

Airport Expansion: The Updated Case for Gatwick

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YOUR LONDON AIRPORT
Gatwick

Introduction

Following the UK's recent referendum, Britain has the opportunity to develop new global links that can create jobs, drive growth and open up new possibilities for the country. Aviation will be at the heart of this. It is an industry that is changing fast. Demand is outstripping forecasts and the need for new capacity in the South East is more urgent than ever.

The Government's Economy and Industrial Strategy (Airports) sub-Committee is taking a new and detailed look at an issue that has defeated successive governments for decades. The environmental challenges of expanding Heathrow and flying 250,000 more planes every year over the world's foremost capital city have proved insurmountable. The legal test and public concern around air quality mean these hurdles are higher than ever today. Following the expiry of a 40-year moratorium on a new runway at Gatwick there is, at last, a credible alternative that delivers the same economic dividend for Britain as Heathrow with less risk and lower environmental impact.

A new runway at Gatwick can give the Government the certainty that, finally, something can happen to give the country the connectivity and economic boost it needs. There is a premium on speed. Within a decade Britain could be host to two world class airports in the South East – a strong Heathrow operating alongside a strong Gatwick – enhancing our trading links, stimulating growth and demonstrating an openness and a commitment to connectivity that would be unmatched anywhere in Europe.

Gatwick operates the busiest and most efficient single runway anywhere in the world. Since its separation from BAA, enforced by the Competition Commission in 2009, passenger volumes at the airport have grown from 31m to some 42m this year, an increase in throughput that is equivalent to the addition of a whole new airport the size of Glasgow or Luton. Gatwick now ranks as the ninth largest airport in Europe.

With over 220 destinations in total, Gatwick is the best connected airport in the UK. This year it announced 20 new long haul routes for 2016, bringing the total number of long haul destinations to over 50, including routes to China, Hong Kong, South Africa, Latin America, the USA and Canada. It is clear that airlines are increasingly attracted to the improved facilities and service standards at Gatwick, the result of an investment programme that has more than doubled since the change of ownership in 2009. In addition, Gatwick's relatively low charges and high operational efficiency are critical for its compelling competitive proposition.

A new runway at Gatwick will provide better and more dispersed connectivity and economic benefits than those offered by expansion at Heathrow, at a fraction of the cost to passengers, to the taxpayer and to the environment. It will increase competition in the London airport system and balance growth across the UK. Critically it can be delivered with certainty and sooner than any alternative. Ground could be broken at Gatwick before the next election and the runway officially opened before the election after that.

As the sub-Committee starts to consider a recommendation as to where to expand aviation capacity in the South East, this paper has been prepared to summarise Gatwick's case. The document inevitably compares and contrasts the proposals put forward by Gatwick and Heathrow as the decision is essentially a choice between competing schemes. However our long term vision is that the South East, and the country, will be best served by a network of airports, competing on costs, routes, service and convenience to attract passengers, business and trade to their region and to the country. The expansion of Gatwick offers the opportunity to bring a new force to this vision, connecting Britain to the future, faster.

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1. Summary

Traffic and Economic Benefits

Since the publication of the Airports Commission's Final Report substantial additional analysis has been undertaken, and further information has become available or apparent, including information obtained under FOI requests. This leaves no doubt that a fair and properly executed analysis of Traffic Forecasts, Connectivity and Economic Benefits shows that Gatwick expansion will deliver at least the same connectivity to short and long haul destinations for the UK as expansion at Heathrow, and net economic benefits that will exceed those of either Heathrow option.

It is also clear that the assumptions and forecasts used by the Commission have been overtaken by events and have drastically underestimated Gatwick's growth. This year Gatwick will serve 42 million passengers, a number the Commission forecast would not be reached until 2030. Equally, Gatwick now reaches over 50 long haul destinations, which exceeds the Commission's forecast for 2050, with a second runway.

Expansion at Gatwick better suits the current trends in aviation, which all reflect the focus on lower costs and greater efficiency driven by increasing competition. Examples include the growth of low cost carriers and the development of long haul point-to-point traffic. An expanded Gatwick will deliver much lower costs, greater efficiency and much more flexibility – thus offering the UK a future-proofed solution. It will also inject new competition and stimulate innovation and investment into the air freight market.

Costs

The estimated costs of Gatwick expansion are less than half those of expansion at Heathrow and its first phase is almost one sixth of the costs. This offers passengers the prospect of much lower fares than expansion at Heathrow. Keeping costs low will maintain the UK's competitive position in Europe and the rest of the world.

Gatwick requires no public subsidy for its scheme.

Competition

The break-up of BAA in 2009 is one of the great success stories of competition and aviation policy in recent decades. Expanding Gatwick will reinforce that success in the sector in the South East, and across the nation as a whole, enhancing the benefits brought by a competitive market. Reverting to a market dominated by a single player will reverse many of those benefits over time.

Environmental Issues

Environmental issues are central to the debate on aviation in all advanced democracies and are now more than ever a key issue for the public and for Government. Gatwick's expansion would result in less than 40,000 people being significantly affected by noise – under 5% of the number of people that would be significantly affected around Heathrow. Gatwick has never had an issue in relation to legal limits on air quality, in marked contrast to Heathrow, and its carbon profile is much superior because of the very high carbon impact of the construction of the Heathrow expansion, Heathrow's lower passenger load factors, and the extra capacity required for passengers transferring through London under Heathrow's business model.

The Regional Dimension

Expansion at Gatwick or at Heathrow offers similar aggregate economic benefits to the UK as a whole. By being more supportive of the development of direct air connections to/from cities throughout the UK, expansion at Gatwick helps spread those benefits more evenly across the country. Cities in the north of England, and in Scotland and Northern Ireland, will have more independent international links and a more prosperous future with expansion at Gatwick.

Expansion at Gatwick will also help develop an economic growth corridor from south London to the south coast, an area much more in need of economic stimulus than west London.

Construction and Delivery

Another false start in airport expansion would be more than a setback for the UK – it would be an international embarrassment. Gatwick's expansion scheme is straightforward, will be built on safeguarded land and carries relatively little risk.

Subject to a Government decision by November and normal planning cycles, Gatwick's second runway will be operational by 2025 with planning consent granted within this Parliament. Gatwick's confidence in an accelerated timetable has been validated by Bechtel and other independent planning and construction experts'. By contrast, the path to delivery of expansion at Heathrow is, in the view of those experts, years longer and carries a level of construction risk that is an order of magnitude greater.

Risk

In addition to its much less challenging construction risk profile, Gatwick's scheme carries lower planning, environmental, commercial and financial risks than expansion at Heathrow. The allocation of risk between the promoter of each scheme, passengers and government is very different in each case. Gatwick has committed to absorb substantially all of the commercial and construction risks associated with its project, whereas passengers and taxpayers would carry almost all the risks of delays, cost overruns and demand shortfall under expansion at Heathrow.

Gatwick's Commitments

Gatwick has made a series of pledges to Government and local communities that include the most progressive and innovative compensation package associated with any major infrastructure project in the UK and extend far beyond what Heathrow has committed.

In terms of airport charges, Gatwick has offered to commit on a legal basis either by way of contract or regulation to limiting airport charges at £15 (compared with the £20 stated by the Commission).

In contrast Heathrow has offered no commitment whatsoever on capping airport charges and has stressed that users and the taxpayer should bear the risk. The last minute talk by the Heathrow project sponsors about cutting costs are not accompanied by any commitment to achieving any such savings.

Key Issues for Government

Expanding Gatwick provides a solution to a previously intractable problem, that can be delivered quickly, at low risk and competitively, and signals to the country, to Europe and to the rest of the world that we value competition over monopoly, and that we are determined, decisive, action-oriented and open for business.

