Gate Now Closing

A final call for UK airport expansion
to protect Britain's businesses, economy and jobs

A comprehensive study based on a major new call for evidence from airports, carriers, national and local governments and MPs

A British Infrastructure Group (BIG) Report
Chaired by The Rt. Hon Grant Shapps MP

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Who is the British Infrastructure Group?

The British Infrastructure Group of MPs (BIG) is led by The Rt Hon Grant Shapps MP and is dedicated to championing better infrastructure across the entire United Kingdom.

As a pro-growth group, the British Infrastructure Group (BIG) applauds our aviation sector. It is true that capacity is at its limits in the South East of England; the decision as to where to expand capacity has been delayed for too many years. But this deadlock should not conceal the economic energy that has put both candidate airports, Heathrow and Gatwick, into contention. Nor should it mask the opportunities in the rest of the UK. In many ways, Government policy is running to catch up with this economic dynamism. This report is an urgent last call for action.

BIG supports a greater number of destinations and flights. These are the connections that promote economic growth not only in the aviation industry but in the country as a whole. At the same time, BIG believes that in the interests of our population airports must be within reach of those who need them. Our remotest airports often have the most perilous finances. Yet they are among the most necessary for travel – and to achieve the Government's goal of rebalancing the British economy.

In writing this report, we have been conscious of the work of the Airport Commission. Their Final Report, released last July, provided a major guide to the future of aviation in the UK. Nonetheless, the Final Report had crucial limitations, because it saw the market through the lens of a new hub airport in the South East. The Airport Commission's Final Report stated that the UK's most urgent need is for long-haul destinations in new markets, and that only a hub airport can achieve them.[1] The Commission did not address regional airports on their own terms – something many of our respondents were keen to see addressed.

This report builds on prior evidence commissioned by the Government and airports themselves. However, its main conclusions rest on newly-sought responses from major stakeholders. BIG asked over 140 respondents for their opinions on government policy in this area, among whom were airport owners, carriers, national governments, councils and MPs.

This report concludes that the Government must select the new hub as a matter of extreme urgency. The decision on EU membership has not altered this fundamental fact. We believe this choice should be one of the first across the new Prime Minister's desk.

This BIG report offers fresh evidence and a new perspective on UK aviation more generally. We call for an immediate decision on expansion in the South East, but also for expansion in the Northern Powerhouse and the Midlands Engine. We call for staged reduction in our rates of Airport Passenger Duty (APD), which are so much higher than those of other nations, crippling our ability to trade or to reach our national ambition of doubling exports by 2020. This is a plea to make the most of a British success story – before it's too late.

The Rt Hon Grant Shapps MP

[1] *Airport Commission Final Report,* http://tinyurl.com/nry635w, p. 4.

BIG'S Recommendations

1. **Make an urgent and immediate decision on hub airport expansion**. The problem of capacity at the current hub, Heathrow, is causing substantial damage to the industry as a whole. It erodes confidence in the Government's stated ambition of growing the economy and our international trade. The evidence has been gathered by the Airport Commission. Now a decision is needed, to show the new leadership's mettle.
2. **Expand our regional airports**. Demand for flights is soaring and regional airports have begun to offer credible long-haul services. For the sake of UK PLC, regional airports must be allowed to expand. Only their expansion can address the coming 'capacity crunch' and deliver sustained growth, underlining the concepts of the Northern Powerhouse and the Midlands Engine and sharing the proceeds of growth across Britain.
3. **Progressively Lower Airport Passenger Duty (APD).** Britain's major aviation tax, APD, is many times the rate of similar taxes in European competitors and trading partners such as the USA. In fact, the tax rate is higher than in any other country except Chad. APD hinders exports, distorts the market, and hits small carriers hard. As the UK seeks to forge new trading relationships post-Brexit, we can't afford to maintain any barriers to trade, including APD. BIG believes that a lowered rate, by boosting the wider economy, would eventually be cost-neutral for the Treasury.[2] Bringing forward hub airport expansion could allay the cost in the interim – around a third of APD could be waived with the proceeds of bringing construction forward a year.
4. **Join up infrastructure to regional airports.** Even airports as large as Bristol and Luton suffer from congested roads and delay-prone rail links. Planning improvements should be a priority of the National Infrastructure Commission (NIC).
5. **Make regulation small-airport-friendly**. Existing regulation is often suited to large airports. Smaller airports cannot enjoy the same economies of scale. We should lower the burden by giving the main regulator, the Civil Aviation Authority (CAA), a 'regional connectivity' brief.
6. **Improve funding for local start-up routes**. The Government uses Public Service Obligations (PSOs) fund outlying routes; they could form a more coherent network in outlying areas. The Government uses the Regional Air Connectivity Fund (RACF) to pay start-up costs for new, commercially viable routes; this fund needs more streamlined, airport-friendly management.

[2] PwC, 'The Economic Impact of Air Passenger Duty', http://corporate.easyjet.com/~/media/Files/E/Easyjet-Plc-V2/pdf/content/APD-study-Abridged.pdf, p.2; for support for a 50% fall in APD for Northern Ireland, see NI Centre for Economic Policy, 'Air Connectivity in Northern Ireland', https://www.economy-ni.gov.uk/sites/default/files/publications/deti/economic-impact-assessment-of-air-passenger-duty.pdf, p. 56.

7. **Fast-track enterprise zone development around airports**. In a competitive industry, airports rely on commercial activity around them to support their services. Enterprise zones should be fast-tracked through the planning system.

