

Agenda

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UK airports policy: what won't happen and what should

The UK is facing an increasingly urgent demand for more airport capacity, and the alternatives being discussed by government are all up against serious opposition. Mike Toms, Oxera Non-executive Director, formerly Planning Director of BAA plc, and now a director of Birmingham International Airport Limited, assesses the options available. He concludes that the prospects for a new runway anywhere are extremely uncertain, but that shorter-term incremental measures that make better use of existing infrastructure offer significant opportunities that could be exploited

The British tend to see government airports policy reviews in much the same way as Americans see cricket. The rules are obscure; the game lasts for an interminable length of time; there's little prospect of a clear result; and, as soon as it finishes, another one starts. The airports policy review currently being undertaken by the UK Secretary of State for Transport is therefore a real test of the government's determination to make decisions that actually turn into action.

This review is unique, however. To begin with, the government has already ruled out some of the most likely options for additional airport capacity. It has announced that there will be no new runway at Heathrow, and, after some wobbling, has reconfirmed this. It also rejected at an early stage new runways at Stansted and Gatwick, although this position appears to have become more equivocal. In addition, the government finds itself, for the first time, having to create a policy without a national delivery partner, since the UK Competition Commission and the UK Office of Fair Trading forced the break-up of UK airports operator, BAA. Instead, it will have to develop a policy that the private investors in the selected airports will want and be able to implement. So, with this background, how do the various propositions stack up?

Heathrow

Plans for a third runway at Heathrow (R3) have been around for about 40 years, although the location and design of the landing strip have changed radically, from a full-length runway south of the existing airport, to a shortened runway to the north, tucked up against the M4.

The economic case for R3 is undoubtedly strong, although it has suffered from time to time from being overstated. Studies consistently show that Heathrow is the location that would bring most



Mike Toms

economic benefit to the UK, although the arguments tend to confuse the issues. Some see the additional capacity being used for more services from UK regions, others for more services from long-haul destinations. In practice, I suspect that a large part of the capacity would go to increased frequencies on the most lucrative routes.

The national economic case is complemented by the commercial case made by airlines. Heathrow is the only site where they want additional capacity and where they would willingly pay good money for it. It is also probably the only location that starts with the range of existing services that would form a ready-made base from which to build a true global hub.

Unfortunately, the strength of the economic and commercial case is countered by the environmental case. Despite great efforts to wish this away, it remains true that Heathrow, closely knit into the urban fabric of London, is the location where additional flights impose the greatest environmental impact, on a large and highly vocal population in a number of marginal constituencies.

So far the debate has been conducted at this high level of generality, but, before another runway could be built at Heathrow, a number of serious and intractable secondary issues would have to be resolved. A third runway would need another terminal, remote from the four existing terminals, which are already spread over a large area. The circulation of aircraft, passengers, baggage and staff to make a workable hub across these four separate terminal areas could be a nightmare. Effective road and rail access to a greatly expanded Heathrow would be huge challenge. To take some examples, the A4 Bath Road would have to be put into a long cutting and tunnel under the new taxiway, and the existing main Heathrow access road to the M4 would probably have to be replaced with a new M4 junction and access road some miles to the east. Major reconfiguration of heavily congested rail routes from London to the west would be needed. Furthermore, it is not clear that a heavily indebted BAA would have the resources to deliver the scheme.

It is therefore not surprising that, in 1998, BAA declared that a third runway at Heathrow would not be politically or environmentally deliverable. In 2007 it was vilified by the Competition Commission for having taken this view, but since then, the three main UK political parties have come out against the scheme. Now even Willie Walsh, Chairman of British Airways's parent company, International Airlines Group, seems to agree that it is unlikely to happen in the near future.

The Thames Estuary, or 'Boris Island'

The vision of a new airport for London in the Thames Estuary has also been around for 40 years. It has moved from sites off the northern shore at Maplin to the Cliffe site in Kent, with competing schemes at present including one right in the middle of the estuary. The vision is a huge one, involving reclamation of large areas of land from the sea, and the construction of a new world hub airport, larger than Heathrow.

The seductive charms of this vision are based on its remoteness from populated areas, which would obviate environmental concerns. Unfortunately, the same remoteness makes the airport unattractive to passengers, who would have to get to and from it, and points to the need for huge investment in connecting the project to the road and rail system. The scheme commands almost universal opposition from airlines. It is more obviously supported by the advisers and consultants who would benefit from the fees associated with the development than by the commercial investors who would finance it. This is likely to leave the project stranded unless the government were to step in. Also, the numbers would not be small—the bidding would be likely to start at more than £20 billion, with up to a further £20 billion for associated infrastructure.

However, the government would have much bigger problems with this option, which have not yet been thoroughly exposed. To make it work, it would be necessary to massively curtail operations at the existing London airports. This would be essential both for airspace management reasons and because no airline would wish to leave Heathrow for a new site in the marshes unless forced to do so. Heathrow supports about 100,000 jobs, and through them 250,000 people, and the consequences of its closure for the West London economy—a beacon of prosperity—would be disastrous. The courts would be filled for years with aggrieved airports, airlines and local authorities using every avenue to block such a scheme.

The biggest danger presented by this option is that the government might adopt it as an attractive policy without working through these issues, which would be almost certain to kill it later, just as Maplin and Cliffe were killed.