It shows to the nations and regions of the UK that we care about the balance of our economy, that we are not going simply to subsidise costly projects in London at the expense of the rest of the country, and that we give priority to the balance to be struck between the economy and the environment.

Lastly, expanding Gatwick shows that in the consideration of even the most substantial infrastructure projects we will not lose sight of the interests of the people to whom this matters most – businesses, local residents and the travelling passenger. By promoting an efficient, competitive solution that keeps costs low we will indeed be laying the foundations of an economy that works for everyone.

Side by Side Comparison

	GATWICK	HEATHROW
Additional Traffic Movements	280,000	260,000
Additional Passenger Numbers	50mppa	35mppa
Cost*	£7.6bn	£15.6bn
Taxpayer Subsidy for Surface Access	No	Unknown, Airports Commission suggested costs in excess of £5bn
Can the Project be phased	Yes	No
Economic Growth	Once Airports Commission Data is corrected in accordance with standard Treasury assessment the economic benefits are broadly the same	
Safeguarded Land for a runway	Yes	No
Estimated population affected by noise in 2040 (55dB Lden)	37,000	837,000
Additional population newly affected by noise in 2040 (55dB Lden)	27,500	381,000
Total number of schools affected by noise in 2050 (54dB Leq)	22	352
Total number of schools affected by noise in 2050 (54dB Leq)	14	108
Air Quality Law Compliant	Yes	No
Ground Conditions	Minimal issues – 1 small historic landfill site with no toxic material	Major challenge – c. 9 million cubic metres of landfill underlie the site including 1 million cubic metres of toxic waste
Total Home Loss	202 Property compensation plus 25% uplift eligible when GAL announces its intention to apply for planning permission	1,072 Property compensation plus 25% uplift but not until construction commences and only with Regulators agreement

* Phase 1 of the Gatwick expansion will only cost £3.0bn and will include the new runway, the first phase of the third terminal and a landside automated people mover.

2. Traffic and Trends in Aviation

Traffic

Liberalisation and deregulation policies of the mid-1990s have resulted in increased competition in aviation with huge benefits in terms of connectivity and cost of air travel.

No one predicted 20 years ago that low cost carriers would dominate the aviation market today. The 2003 Aviation White Paper did not anticipate the increasing prominence of airports in Turkey and the Gulf. Both are illustrations of the increasing speed of change in the industry, a factor which puts a premium on delivering a future proofed solution. Already, the Airports Commission's work is out of date in several fundamental areas.

In 2015 air traffic in the London system grew by over 13m passengers, or 5.6% – much faster than suggested by the Commission. Just rebasing the Commission's predictions of future growth to today's starting point means the London system will reach capacity in 2026, rather than in 2030 as forecast by the Commission. If current growth rates continue then capacity will be reached even sooner.

Gatwick's growth is some 15 years ahead of projections only one year after publication of the Final Report whereas Heathrow's traffic growth is in line with the projections of the Commission. At 42m passengers a year, traffic volumes at Gatwick are already reaching the levels that the Commission forecast for 2030.

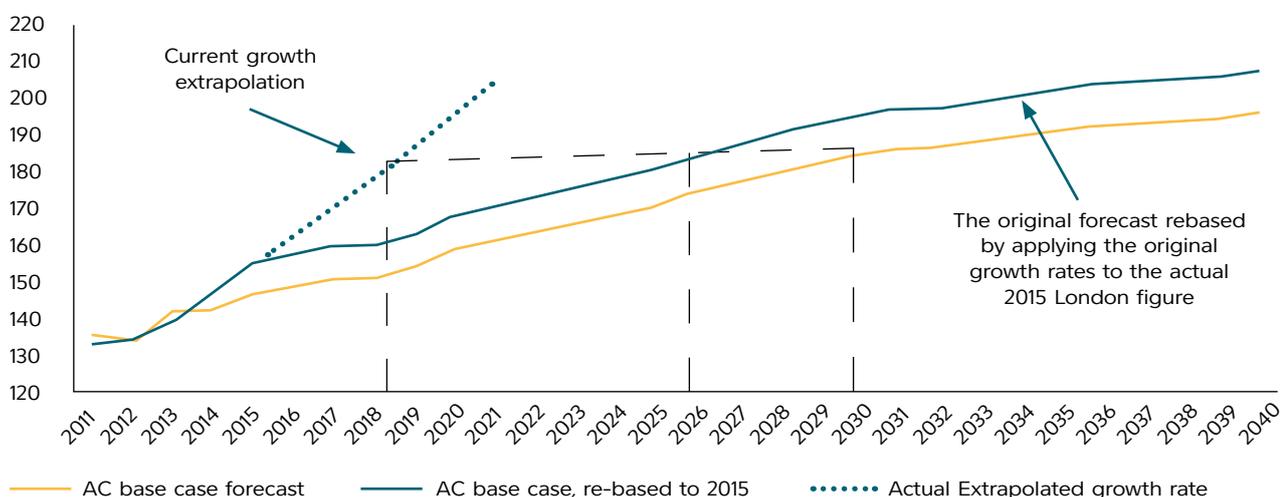
Gatwick has also proved that it can provide the right type of capacity. In addition to addressing the short haul market, Gatwick actively develops new long haul destinations to developed and emerging markets. Gatwick has added 20 long haul routes for the 2016 summer alone, and now serves over 50 long haul destinations for a full range of airline business models. This already exceeds the number of long haul routes that the Commission forecast Gatwick would have in 2050 with a second runway.

With Gatwick traffic already 15 years ahead of the Commission's forecasts and London traffic now more than 10m passengers per annum ahead of predictions, there is a clear need for additional capacity to be delivered well before 2030. Gatwick is the only scheme deliverable by 2025, with either Heathrow option unlikely to be capable of operation prior to 2029 at the earliest, if at all.

By way of further validation that Gatwick will attract new airline capacity to deliver new routes, Norwegian announced in March of this year that it will base 100 new short haul and 50 new long haul aircraft at Gatwick with a second runway. Gatwick is highly confident that other airlines will move quickly to secure a share of the additional capacity.

Original and re-based AC base case forecast for London 2011-2040

(passengers, mppa)



Trends in Aviation

The Commission's Final Report chose to ignore or not to recognise that:

- the price of air travel has a significant impact on demand;
- trends in aircraft technology are changing the way airlines are developing new routes; and
- the rise of major airports in Turkey and the Gulf are having a significant influence on the pattern of global aviation.

It is readily apparent from the rapid growth of low cost carriers that price, as well as service, is a significant factor in the development of demand for both business and leisure travel, and therefore that the provision of lower cost aviation capacity will drive the development of traffic and routes faster than higher cost capacity.

New generation aircraft, which are able to fly further at economically attractive prices, are opening up an increasing number of direct long haul point-to-point routes which are proving very appealing to international passengers and attracting traffic which would previously have travelled through hub airports. For example, in 2005 there were only 12 non-stop routes between Scandinavia and the US. Today there are 29, 14 of which are exclusively served by new generation aircraft. The fleet order books of major European carriers operating at traditional hubs, such as British Airways, are increasingly dominated by aircraft associated with point-to-point traffic rather than hub aircraft.

It is also clear that Middle East airports are continuing to increase their share of the transfer passenger market. Their success is based on a compelling economic proposition of geographic location, very low airport charges and 24 hour a day operations.

For these reasons, emphasizing hub traffic as a key feature in the development of the UK's aviation policy risks attaching too much weight to yesterday's trends, at the expense of cost and efficiency which are much more likely to be the key features for a successful post Brexit future.

Confirmation that the Airports Commission was mistaken in ignoring or underplaying these trends can be seen in:

- European hubs losing their share of the transfer passenger market to Middle East airports;
- rapid growth by low-cost long haul carriers, such as Norwegian and WestJet serving Gatwick; and
- the fact that passenger growth at Gatwick has far outstripped that forecast by the Commission.

