



# A Second Runway for Gatwick

Initial response to the Airports Commission's recommendation report

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YOUR LONDON AIRPORT  
*Gatwick*



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# Introduction - Gatwick's initial response to the Airports Commission's recommendation report

The Airports Commission released its final report on 1st July 2015. Although it stated that “each of the three schemes shortlisted was considered a credible option for expansion, capable of delivering valuable enhancements to the UK's aviation capacity and connectivity”, the Commission concluded that the best solution is to expand Heathrow's runway capacity. The Government is now reviewing the Commission's report and the analysis supporting it.

Our view has always been that the assessments on which the Commission's conclusions are based must be thorough, balanced, fair and well evidenced. We believe that the Commission's report falls short of this standard in a number of very important respects. As a result, the many strengths of Gatwick and the many challenges of Heathrow are both underplayed, leading to a conclusion which we believe is wrong.

This paper summarises a number of the most important weaknesses in the Commission's report. We will complete a more in-depth analysis after a thorough review of the extensive documentation published by the Commission.

# Summary

## Traffic

The Commission bases its analysis on future air traffic projections. Gatwick is disadvantaged by their methodology which is flawed. For example, the Commission forecasts that Gatwick will reach passenger volumes of 40m in 2024. The airport will actually reach that number in 2015.

## Economic Case

Even with the flawed traffic forecasts, the Commission's own analysis based on Treasury guidelines shows relatively modest differences in economic benefit between Heathrow and Gatwick (£33.6 - 54.8bn versus £27.2 - 47.1bn). These figures are not highlighted in the Commission's conclusion which gives the impression of a big differential in favour of Heathrow.

## Passenger Benefits

The Commission acknowledges that the vast majority of new traffic over the coming period will be to European markets but recommends a solution that is focused almost entirely on long haul. They also fail to consider sufficiently the part that Gatwick could play in the long haul market.

## Competition

Expanding Gatwick would enhance competition and build on the success of airport liberalisation. The Commission recommends turning the clock back and effectively re-establishing a monopoly at Heathrow. This would inevitably mean passengers paying higher fares.

## Noise

The huge differential in noise impact between the two airports is largely glossed over - for example, relatively little emphasis is given to the 320,000 people 'newly affected' by Heathrow expansion compared to 18,000 at Gatwick.

## Air Quality

The Commission states that air quality is a problem but then largely ignores the fact that the levels at Heathrow today breach legal limits even without a third runway. Gatwick has never exceeded legal air quality limits and would not do so with a second runway.

## Deliverability

The Commission downplays the very considerable delivery risks and financial challenges at Heathrow compared to the Gatwick scheme which is relatively straightforward. This means the Commission underplays the biggest risk of all - that after years of delay, once again nothing happens.

# 1: Traffic Forecasts

- 1.1 The Commission bases its conclusion primarily on potential future economic benefits. These in turn are modelled on the Commission's future aviation traffic assumptions.
- 1.2 The economic benefits for the UK from airport expansion come from meeting the demand of 'origin/destination' passengers that start or end their journey in the UK, and not from 'transfer' passengers merely using the UK as a convenient transit point on their way from one country to another.
- 1.3 The Commission's central expectation is that by 2030, the total number of UK 'origin/destination' passengers will be identical whether Gatwick or Heathrow is expanded i.e. 294m passengers. Thereafter, a gap emerges, with more 'origin/destination' passengers in the UK with Gatwick expanded rather than Heathrow. So, even the Commission's own forecasts demonstrate that expansion at Gatwick better enables the UK to meet the demand from such passengers.
- 1.4 However, the Commission's own forecasts significantly underplay the level of traffic at Gatwick itself relative to Heathrow, reflecting a number of weaknesses in the methodology used for modelling future traffic. In essence, the Commission's modelling of future traffic at individual airports is overly influenced by trends in the past, and is not suited to forecasting outcomes of radical changes such as a new runway.