Stansted

As recently as 2003, after five years of policy studies and consultation, the then Labour government announced that Stansted would be the site of the next runway for London. It set BAA off to implement this policy.

Stansted had been chosen because it offered the lowest level of environmental impact of any site around London, and was free from insuperable practical obstacles to implementation. However, the opposition was loud and well organised: local authorities and interest groups combined with an unholy alliance of Heathrow and Stansted airlines, and even the Civil Aviation Authority (CAA) joined in attempts to frustrate the project. By 2007 it was dead in the water, as ministerial support melted away. Resurrecting it now looks highly improbable. Demand for the airport from passengers has been falling for several years, and its major carrier, Ryanair, would almost certainly resist any attempts to be made to pay for further development. The airport is shortly to be sold by BAA, on the instructions of the Competition Commission. It is difficult to imagine any buyer being able or willing to build a new runway while working to staunch the loss of traffic from the existing airport.

Gatwick

Gatwick is often overlooked as a possible site for another runway to serve London. This is partly the result of a legal agreement that prevents a second runway being developed at Gatwick before 2019, an agreement which the government would have to legislate away, at a cost that could be counted in votes. That apart, studies have shown that a new runway would be technically feasible—in fact, in many respects it would be a less complex proposition than a runway at

Heathrow, although the configuration of the site would raise some specific layout and operational challenges. Gatwick would not be without its own environmental impacts, but, again, these would be of a lower magnitude than they would be at Heathrow.

So what are the downsides? Gatwick is a hugely successful airport, handling more than 34m passengers a year. Historically, however, Gatwick just has not worked as a second London hub. British Caledonian, Air Europe, Laker and others have all come and gone. British Airways invested large amounts in what was branded 'the hub without the hubbub' in the 1990s, but without success. The largest airline at Gatwick, easyJet, is not pressing for a second runway, and neither, so far, is the airport itself. Gatwick is owned by infrastructure investors, and it is not clear that they would have the appetite for the scale of investment that would be necessary to push a planning application through the process with an uncertain payback.

Other sites

London is surrounded by smaller airports, each of which has its own supporters. Luton, Manston, Southend, Northolt and Biggin Hill have all been suggested as locations for a fourth major London airport. None of these ideas is new; they have all been studied extensively in the past, and they have all been dismissed. It would be a surprise indeed if any of them were chosen as the focus for development at the end of this review. (This is not to dismiss them entirely, for reasons which will soon become evident.)

A different approach?

Building a new runway or airport should not be impossible. The French have done it, the Norwegians have done it, and the Germans have done it (at least twice). In the UK, it has been done at Manchester. But the brutal truth is that the particular political, economic and environmental constraints of the south-east of England mean that any policy decision in 2012 to build a new runway or airport is unlikely to bear fruit for many years, if at all.

However, this does not mean that nothing can be done. Indeed, it is still of vital importance for the nation's economy that something is done to make the most of the capacity that we have. In fact, there is a package of measures that could unlock significant extra capacity, and sooner than a new runway would. The measures would not be glamorous—no politician would be photographed smiling over a silver shovel—but they could allow growth more quickly and more cheaply.

The first of these is a gradual and managed relaxation of Heathrow's capacity constraints. An extension of the current experiment on tactical enhanced arrival and departures—in which the normal procedure of using one runway for landings and the other for take-offs

is relaxed—would provide more slots in the peak hours, when they are most needed. This could lead, eventually, to the easing of the current annual cap of 485,000 movements, set as part of the planning consent for Terminal 5.

The second measure is better use of those airports on the London fringe: Stansted, Luton, Southend, East Midlands and Birmingham (where I declare my interest as a director), as overflow airports for Heathrow. The government could help to make this happen by recognising and committing to the greater use of these airports as part of the solution to the capacity problem. As part of this policy it would need to make resources available to improve roads and public transport access to these airports, reversing the trend of the last ten years in which it has progressively diluted the services offered by both Gatwick and Stansted Express. As part of this, it should press forward with the construction of the HS2 fast rail line between London and Birmingham, with an interchange at Birmingham Airport, which would bring this airport within range of about 40 minutes of London as a credible alternative to Heathrow for some services.

Other measures to reduce journey times on services from regional cities to London might also shift the balance of demand from air to rail, potentially freeing up a limited number of airport slots for international services.

The government could also look again at the proposal floated by regional airlines and airports to introduce a lower rate of Air Passenger Duty (APD) for direct services from the regions, or for airlines starting new services from the regions. A family of four flying to Orlando currently pays £260 in APD. If regional airports were exempted, the cost saving might well encourage hard-pressed families to find alternatives to Heathrow or Gatwick.

None of these ideas is new, and some of them have already been rejected as ad hoc measures. But if the government really does want to solve the airport capacity problem, it could start by revisiting these options and trying to join up the dots to produce an integrated approach to getting the best out of the infrastructure that is already available.

Mike Toms

Mike Toms joined Oxera in 2007, having been a client for the previous 20 years. He considers Oxera's greatest achievement to be the contribution it has made to shaping the regulatory environment in the UK and worldwide.

30 years ago, Mike was paying 17% interest on his mortgage!

If you have any questions regarding the issues raised in this article, please contact the editor, Dr Leonardo Mautino: tel +44 (0) 1865 253 000 or email l_mautino@oxera.com

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