Traffic Forecasts, Volume and Mix

We strongly believe that the Commission's traffic forecasts underestimate Gatwick's traffic prospects because of their failure to take account of the price elasticity of traffic demand. But even if we were to accept their traffic forecasts, Gatwick and Heathrow would deliver comparable levels of enhanced connectivity for the UK. The figures opposite are the Commission's own figures. These were not released in its Final Report and have only come to light as the result of Gatwick's FOI requests.

The Commission's own analysis also makes it clear that there is no material difference in the journey purpose (business vs. leisure) or origin/destination (Europe vs. Far East vs. North America, etc.) of these passengers under either option.

Absent any recognition of price elasticity, future UK demand for travel, whether on business or for leisure, can be expected to be the same whichever airport expands. The aggregate of individual needs for travel will not change as a result of the location of new capacity, although the cost of supply may vary. The proof of this has become evident through FOI requests in respect of the Commission's data.

Freight

In aviation, freight traffic grows as passenger traffic grows, particularly in long haul, as exporters and importers take advantage of passenger-led route development to ship their wares around the world in the belly-holds of aircraft flying those routes. As the analysis opposite shows, there is no discernible difference in passenger traffic generated by expansion at either Gatwick or Heathrow. The only reasonable conclusion to be drawn from the Commission's traffic data is therefore that the Gatwick and Heathrow schemes would be expected to create comparable levels of UK air freight.

This proposition is supported by analysis of freight routes currently shared by Gatwick and Heathrow and by analysis of freight patterns to the US following changes in routes by British Airways. It is further supported by the significant growth in freight being flown out of non-London airports such as Manchester, Birmingham and Edinburgh to airports in the Middle East and Far East. Over the last 7 years growth in new long haul flights (+78%) from these airports has corresponded to a strong growth in freight volumes (+94%).

With the expansion of Gatwick, and the resulting growth in long-haul services at Gatwick and other UK airports, UK air freight capacity would likewise grow. At the same time, the injection of increased competition into the freight market will stimulate a focus on costs, and introduce increased innovation and investment into the market, as has been the case in the passenger market.

UK Air Traffic Comparison

	With LGW Expansion (2050)	With LHR Expansion (2050)
Total Origin and Destination Passengers	413 million	412 million
Total Number of Destinations	405	405
Short Haul Destinations	274	272
Long Haul Origin and Destination Passengers	96 million	96 million
Long Haul Destinations	131	133
Business Passengers	71 million	71 million

Source: Airports Commission

3. Economic Impact

Unsurprisingly, given very similar levels of connectivity generated by either expansion at Gatwick or at Heathrow, close analysis of the economic case presented by the Airports Commission suggests that the two airports generate very similar levels of economic benefit, but at a much lower scheme cost in the case of Gatwick.

The Commission’s assessment of the economic net present value of each scheme is shown in the table below (column A). However, in presenting its Economic Case, the Commission decided to include economic benefits derived by other countries even though this runs contrary to the official Department for Transport/Treasury “WebTAG” methodology. After deducting the economic benefits that would accrue to international travellers from other countries merely transferring through the UK which generate no economic value to the UK (column B), then the net present value of Gatwick’s scheme is superior to that of Heathrow (column C). The Benefit-Cost-Ratio of the Gatwick scheme is also superior, being “High” on the Department for Transport value for money scale, as compared to “Low” for the Heathrow scheme.

If the Government WebTAG methodology is applied correctly, Gatwick in fact has the strongest Economic Case of the three runway expansion options under all of the Commission’s traffic scenarios, generating between £2.3bn and £10.3bn more Net Present Value, depending on the scenario used of incremental value, as summarised in the chart opposite.

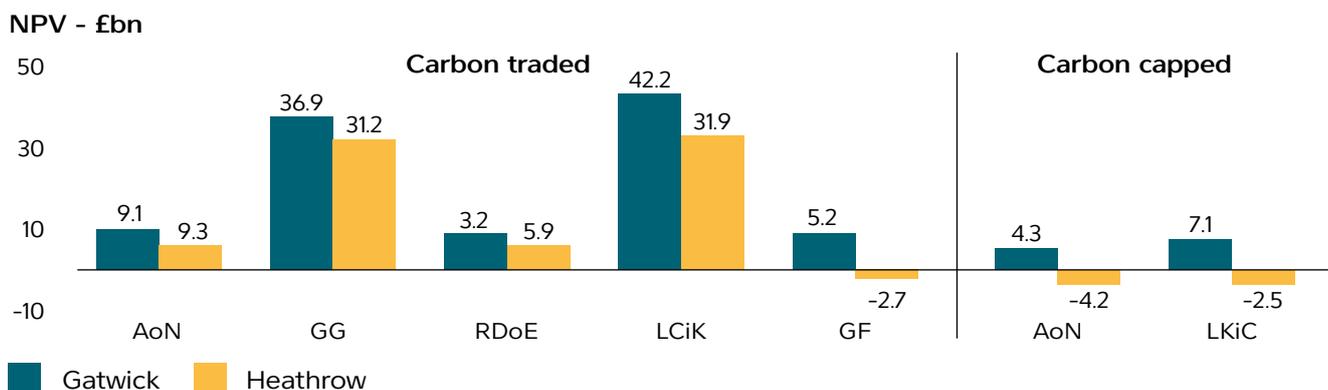
The Commission’s forecasts fail to look at the price elasticity of traffic demand. Gatwick’s much lower construction costs and far greater impact on competition would clearly generate much lower air fares which would stimulate traffic. It is therefore clear that Gatwick offers the superior economic case.

The superiority of the Gatwick economic case would be even clearer if risk assessments were properly reflected and if the timing of the delivery of benefits was to be taken into account – as normal Treasury guidelines require.

	[A] Net Present Value (Benefit less Costs)	[B] Less: Int’l to Int’l Transfer Passenger Benefits	[C] UK Net Present Value
Gatwick	£10.8bn	£1.7bn	£9.1bn
Heathrow	£11.8bn	£6.5bn	£5.3bn

AC Assessment of Need, Carbon Traded Traffic Scenario

WebTAG Net Present Value under each of the Airports Commission's traffic scenarios (after correcting for International-to-International transfer passengers)



Note: AoN - Assessment of Need; GG - Global Growth; RDoE - Relative Decline of Europe; LCiK - Low Cost is King; GF - Global Fragmentation

Source: Airports Commission

PwC's Analysis of Economic Impacts

PwC sought to analyse the economic impacts of the schemes using an innovative Spatial Computable General Equilibrium Model ("S-CGE"). This purported to show that Heathrow expansion would generate greater economic benefits than Gatwick expansion, suggesting that there was a £58bn difference in the economic value of the schemes (£147bn Heathrow; £89bn Gatwick).

However, the Commission's own economic experts who reviewed PwC's work concluded that these results were unreliable, and should not form part of the Commission's Economic Case.

Whilst the Commission removed PwC's analysis from its Economic Case, in light of its experts advice, it inexplicably chose to include the results elsewhere in its report. This has allowed the PwC analysis to be claimed by some interested parties as evidence of the economic advantages of expansion at Heathrow, disregarding the caution advised by the Commission's experts.

As well as the fact that the PwC analysis is inherently unreliable, it has become very clear since the Commission reported that it is in any event based on flawed assumptions. An FOI request has highlighted two key errors.

First, without any justification, the Commission instructed PwC to use assumptions for the mix of UK inbound/outbound passengers that were fundamentally different to the Commission's

own detailed passenger forecasts (based on the Department for Transport model). Specifically, they instructed PwC to use the historic 2011 mix at the airports in its projections. This is a patently absurd assumption.