## Gatwick

- 1.5 The Commission expects Gatwick to reach passenger volumes of 40 million in 2024, whereas the airport will reach that number this year.
- 1.6 The Commission forecasts that if Gatwick is expanded by one runway, in the first year of operations it will only generate an additional 2 million passengers, despite the fact that Gatwick grew by 2.7 million passengers last year with one single runway and limited slot availability. The Commission also states that after five years with a second runway, Gatwick will have an additional 8m passengers - less than Heathrow would have after one year with a third runway.
- 1.7 It is simply not credible that by 2025, after another ten years of market growth in a system where no other airport is adding capacity, a Gatwick that has doubled its capacity and has in particular many peak hour slots available, would grow less than it did last year.

## Heathrow

- 1.8 In contrast, the Commission's forecasts suggest that if Heathrow is expanded by one runway, in the first year of operations it will immediately generate an additional 12 million passengers a year - a number greater than the total traffic of Luton Airport today. Within five years, the Commission assumes there will be an additional 35 million passengers at Heathrow, almost as much as the whole of Gatwick today.
- 1.9 The growth assumed at Heathrow in these numbers (16% in the first year and 47% over 5 years) is just not credible. No established airport has ever added 12 million passengers in one year nor has any airport ever grown by 35 million passengers in five years – in its most intense boom phase, Dubai only added 30 million passengers over five years.
- 1.10 The Commission also suggests a complete ban on night flights at Heathrow would be necessary, alongside other restrictions on noise. These would all restrict traffic growth but none of these restrictions are factored into its forecasts. These restrictions are important for the Commission's conclusions as they could have a significant impact on existing and new long haul capacity, which is at the heart of the Commission's view of the appeal of Heathrow's case.

## 2: The economic case

- 2.1 The Commission's assessment rests on these flawed traffic forecasts which inevitably makes the economic case for Gatwick less attractive than Heathrow.
- 2.2 The Commission's own presentation of the report also chooses not to highlight their own economic impact figures which, based on standard Treasury analysis, suggests relatively modest differences in economic benefits between Gatwick and Heathrow.
- 2.3 Under the Commission's own assessment the economic benefits attributable to each are:

Gatwick	Heathrow
£27.2bn - £47.1bn	£33.6bn – £54.8bn

Source: Table 7.1, page 147

- 2.4 Despite these figures, the Commission focuses primarily on S-CGE modelling work undertaken by PwC in formulating its recommendation.
- 2.5 The PwC analysis shows a significantly greater overall contribution to GDP from an expansion at Heathrow, albeit a lesser benefit than initially outlined in the Commission's interim report.
- 2.6 The difference in GDP effects between Heathrow and Gatwick in the PwC data reflects their forecast that there would be a very slow build-up of traffic at Gatwick with a second runway.
- 2.7 The Commission also assumes that there will be material differences in the inbound-outbound passenger split and associated spending patterns between the Gatwick and Heathrow schemes. These assumptions are not credible, especially over a longer time frame when both Heathrow and Gatwick would have had two runways for several decades. The published sensitivity analysis shows that removing this bias eliminates the difference between the two schemes entirely.
- 2.8 Although the Commission's experts rightly advised that the S-CGE outputs should be interpreted with caution ("counsel caution in attaching significant weight either to the absolute or relative results of the GDP/GVA approach"), this 'health-warning' seems to have got lost once the figures reached the Commission's conclusions.



### 3: Passenger benefits

- 3.1 In this area, the Commission’s conclusion rests on the thesis that the priority is long haul routes to emerging markets. Yet, as the Commission acknowledges, 60%-70% of new traffic over the period under review will be short haul to European markets, and there is considerable social value in passengers travelling for leisure and visiting friends and relatives.
- 3.2 The Commission argues that the lack of capacity is already preventing the development of new links to emerging markets. This is disproved by analysis of the new routes BA has launched from Heathrow during the last two years:

Heathrow routes launched by BA	
To leisure destinations	10
To emerging markets	2
Other	2
<b>Total</b>	<b>14</b>

- 3.3 The fact that BA has launched only two new routes to emerging markets in this period clearly stems from normal commercial considerations rather than from capacity constraints.
- 3.4 The Commission’s conclusion depends substantially on the establishment of a maximum of an extra 12 routes to long haul destinations (generating an estimated 6m annual passengers max, which is less than 2% of total national passengers). The Commission discounts the possibility that existing slots for short haul traffic at Heathrow could be used to support these routes. It also ignores the possibility that Gatwick could continue to grow its long haul capacity with a second runway.
- 3.5 Heathrow is already the most expensive airport in the world. The costs to passengers will rise further with a third runway. Expansion at Heathrow will significantly increase the average price of travel for the rest of passengers travelling through the London airport system. This is not adequately addressed by the Commission.

