocate resources in a fair, proportionate, effective and economically efficient manner, unlike a blunt fiscal instrument like Air Passenger Duty (APD), VAT or a potential fuel tax. Any smart instruments targeted at specific impacts should replace the existing blunt instruments, which are currently intended to capture some or all of the external costs.

Planning and delivery

It is essential that an aviation policy which aims to deliver significant capacity and infrastructure is backed by a planning framework which enables timely delivery. The White Paper's focus on deliverability needs to be underpinned by a planning process which prevents unnecessary delays, but which ensures that developers and developments remain open to scrutiny by those affected.

In order to secure common agreement on the delivery of new runways, we believe that the new White Paper should establish a sub-national, Government-led group of all the relevant bodies (including the DfT, Government Regional Offices, Regional Assemblies and Development Agencies, strategic transport providers, NATS and airport operators) to work within the framework provided by the White Paper. This is the way, for example, to agree the funding and delivery of the detailed rail and road schemes.

We very much hope that any further runway development at our airports will be negotiated with stakeholders in this way, against a background of clear and firm UK Government strategy.

Eleven key tests for the White Paper

BAA believes that a sustainable airports policy should be subject to the following key tests:

- 1 Does it provide for the continuing growth of the UK aviation industry, which is important in its own right, and as a facilitator of the success and competitiveness of other industries, and in meeting the needs of consumers?
- 2 Is it economically efficient, making the best use of available airport capacity?
- 3 Is the airport development programme sustainable?
- 4 Does the Government's framework clearly identify the intended location of additional runway capacity?
- 5 Has the Government convincingly set out a robust planning process, so that complex developments can be considered in a more timely manner, while remaining inclusive? Is there appropriate encouragement for local agreements on optimal development, including appropriate impact mitigation, compensation and control measures?
- 6 Is the Government confident that the airports industry will be able to attract private sector funding for the runway development programme?
- 7 Are all the developments envisaged consistent with maintaining or enhancing the safety and security of UK airports?
- 8 Is the strategy customer-led? Will the framework make it possible for UK airports to offer a wide range of high quality services to passengers, minimising

delays, in conditions competitive with those found at other leading European airports? Does the policy provide for appropriate passenger-handling facilities, as well as runways?

9 Is the approach flexible, enabling the UK aviation industry to respond to rapid changes in the competitive climate?

10 Can the Government give the necessary direction and certainty of funding to enable strategic transport authorities to work with airport developers to deliver the rail and road infrastructure required to support development?

11 Is the approach well-balanced, in terms of meeting the international needs of UK business, along with the reasonable expectations of businesses and individuals in the UK's nations and regions?

Options for responsible growth

On the basis of our present knowledge, following careful consideration of the effects reported in the SERAS document and preliminary work at our own airports on airport layout, road and rail access, air quality and other aspects, BAA has reached the following judgements on the deliverability of specific airport options. These are subject to the Government's assessment as to whether the measures needed substantially to reduce the predicted effects of environmental impacts can be achieved, and that fair and effective arrangements for mitigating and compensating for the local community impacts can be put in place. The costs of such arrangements, including the fair and proportionate costs of any airport-related road and rail access, have not been included in the Government's financial appraisal, so the viability of any of the options will be affected by the scale of these additional costs.

Heathrow

A scheme for a short, 2,000-metre runway at Heathrow should be included in a shortlist of four possible sites from which the Government should select up to three in the White Paper. Our preliminary analysis suggests that this scheme would be financially viable and fundable,

subject to the scale of the additional costs not calculated in SERAS, provided that the airport's users are prepared to accept airport charges broadly varying around the level which will exist following the increases for each of the next ten years recently approved by the regulator.

However, we believe that alternative layouts to the option put forward for consultation, containing passenger handling facilities north of the A4, could better deliver the increase in capacity the Government assumed for the runway, and further would enable the Harmondsworth Tithe Barn and St. Mary's Church in Harmondsworth, together with its graveyard, to be preserved, although at the cost of a greater land take.

We broadly agree with the Government's assessment of the noise impacts of a new runway development at Heathrow. However, we believe that the extent to which the relevant EU directive limit for nitrogen dioxide is predicted to be exceeded if a new runway is built has been significantly over-estimated in the SERAS consultation document. As a result, the impact in terms of the number of residents and homes predicted to fall within this area would be substantially less than estimated by the Government. It also needs to be recognised that non-aviation sources are significant contributors to this type of pollution.

Gatwick

A scheme for one new runway at Gatwick should be included in a shortlist of four possible sites from which the Government should select up to three in the White Paper. Our key conclusions in relation to a one new runway scheme are that:

- i The close-parallel option was conceived as having fewer environmental impacts than the wide-spaced schemes which deliver more capacity and take more land, and that is evident from the material reported in the SERAS document.
- ii Either the southern or northern wide-spaced runways option is likely to require additional rail and road infrastructure beyond that needed by the close-parallel runway.

- iii The nature and the scope of the earthmoving activity associated with the northern wide-spaced runway is very substantial and needs to be much better understood, not least in terms of cost.

We believe that a single additional runway at Gatwick would be financially viable, subject to the scale of the additional costs not calculated in SERAS, although the charges needed to remunerate the investment would be significantly higher if applied to Gatwick users only, rather than shared across users of the London system as a whole.

From a surface access perspective, the preliminary work undertaken by the Strategic Rail Authority (SRA) and BAA has provided confidence that a deliverable rail strategy exists for each of the one new runway SERAS options, although the SRA and BAA have not so far been able to identify an appropriate rail strategy for delivering two new runways at Gatwick.

Unlike at other airports where the Government is considering options for runways, at Gatwick there is a legally-binding agreement which the then British Airports Authority signed with West Sussex County Council in 1979, under which the airport operator undertook not to construct a second runway at Gatwick before 2019.

Stansted

Schemes for two new runways, which could be any two of the three SERAS new runway options at Stansted and in any order, should be included in a shortlist of four possible sites from which the Government should select up to three in the White Paper. We believe that one additional runway at Stansted would be financially viable, subject to the scale of the additional costs not calculated in SERAS, although the charges needed to remunerate the investment would need to be shared across users of the London system as a whole. A second new runway could be viable on the same basis, but an appraisal would be best carried out following the investment in the first new runway.

From a surface access perspective, the preliminary work undertaken by the Strategic Rail Authority (SRA) and BAA has identified a number of infrastructure improvements to the West Anglia mainline to increase capacity to support one or two new runways, the most significant being a new railway line from the West Anglia mainline north of Harlow Mill direct to Stansted Airport railway station. However, this work has not so far been able to identify an appropriate rail strategy for delivering three new runways at Stansted.

Cliffe

A scheme for a new airport at Cliffe should not be regarded as a candidate for inclusion in the new White Paper, because of the considerable complexities of developing an airport at a wholly new site within the timescale stated in the consultation documents. We seriously doubt whether Cliffe could be commercially viable without very considerable public subsidy. This option also raises serious environmental concerns.

The full submission is available on our website: www.baa.com/consultation