Second, the Commission triple-counted certain international passenger journeys, leading to an overstatement of international traffic under all schemes, but most significantly in the case of Heathrow. Coupled with a highly sensitive relationship between international passenger numbers and economic productivity (an aspect of the PwC analysis most specifically criticised by the Commission's experts), this also profoundly distorted the absolute and relative economic value of the schemes in Heathrow's favour.

These errors are the key drivers of the supposed £58bn difference in economic value of the schemes and also account for the alleged differential in job creation. A revised S-CGE analysis undertaken on a fair, comprehensive and robust basis would demonstrate similar economic benefits to the UK under either a Heathrow or Gatwick scheme. But, the caution advised by the Commission's experts on the robustness and reliability of such S-CGE analysis would remain necessary.

4. Costs

Gatwick has major cost advantages over Heathrow expansion.

First, its total cost of £7.6bn is less than half that of Heathrow (which have been estimated to be nearer £20bn). Second, these costs will be phased so that the first phase will be £3bn. Third, the risk profile of Gatwick's costs is much lower, which is why its shareholders have agreed to take on the risks of delivering the expansion on time and on budget whilst capping airport charges.

Gatwick has guaranteed to the Government that passenger charges will be limited at no more than £15 per passenger (2014 prices), a price level that is competitive relative to other major European Airports.

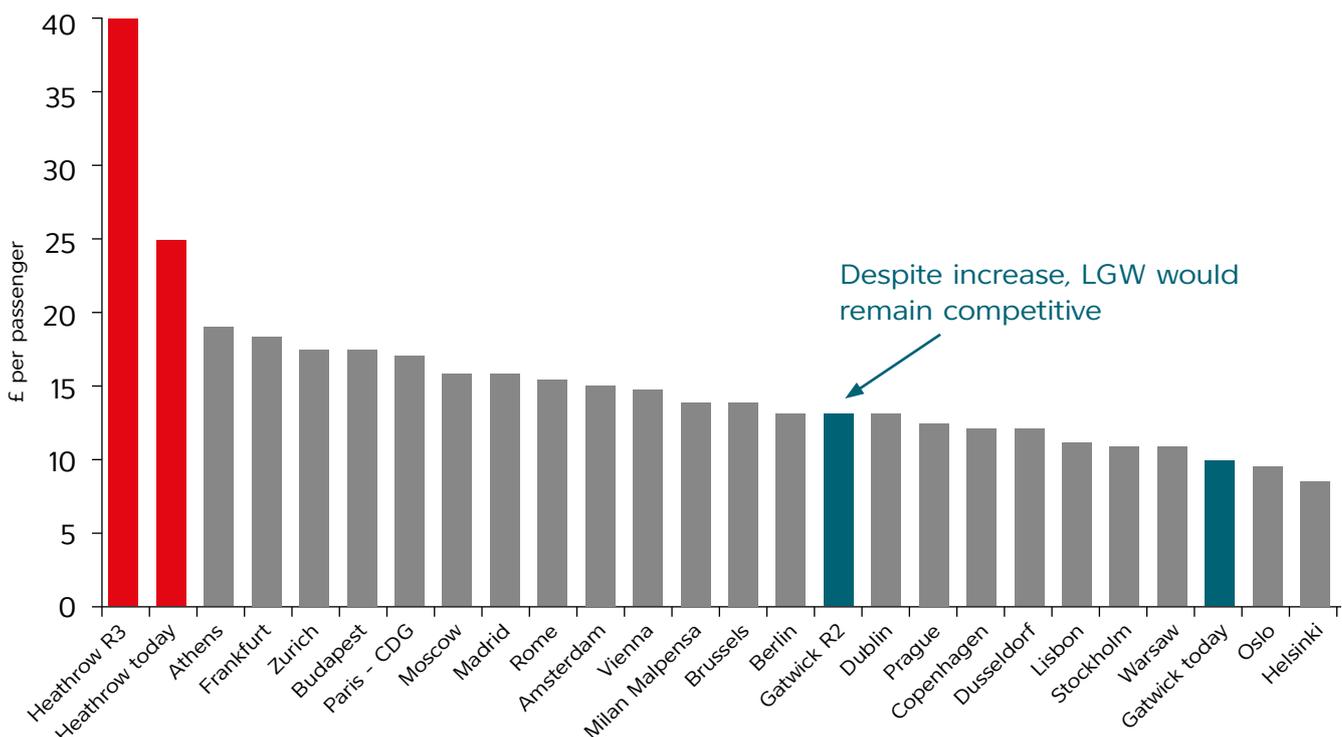
Business and leisure passengers are increasingly sensitive to the costs of travel, so Gatwick's ability to deliver increased airport capacity whilst remaining internationally cost competitive is a key consideration. Gatwick will take on substantially all the commercial risks associated with its scheme, insulating both users and the taxpayers from such risks.

By contrast, Heathrow is already the most expensive airport in the world, and expansion there will make it dramatically less competitive internationally. British Airways has estimated that with a third runway Heathrow's charges per journey will rise to £40 per passenger, which compares with an average one way fare of £67 across easyJet's system currently.

Further, Heathrow has been clear that it expects its users to take on the risks of airport development and compensation, and the taxpayer to shoulder £5 billion of costs, and associated risks, of the surface access improvements it will require.

Taking all of these factors together, it is clear that Gatwick offers much the best option in terms of the competitiveness for UK business, and for the living standards of its citizens more generally.

Airport Charges at Major European Airports



Source: Leigh Fisher

5. Competition

In 2009, the Competition Commission required BAA to sell Gatwick and Stansted, two of its three major London airports, retaining only Heathrow. It found that the common ownership by BAA of these airports, Heathrow's position as the most significant UK airport, and aspects of the planning system, government policy and airport regulation, all had an adverse effect on competition.

The Competition Commission considered that increased competition between these airports under separate ownership would have a positive effect on capacity, route development, service levels, product innovation, and pricing. It expected some of the benefits from competition to manifest themselves immediately, and other benefits to increase over time.

And so it has proved. Investment levels at Gatwick and other airports have increased markedly, the number of direct international routes from many UK airports has increased substantially, including new routes to Asia, the Middle East and North America, and the passenger experience at UK airports has improved.

Airport charges have generally remained steady; at Gatwick, passenger charges have actually fallen - from £8.84 in 2014 to £8.61 in 2015 - and are among the lowest in Europe. In contrast, the authoritative Leigh Fisher survey of the world's top 50 airports reported that equivalent charges at Heathrow in 2013 and 2014 were respectively £24.18 and £26.23, the highest of all airports surveyed. It is no surprise that, as a result, Gatwick's share of London traffic has been increasing:

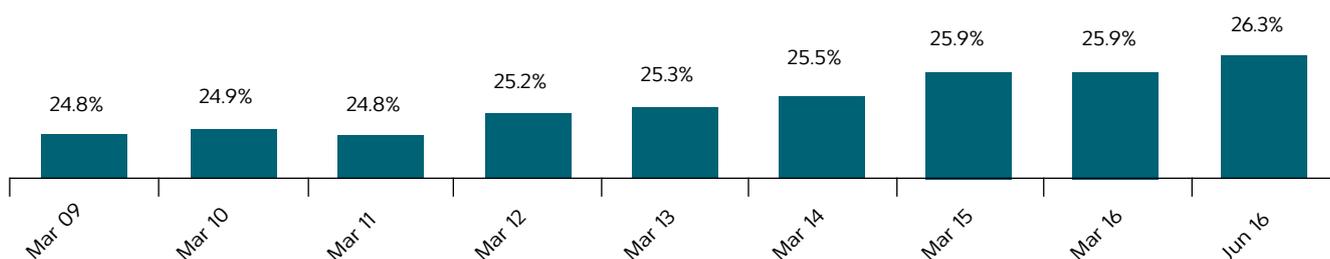
It is also clear that, following the break-up required by the Competition Commission, the UK airports market has developed and diversified in ways that were hoped for but that in practice could only be realised by the subsequent investment and other decisions taken by competing airport owners and managers.