## 4: Competition

- 4.1 The Commission states that competition will increase at a three runway Heathrow more than it would at a two runway Gatwick. It is hard to see how turning the clock back and recreating what would essentially be a new monopoly at Heathrow sits alongside the success of airport liberalisation following the Competition Commission's recommendation to break-up BAA in 2009. In particular, given that Heathrow has 84% of long haul traffic today, it is hard to see how increasing market share will enhance competition.
- 4.2 There are many examples, and much academic evidence, which demonstrate that competition from different airports provides greater price discipline than competition at a single airport, and the only new entrant to the UK/North America market in recent years has been at Gatwick – Norwegian Airlines, and WestJet is also planning new routes to Canada from Gatwick next year.
- 4.3 The Commission believes that a third runway at Heathrow will attract competition from low cost carriers. Despite easyJet's apparent support for the project, this is unlikely. The cost per passenger for a low cost carrier operating in the London system is approximately £60 – adding an additional £20 would involve a 33% increase. Furthermore, it remains our view that Heathrow's operating model and layout means that it is not able to offer the fast turnaround times on a scale that is required for the effective implementation of the low cost airline model. The prospect of new entrant airlines into the market is much greater at Gatwick due to lower charges and greater efficiency. An expanded Gatwick would also further competition between airports encouraging greater choice, innovation and service improvements.
- 4.4 The Commission acknowledges that competition in the short haul market is already well entrenched in the London system, not least because competition between airports has encouraged the growth of low cost carriers. The Commission's argument appears to rest on the idea that, because there is presently less competition in the long haul market than there is in the short haul market, expanding Heathrow will generate competition. This analysis is flawed for several reasons, including:
- The Commission has not analysed the impact of price reductions on the profitability of legacy airlines. The financial vulnerability of some of these carriers, coupled with even higher Heathrow charges, makes price reductions unlikely.
  - The Commission expects low cost carriers to contribute to the growth of competition, but it does not believe low cost carriers are likely to enter the long haul market. This is evidently inconsistent.

## 5: Noise

- 5.1 The Commission's argument on noise is based on the premise that Heathrow would be a better neighbour with a third runway than it is today. This is despite the fact that the noise impacts of a second runway at Gatwick would have a fraction of the impact of a third runway at Heathrow – a total of 683,000 people would be affected if Heathrow expands compared with 36,000 if Gatwick expands.
- 5.2 Even more importantly, in the light of recent experience with airspace changes at both Heathrow and Gatwick, the Commission does not appear to give much weight to the number of people “newly affected” by noise – 320,000 at Heathrow compared to 18,000 at Gatwick, nor to the fact that an additional 108 schools would be impacted by Heathrow compared to 14 at Gatwick.
- 5.3 Instead, the Commission emphasises that a future Heathrow with three runways would generate less noise than Heathrow today. This is at odds with the Commission's own analysis which shows that far greater reductions in noise would be realised at Heathrow in the future if it is not expanded. The key comparison should have been between a two runway Heathrow in the future and a three runway Heathrow in the future – a comparison which would show that expanding Heathrow with a third runway exposes hundreds of thousands more people to noise than would be without expansion.
- 5.4 The Commission also sets out a number of conditions on noise such as night flights, but it is already clear that Heathrow is unable to say whether or how they would be able to meet these restrictions.
- 5.5 Furthermore, the Commission recommends measures to “address the environmental and community impacts” from an expanded Heathrow, but it offers no explanation as to why such measures would make expansion there acceptable.