In May 2016, the Competition and Markets Authority completed a review of the 2009 breakup of BAA which found that the introduction of competition into the airports market has resulted in very considerable benefits for consumers, across a range of criteria and amounting to a level the CMA quantified at £830m. Improvements were clear, both at the airports divested by BAA, and at Heathrow itself.

Reinforcing the sector's liberalisation, by delivering capacity at an expanded Gatwick to match or exceed that at a two-runway Heathrow, will further nurture the benefits already realized from the introduction of competition into the airports market. By contrast, reverting to a position where a single market-dominant operator controls almost all of the UK's international traffic would destroy these benefits.

Building a wider range of capacity, able to meet the needs of different airline models at different price points, is the logical way to reinforce competition in the sector and to introduce better structural, operational and economic resilience into the system. The alternative would mean opting to revert to a less competitive market and making the world's highest cost producer far more expensive still. This strategy has never brought success in any industry.

Gatwick Share of London Traffic



Source: CAA

6. Surface Access

Gatwick airport is already better connected by rail than any other airport in Europe – a position that will further improve as Thameslink comes fully on stream.

By 2020 passengers will be able to travel directly to and from Gatwick by rail from 175 stations, and to access the airport from 1000 stations with only one change. To put that in perspective, it will soon be possible to have breakfast in Cambridge and travel to Silicon Valley near San Francisco in time for dinner with only one change en route, and all for under £400 (at current prices).

This level of rail connectivity means that, following the implementation of Thameslink, Gatwick will be accessible to over one quarter of the UK's population within two hours: connectivity superior to any other UK airport.

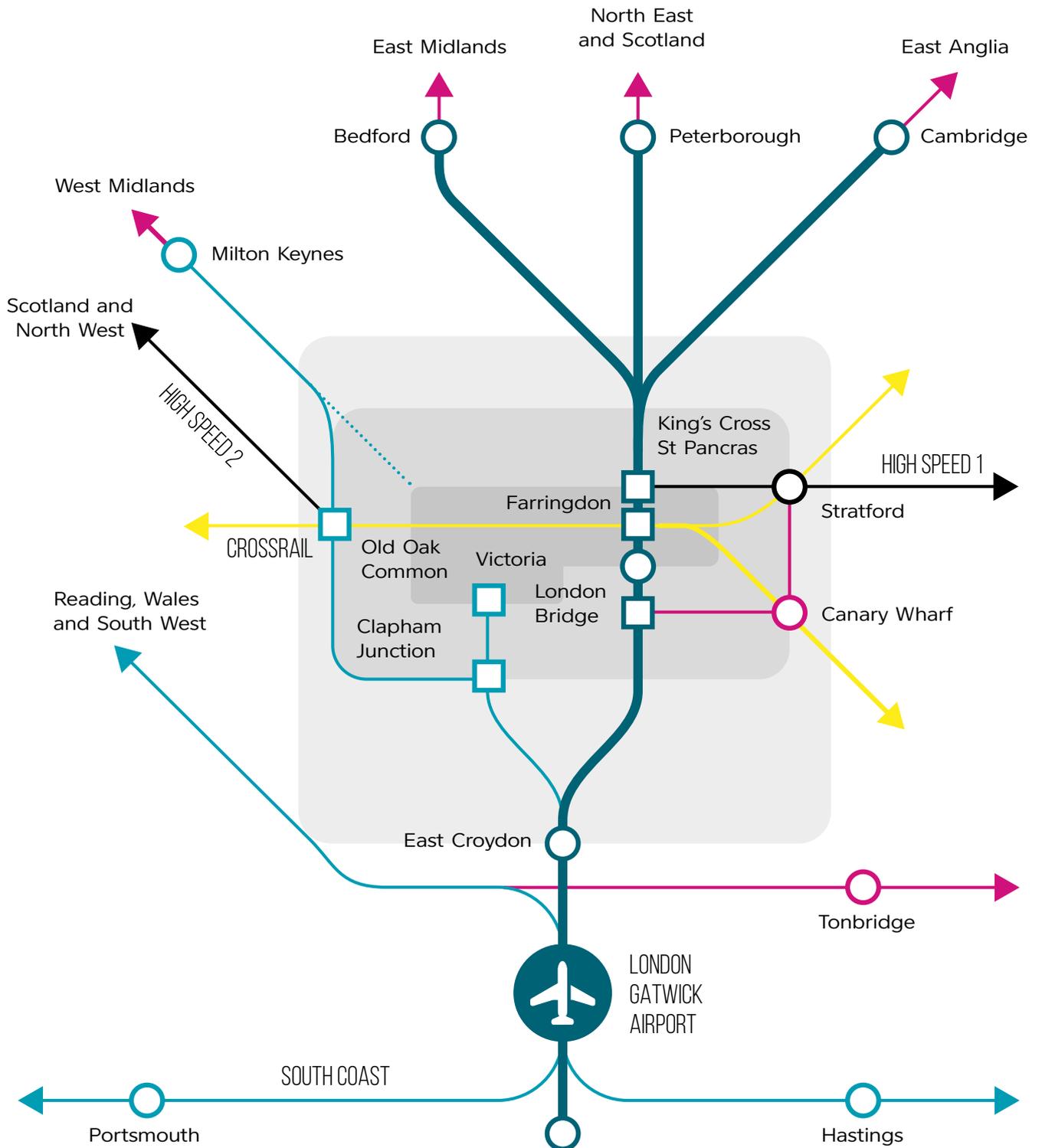
Road access to Gatwick is also being improved through the ongoing upgrading and introduction of Smart Motorway techniques on the M25 and M23. Gatwick's scheme includes the introduction of a new exit from the M23 to the airport, which will simplify airport access and will be paid for by the airport.

Gatwick's road and rail strategy does not require the endorsement of any new projects and is already being delivered in partnership with Highways England, Network Rail and Train Operators to achieve wider benefits. In contrast to Heathrow, Gatwick requires no Government funding for surface access improvements; in fact, additional passengers travelling to and from an expanded Gatwick will generate £3bn in additional farebox revenue for the Government.

Expansion at Gatwick will also improve the resilience of the overall surface transport system by spreading airport demand more widely across the entire London and South East transport networks. By contrast, expansion at Heathrow will be impeded by a lack of public transport capacity: even after Crossrail has come into service and the Piccadilly Line has been upgraded, rail access to Heathrow will be saturated by existing traffic there will be no capacity to absorb additional passengers.

Conversely, expansion at Gatwick is able to offer the prospect of a world class modal share of public transport access of 60%, substantially better than that offered by the alternative proposals.