## 6: Air quality

- 6.1 The Commission rightly states that "air quality is clearly a problem". Nevertheless, it then downplays this problem by using what we advised is an incorrect interpretation of the legal test for compliance with limit values. In essence, the Commission considers that it is acceptable for the area around Heathrow to continue to breach the health-based legal limit values of nitrogen dioxide as long as air quality there never gets any worse than the most polluted location in London. If a third runway was to open in 2030, the most polluted location is currently predicted to be Heathrow but the Commission concludes that with mitigation, Heathrow may be able to drop behind Marylebone Road and to be only the second most polluted place in London.
- 6.2 The Commission also assumes that the Government's December 2015 Air Quality Plan will help to make Heathrow deliverable, even though the plan does not exist so cannot have been reviewed or assessed. This appears similar to the position in 2009 when expansion at Heathrow was last proposed by Government, and approval granted on the basis that air quality would improve. However, since 2009 it has not improved, and has in fact got worse. On the day the Airport Commission Report published its report, readings were over twice the legal limit at Heathrow. Gatwick has never exceeded legal air quality limits and would not do so with a second runway.
- 6.3 Notwithstanding its own assessments, the Commission suggests two possible safeguards:
1. Consideration of a congestion charge at Heathrow, and the area around it. However, the scale and wider implications of a congestion charge have not been considered.
  2. A condition that additional operations at an expanded Heathrow must be contingent on acceptable performance on air quality. However, the Commission does not indicate how such a safeguard could work, and it fails to assess the impacts of such a condition on the financeability of the scheme, since there is no certainty that limit values will be met in the future or, if they are, when they will be met.
- 6.4 Gatwick has taken legal advice which confirms that the expansion at Heathrow carries a very significant risk of being unlawful. This risk has not been factored into the Commission's conclusions.

## 7: Deliverability

- 7.1 The Commission does not satisfactorily factor into its report the major challenges and risks inherent in Heathrow's scheme.
- 7.2 Construction programme risks are clear from the fact that, between 2023 and 2025, Heathrow would require an infrastructure spend of an average £560m per month or seven times greater than achieved by T5 (£85m per month). The "HM Treasury Infrastructure Cost Review: Annual Report 2012-13" shows a national spend of around £11.50bn, which with inflation of 1.5% p/a would come to £12.30bn (2014 prices). The Commission does not appear to have considered how realistic it is that the expansion of Heathrow, a single site project, can achieve a rate of spend which equates to over 50% of the national annual average spend on UK infrastructure projects.
- 7.3 The Commission has significantly underplayed the disruption from Heathrow expansion. Not only has it not costed the disruption caused by construction, it has taken insufficient account of the requirement to treat or relocate 9m cubic metres of landfill and to relocate a very substantial waste to energy plant. In its initial report, the Commission stated that the "planning and construction of an Energy from Waste plant is a substantial exercise in its own right, whose timescales are not substantially shorter than the delivery of a new runway". However, the risks and costs associated with this have not been addressed in the final report.
- 7.4 The Heathrow scheme faces significant risks in terms of noise impacts and breaches of legal limits on air quality. Previous Heathrow schemes have had tight planning restrictions imposed to alleviate environmental concerns, and it is very possible that such restrictions will again be imposed – impacting on the scheme's viability.
- 7.5 The Heathrow scheme also faces very significant financing issues. The Commission points out that an annual financing requirement of up to £6bn, or 13% of total market capacity in 2013, would be necessary for Heathrow. It points out that this is greater than the £3.5bn bond financing undertaken by Vodafone in 2013 (the largest financing of its kind to date), but assumes investor attitudes to this requirement will be positive. This analysis is questionable for several reasons:
- 2013 was a year in which the interest rate environment was quite stable, and when the environment for new issues was quite benign.
  - Vodafone is one of Britain's largest companies, with a significant and resilient revenue stream, whereas Heathrow is much smaller.
  - Heathrow's financing requirement is sustained for several years. The ability of investors to absorb repeated and substantial bond issuance from a single issuer will be severely constrained by their own limits on concentration. This may be further affected by adverse market events that could be expected over any five year period.

## 8: Conclusion

- 8.1 The traffic and economic case for Heathrow is significantly overstated compared to Gatwick whilst the major environmental advantages of expansion at Gatwick are largely downplayed.
- 8.2 The benefit of competition through a network of airports is stated to be less than through the recreation of a monopoly.
- 8.3 Gatwick's very significant strengths regarding deliverability are largely ignored, which means that the most important risk of all is overlooked – namely the risk that nothing happens once again. Many things can change in the future, but one thing that cannot change is Heathrow's location. There are very real reasons why expansion at Heathrow has not happened in the past. The flaws in the Commission's Report mean there is a real danger that history will repeat itself and nothing at all will be done to expand runway capacity in the UK.