Gatwick's Rail Network



7. Environmental Issues

Noise

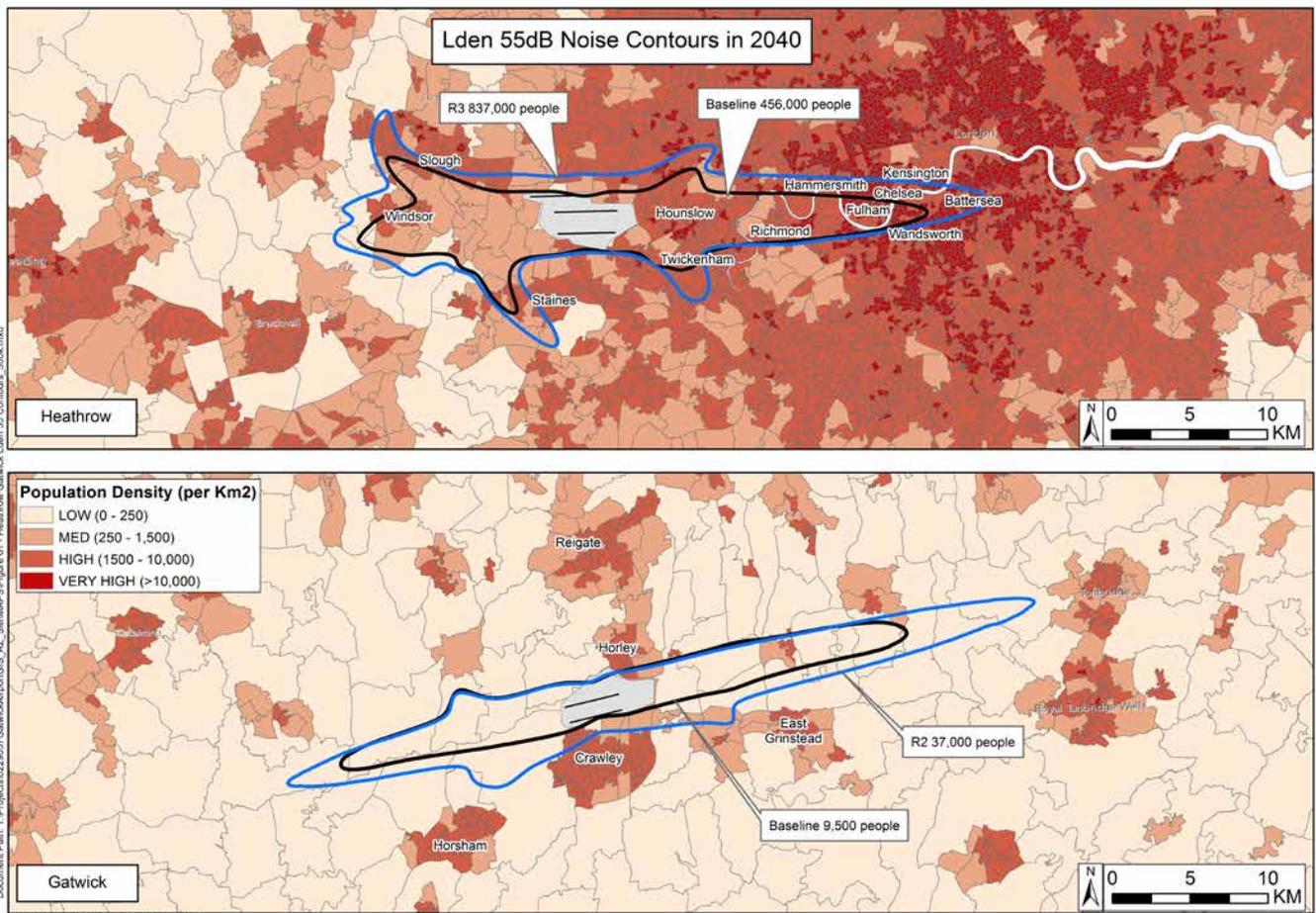
Aviation and environmental concerns are inextricably linked. Environmental issues have defeated expansion in the past so are central to the current debate. How best to deal with aircraft noise is a primary issue of public concern in all developed democracies. Gatwick takes these responsibilities very seriously.

The Airports Commission nevertheless gave limited weight to noise impacts, even though expansion will inevitably mean more people significantly affected by aircraft noise than would otherwise be the case. The total number of people currently affected by noise at Gatwick is a small fraction of those affected at Heathrow (3,700 at Gatwick, against 266,700 at Heathrow at 57dB Leq and 11,000 at Gatwick against 766,000 at Heathrow at 55dB Lden).

The total number of people significantly affected by noise at both airports under expansion at

Heathrow (i.e. by the combination of 3 runways at Heathrow and one at Gatwick) would be 846,500. By contrast the total number of people affected at both airports under expansion at Gatwick would be 493,000. Indeed, it is impossible to reconcile further expansion at Heathrow with Government policy “to limit, and where possible reduce, the number of people significantly affected by aircraft noise”.

Gatwick recognises that this issue is fundamental to the debate, which is why it announced in June this year that with a second runway it will introduce a noise contour cap of 70kmsq covering 15,000 people experiencing noise at 57dB Leq, and a wider contour cap of 175kmsq covering 40,000 people experiencing 55 dB Lden. Gatwick has also offered to pay £1000 towards the council tax of those most significantly affected by noise, the most progressive compensation offer for local people of any major infrastructure project in the UK.



Carbon

The business model of Gatwick and its airlines is inherently more carbon efficient as a result of its higher load factors, less premium style seating and fewer transfer passengers. An expanded Heathrow would account for 58.9% of the UK aviation's carbon limit, based on the Committee on Climate Change's ambition to return aviation CO₂ to 2005 levels by 2050; by contrast an expanded Gatwick would account for 16.8%. Expansion of Gatwick would therefore carry much less risk of constraints having to be imposed on growth at other UK airports. Added to this, the carbon emissions from construction of a Heathrow scheme are more than four times those of the Gatwick scheme.

	Gatwick	Heathrow
UK aviation carbon limit utilised in 2050	16.8%	58.9%
Carbon emissions from construction	4.17MtCO ₂	16.99MtCO ₂
Carbon per UK O&D pax over 60 years	101Kg	323Kg

ICF International, Technical Report, Comparison of Carbon Impacts of Aircraft Operations for Heathrow NWR and Gatwick R2 Schemes, May 2016

RSK, Construction Carbon Assessment for GAL R2 and LHR NW, May 2016

Air Quality

Air quality is a matter of public health and an issue of high and growing public and political concern, particularly in the light of data on vehicle emissions published since the Commission reported. The UN recently called the problem of air quality "a global and increasing pandemic". Although the Commission explicitly gave "limited weight" to the issue of air quality, it would in fact be unlawful for the Government to approve any scheme unless it can be clearly established that its construction and operation would not give rise to a breach of the air quality limit values, or cause a delay in achieving compliance in that location compared to the position if the scheme were not constructed or operated.

This legal test has proved the undoing of expansion at Heathrow in the past. Air Quality limits derive from European law but as they rest on measurements founded on considerations of health it seems unlikely the UK Government will decide to lower standards after Brexit, particularly in the wake of the recent World Bank study, which reported that air pollution costs the world \$5.1 trillion/£3.8 trillion per year and the UK \$7.6 billion/£5.6 billion. If there is any change in limits, they are more likely to be increased in light of public concern and health research results.

Recent measurements show continuing material and substantial breaches of air quality limit values at Heathrow, and there is no discernible trend of improvement. Given that there is no published plan which projects with credibility that air quality around Heathrow will improve sufficiently to accommodate the adverse effects on air quality of expansion there, there can be no way of knowing until after the runway has actually been built whether it could be operated lawfully – and it is hard to see how a project could proceed viably on that basis.

In contrast to the position at Heathrow, there is no such uncertainty at Gatwick. Gatwick has never breached air quality limit values and, working in cooperation with its neighbouring local authorities, we can be confident of delivering a second runway lawfully with no exceedances.

Air quality limits will not be breached either during the construction or the operation of a second runway.

8. The Regional Dimension

The impending decision on aviation capacity is not just an issue affecting London and the South-East: it will influence the ability of all UK airports seeking to compete for new international traffic, and so influence the development of regional economic activity for decades to come.

Gatwick believes that a network of complementary airports, competing on the basis of service, price and passenger satisfaction, as well as accessibility and convenience, will best serve the interests of passengers in the South East, and across the nations and regions of the UK as a whole.

During 2015, Manchester, Edinburgh, Glasgow, Newcastle and Birmingham served 12 million passengers to destinations outside the EU. Expansion at Gatwick would assist further growth of point-to-point travel from all these airports, allowing greater opportunities for local business and leisure passengers to fly direct from their local airport and bringing to those cities the economic benefits that direct international connections provide.

Gatwick currently has a stronger intra-UK network than Heathrow – it serves 10 domestic routes compared with 8 at Heathrow – and is better placed to strengthen these connections with a new runway. By expanding Gatwick, the UK would show commitment to building the sort of infrastructure that would also foster the development of new domestic routes through providing infrastructure at a cost that makes such routes affordable.

By contrast, expansion at Heathrow would constrain direct international connections from many of the UK's regional airports, by centralising more of the UK's connections in London. Expanding Heathrow would tie the future connectivity of the UK to the most expensive system of airport charges anywhere in the world and threaten the economic viability of many domestic and short haul international routes. The Airports Commission's analysis showed that UK regional connectivity under Gatwick expansion would be better maintained, at 8 domestic routes to/from London, than under expansion at Heathrow, at only 4 routes.

A second runway at Gatwick will accelerate the development of a new growth corridor in the South East of England, covering a broad swathe from Kings Lynn to Brighton, supported by a thriving world-class airport. Just the area covered by Gatwick's local enterprise partnership is home to some 77,000 businesses employing nearly one million people and already generates a GVA of £44.3bn, so the economic effect of such an acceleration will be appreciable. Good transport networks are vital for a thriving local economy and the stimulus of an airport to the local economic eco-system has already been proven to the west of London.

Establishing this new corridor offers the benefit of spreading the local advantages of aviation capacity across more of the South-East, rather than reinforcing a concentration to the west of London that already threatens to become overheated. It also offers the opportunity to stimulate employment in areas with significant potential for economic growth, and where job opportunities are particularly needed, in places such as Croydon, Brighton and Hastings. A second runway at Gatwick will generate 21,000 jobs at the airport, as well as indirect and catalytic employment in such areas.

Regional support for Gatwick:

“Gatwick expansion is a win-win for Northern Ireland, securing the long-term future of our flights to London, while allowing us to focus on building a greater network of direct routes from Belfast International to the rest of the world.”

Graham Keddle, MD, Belfast International Airport - Press release, 14 Jun 2016

“The best outcome for business and leisure passengers in the short, medium and long term will be to create a strong network of competing airports across the entire UK.”

Ken O’Toole, CEO, Manchester Airport - Manchester Evening News, 20 Jun 2016

“We support Gatwick’s expansion plan... A decision for Heathrow would simply mean a return to the monopoly of the past, reducing choice, increasing fares and threatening the business of Birmingham and other UK airports.”

Paul Kehoe, CEO, Birmingham Airport - Press release, 2 Jun 2016

“A larger Heathrow would represent a near monopoly provider of long-haul services; it would be a hugely dominant airport that would drain the life from every UK airport outside London.”

Gordon Dewar, CEO, Edinburgh Airport - Letter to the PM, 3 Aug 2016

9. Construction and Delivery

Delivery is more important than ever in this debate, because of the pressing need for new airport capacity to give Britain the economic boost it needs and because demand for air travel is growing faster than predicted. A second Gatwick runway would be operational by 2025, with planning approval granted within the life of the current Parliament. This means ground could be broken at Gatwick before the next election, and the runway officially opened before the election after that.

Gatwick's confidence in an accelerated timetable is based on continuing analysis of its programme, validated by Bechtel and other independent planning and construction experts. The Gatwick project is relatively straightforward, being built on land that is already safeguarded - next to the existing facilities but outside the current airport perimeter. Gatwick's construction plan involves no complex interfaces with existing surface access and requires the compulsory purchase or demolition of relatively few dwellings (202 compared to over 1000 at Heathrow).

Gatwick's project is phaseable, and so can be flexed to match the development of traffic demand. The first phase of Gatwick's expansion, which would deliver a new runway, the first module of a third terminal and light rail passenger links to the railway station, is very simple to deliver and would cost only £3bn.

By contrast, the path to delivery of expansion at Heathrow is years longer and carries a level of planning risk that is an order of magnitude greater. It requires putting the M25 into a tunnel beneath a new runway, the relocation of a £500 million waste to energy plant, the treatment or movement of 9 million cubic metres of waste, and the movement of the biggest detention centre in Europe. Each one of these is a significant planning challenge in its own right and, to date, the solutions to these challenges are by no means clear.

Heathrow's construction project is also very challenging. It represents the biggest single site infrastructure construction project ever undertaken in the UK and, because of the nature of the scheme, it requires full commitment to the entirety of the project at the outset. Once started, there can be no adjustment or refinement - which makes adjustment to changes in market demand impossible and is why Bechtel has termed the risk profile of the Heathrow project as being unprecedented.

10. Risk

As the Treasury Select Committee has been at pains to point out, the Airports Commission's analysis of risk was superficial and the weighting given to risk was minimal. Nevertheless, this is a very important aspect of the debate and should be a critical consideration in deliberating between the two schemes.

The Gatwick scheme is massively lower risk than Heathrow – on many dimensions. The risks associated with Heathrow go to the legal, planning, physical, and commercial deliverability of the project, its financial viability, and to the country's international reputation.

Some of the risks associated with expansion at Heathrow are set out below. In every case, the risks associated with expansion at Gatwick are an order of magnitude lower.

Planning and Construction

Environmental Issues

The environmental issues associated with Heathrow expansion are documented above and have been the root cause of previous failures to expand the airport. Heathrow expansion has significant adverse consequences for air quality and noise outcomes. Noise outcomes will affect a very substantial number of people, who are likely to try and intervene politically, through the courts, through protest actions and through the planning process and who could present a significant obstacle to a successful development consent. The air quality consequences of expansion engage EU law – and as these are founded in the issue of public health, it must be assumed for the present that the limits will be carried over into post-Brexit UK law at the current levels or above.

Land Acquisition

The land necessary for expansion at Heathrow can be acquired by private treaty or (subject to Planning Law) through compulsory purchase. Heathrow requires the purchase of over 1000 homes but unresolved issues include who is to pay for the relocation of the Lakeside energy-from-waste plant (estimated to be £500 million) and the BT datacentre that lie within the curtilage of the land needed.

Risks in the Planning Process

In addition to addressing by condition the environmental and land acquisition issues above, the planning process will need to address the set of conditions on operations at Heathrow put forward by the Commission. It could also encompass the wider planning context, including the blighting by noise of certain areas where housing might otherwise be developed, an acute concern in and adjacent to a growing city. The obtaining of a satisfactory development consent is therefore problematic.

Airspace Changes

Even after construction, there is a material risk that the runway capacity promised by Heathrow will not materialise (a) because of planning conditions and (b) because the complex airspace arrangements proposed in order to minimise the numbers of people affected by noise. Airspace changes are often controversial and those required for the Heathrow scheme will be by far the most controversial yet attempted in the UK – because of their scale and complexity, and, most of all because of the very large numbers of people who would be newly affected by significant levels of aircraft noise. Given too that safety must not be impaired, the complexity of the airspace changes carries the risk that the runway capacities assumed by both Heathrow schemes, and by the Commission, will not be delivered.

Construction

The scale, complexity and expense of the proposed expansion of Heathrow on a very constrained site, hemmed in as it is by two crucially important motorways and large residential populations, pose a very significant threat of delay and cost overrun. The Heathrow plan also requires a rate of construction spend never before achieved on a single site in the UK – a rate of spend significantly higher than was achieved on the main Olympics site (the highest recorded to date) – and which must be achieved under the constraints of working beside and within a very busy operational airport.

Commercial and Financial

Impacts on the Business Case

Some of the operating restrictions imposed by the planning process could well have as yet unexplored consequences for the business case underpinning expansion at Heathrow. Examples of this include restrictions on night flights and other operating constraints, and the introduction of a congestion charge to limit road traffic to the airport – the consequences of which, for passengers and for local residents, have yet to be made clear.

Financial

The new investment required from Heathrow is greater than the Regulated Asset Value of the entire existing airport. Heathrow's funding requirement is both onerous to shareholders and taxing to the markets. Because of the complications of the project, the great majority of the work associated with expansion at Heathrow, and the financing connected to it, must be committed to at its outset. Whether the markets will be prepared to bear the uncertainty that this entails is an assumption that has yet to be thoroughly tested, not least in the circumstances where the air quality risk still remains.

Airline Reaction to Charges

Incumbent airlines at Heathrow, notably British Airways, have shown great resistance to the extremely high cost of the project, and in particular to "pre-funding" the investment – that is, to start paying higher charges to fund the project long before it is delivered / and then to see new airlines come into the airport that have made no prior contribution. Whilst a similar problem exists at Gatwick, its scale is much smaller and some major incumbent airlines there, notably Norwegian, have actually expressed considerable support for Gatwick's project. Importantly, even if Gatwick's charges rose to the limit of £15 which it has offered this would be 34% less than the current c.£23 charged by Heathrow today and much lower than the £40 estimated by British Airways if it expands.

In addition, the allocation of risk between the promoter of each scheme, passengers and government is very different in each case. Gatwick has committed to absorb substantially all of the commercial and construction risks associated with its project, whereas passengers and taxpayers would carry almost all the risks of delays, cost overruns and demand shortfall under expansion at Heathrow.

Finally, it is conceivable that, as a project of national significance, a commercial failure of expansion could translate directly into costs to the taxpayer as the Government is called on to rescue the project. The risks associated with this are significantly higher in the case of the Heathrow scheme, and involve greater amounts, than with the Gatwick scheme.

11. Gatwick Commitments and Pledges

Gatwick's confidence in its ability to deliver a new runway for the UK has led its Board to reassert its position following the Airport's Commission Final Report.

To assist in unlocking the issue Gatwick has delivered a series of new commitments to the Prime Minister, and to enshrine its intention to work with local communities in a separate series of pledges, which represent the most progressive and innovative compensation package associated with any major infrastructure project in the UK.

Gatwick's commitments to Government and the community go significantly further than what has been offered by Heathrow. They are set out below.

A Deliverable New Runway for Britain

Subject to a Government decision by this November and the normal planning timetable, Gatwick has given an undertaking that its second runway will be operational by 2025 with planning consent granted within this Parliament. This means ground could be broken at Gatwick before the next election and the runway officially opened before the election after that. A decision for Gatwick means Britain can finally get the guarantee of the new runway it needs, providing London with two world class airports. Given the history of this debate, the importance of a runway scheme that is deliverable cannot be overstated.

Guaranteed Economic Growth Across the UK

A deliverable runway means Gatwick can pledge that Britain gets the economic boost it needs as early as possible. Given that growth in aviation is outstripping forecasts, this is vital. The work of the Commission itself, once corrected in accordance with the standard Treasury Assessment, shows the economic benefits of Heathrow and Gatwick expansion are broadly the same - as they both deliver the same amount of traffic and connections to meet the aviation needs of the UK. The Commission's evidence also shows that Gatwick expansion will provide the biggest boost to regional connectivity including direct services from regional airports.

Competition and a Cap on Passenger Charges

Expanding Gatwick would write the next chapter of aviation competition - one of the great success stories of recent years. Competition keeps choice high and prices low. Gatwick has put forward detailed commercial proposals that guarantee passenger charges would be subject to an inflation linked £15 firm price limit from the opening of the new runway in 2025 through to 2050 and would expect charges to be well below this level. It can give this guarantee as both its current charges - and the cost of its second runway scheme - are comparatively low in the context of other major European airports.

No Taxpayer Subsidy

Gatwick has committed to funding the scheme privately and in full, with no need for billions of pounds of public subsidy. As part of its detailed commercial proposals, Gatwick would now also be prepared to bear substantially all of the long term risks related to traffic levels, market pricing, construction and operating costs for the overall project.

Legal Air Quality

Gatwick has pledged that, with a second runway, the airport will not breach the air quality limits the Government has set out. Given that this is a test of legality, there is perhaps no more important issue in this debate. Gatwick has never breached air quality limit values and, working in cooperation with our neighbouring local authorities, it can be confident of delivering on this pledge with a second runway. It will not put Government in the position of approving a new runway expansion proposal with no way of knowing whether it can be operated legally until after the runway has actually been built, which is what the conditions stipulated by the Commission mean for Heathrow expansion.

A Cap on the Number of People Most Affected by Noise

Expansion will inevitably mean more people significantly affected by aircraft noise. Should Gatwick get a second runway, it has pledged to introduce a noise contour cap of 70kmsq covering 15,000 people experiencing 57dB Leq noise and a wider contour cap of 175kmsq covering 40,000 people experiencing 55 dB Lden. These limits would materially affect how a two runway Gatwick would operate in the future and would be an important consideration in the annual planning cycle around flight paths and aircraft flight frequency.

An Industry Leading Compensation Scheme

Noise contours alone are not enough. Uniquely, alongside a wider programme of compensation, Gatwick is pledging to pay £1000 per annum towards the Council Tax of those most affected by noise (57dB Leq) from 2025. This will apply to tenants as well as homeowners. This is the most progressive approach to compensation proposed by any major infrastructure project in the UK, and is a level of compensation for the local residents which Heathrow has not attempted to match.

Shareholder Commitment to the Second Runway Project

Gatwick's shareholders, all of whom are blue chip leading global investors in long-term infrastructure and active in the UK, have been closely involved in the development of the Gatwick second runway proposal and have expressed their ongoing commitment to support the timely delivery and financing of this critical infrastructure project and are open to providing further specific assurances if these are deemed helpful.

12. Key Issues for Government

This paper has covered the case for Gatwick in terms of its ability to meet the UK's need for increased capacity, delivering all the connectivity and economic benefits the country needs at a cost that leaves the UK competitively positioned and is fair to passengers, Gatwick's scheme can be delivered quickly, at much lower risk and with a much lower environmental impact than the alternatives.

In addition, the allocation of risk between the promoter of each scheme, passengers and government is very different in each case. Gatwick has committed to absorb substantially all of the commercial and construction risks associated with its project, whereas passengers and taxpayers would carry almost all the risks of delays, cost overruns and demand shortfall under expansion at Heathrow.

We believe this provides a compelling case for Gatwick in its own right. It also provides the Government with additional benefits, including:

- **Operational and strategic resilience for the UK's airport system.** A policy of two world class London airports allows for greater optionality and resilience in the event of a natural, man-made or security event that leads to the complete or partial closure of one of the London airports.
- **A better safety profile for the capital city.** London is one of the most overflown cities in the world. Routing flights away from the capital, will provide a better safety profile for the capital than substantially increasing the volume of overflight.

Overall, expanding Gatwick provides a solution to a previously intractable problem, that can be delivered quickly, at low risk and competitively, and signals to Europe and the world that we are determined, decisive, action-oriented and open for business.

It shows to the nations and regions of the UK that we care about the balance of our economy, that we are not simply going to subsidise costly projects in London at the expense of the rest of the country, and that we give priority to the balance to be struck between the economy and the environment.

Expanding Gatwick shows that in the consideration of even the most substantial infrastructure projects we will not lose sight of the interests of the people to whom this matters most – the business community, local communities, and the travelling passenger.

Gatwick recognises that expansion will bring many benefits but will also have negative impacts on some local people. It will minimise and mitigate those wherever possible – and offer direct compensation to those most affected in a way that has never been done before in the most progressive package of compensation associated with any major infrastructure project.

By promoting an efficient, competitive solution that keeps costs low we will indeed be laying the foundations of an economy that works for everyone.