UK Aviation: the Current Outlook

The UK aviation sector seems to be thriving. The industry's central debate, whether to expand Heathrow or Gatwick, is an argument over how best to accommodate rising numbers of passengers and flights. Nor is growth confined to London. Overall passenger numbers at non-London airports have nearly returned to their pre-recession peak, according to the Civil Aviation Authority (CAA).[3] Many of our larger regional airports are pursuing ambitious programmes of construction, among them Manchester (23.2 mppa), Luton (12.4) and Birmingham (10.2).[4] Fast-growing Leeds Bradford (3.5 mppa) feels that we should be 'shouting about our success stories.'[5] Yet the CAA also notes that smaller regional airports have not recovered since 2007-8.[6] Lower annual numbers are passing through Cardiff (1.2) and City of Derry (0.28), as two examples of the trend.[7]

"Passenger numbers have nearly returned to their pre-recession peak"

"Many of our larger regional airports are pursuing ambitious programmes"

Airports smaller than 3 mppa represent around 60% of the UK's airport capacity; they are the nearest airport option for 60% of the UK population.[8] They act as 'feeders' for hub airports and, contrariwise, as beacons for inward investment and local employment. In the most remote areas of the UK, small airports offer 'life-line' transport to regional and national centres.[9] They also offer alternative services valued by their region, such as freight and links to oil fields.[10] Successive governments and councils have invested in roads, railway lines,

[3] The CAA's response to BIG has been published on their website: CAA submission to BIG, http://publicapps.caa.co.uk/docs/33/CAP%201413%20MAY16.pdf, p. 3.
[4] Million Passengers Per Annum (mppa) figures from House of Commons Library research.
[5] Quotation from Leeds Bradford Airport submission to BIG.
[6] CAA submission to BIG, p. 4.
[7] Cardiff airport submission to BIG, City of Derry submission to BIG.
[8] Regional and Business Airports Group (RABA) figures, from the RABA submission to BIG.
[9] Shetland Islands Council, Hi-Trans, the Council of the Isles of Scilly, the States of Guernsey, and the Government of Jersey's submissions to BIG.
[10] Norwich Airport, Ports of Jersey, North Lincolnshire and Norfolk County Council submissions to BIG.

buildings and the development of nearby areas.[11] It is cause for concern, then, that smaller airports are at risk of closing. The closure of Plymouth and Filton and Manston, and the scaling back of Blackpool and Cambridge, confirmed trends which are familiar to many of them.[12] In 2007, small airports provided 15% of the UK total of trips outside London: today they provide just 10.8%, a third less, in a national aviation market that is approximately the same size.[13]

"Closure wastes capital investment, disperses staff and impoverishes local areas."

The decline of smaller airports reflects the structure of the market. With smaller passenger numbers, they are least likely to attract new routes, or to be able to sustain them with any regularity. Cautious small carriers hold back on new services which might attract higher numbers. Small airports lack opportunities to diversify into compensatory commercial offerings. Government policy has also weighed on them. Blanket policies on regulatory standards, APD and slot allocation rules have drawn a high toll.[14] Above all, small airports have been damaged by decades of delay in the hub airport system. Smaller airports are at once more reliant upon hub slots, to offer a frequency and diversity of connections which they themselves cannot, and less likely to obtain them. Most connecting airports, Heathrow included, continue to charge the same airport fees for a small aircraft to land as a larger one,

"We should invest in an airport system which can cater for a range of airline business models."

[11] Norfolk County Council, North Lincolnshire Council submissions to BIG.
[12] City of Derry airport, Vale of Glamorgan Council, CAA submissions to BIG
[13] 'Small airports' here means those smaller than 3 mppa. RABA submission to BIG.
[14] Humberside airport submission to BIG.

exacerbating the trend.[15] Weekly domestic connections to the Heathrow hub now stand at only eight, and falling.[16] Domestic flights, the main fare of smaller airports, have fallen by a sixth over the last decade, notwithstanding individual success stories.[17]

The larger regional airports, and to some extent the regulator, have been sanguine. The CAA maintains that flight services have generally been 'consolidated', rather than dissolved, noting that the number of regional airports serving the main London airports with more than two departures a day 'continues to show a reasonably broad [geographical] spread'.[18] Many airports report satisfaction with alternative hubs, such as Charles de Gaulle and Schiphol, though this situation hardly advances either Britain's status or the DfT objective of a 'One Nation Britain'. [19] Larger regional airports offer a greater number of point-to-point flights than they used to, allowing the consumer to bypass the hub system altogether.[20] New routes have been enabled partly by technical advances, as new planes such as the Boeing 737Max, the Dreamliner and the Airbus A350 have made it possible to conduct long-range flights in medium-sized planes, allowing medium-sized airports to host flights with fewer passengers than before.[21] But the main basis for these airports' renaissance has been a greater concentration of passengers.[22] Passenger gains since 2008 have come from journeys made for leisure reasons, prompted by cheaper ticket prices; such flyers are conscientious

[15] The Heathrow Landing Charge Schedule distinguishes between (fixed-wing) aircraft exceeding and not exceeding 16 metric tonnes (Heathrow Conditions of Use Amendment, Schedule 5, http://www.heathrow.com/file_source/Company/Static/PDF/Partnersandsuppliers/HAL-Conditions-of-Use-Amendment-SCHEDULE5-Up_date-25April2014.pdf). Almost all commercial aircraft exceed 16 metric tonnes, including the majority of short-haul or domestic planes; for example, Flybe's principal plane, the Bombardier Dash 8 Q400, has a maximum landing weight of 28 metric tonnes (airlinesinform.com, http://www.airlines-inform.com/commercial-aircraft/Dash-8Q400.html). Aurigny, CAA and Guernsey's submissions to BIG note that landing charges are not well-graded, although the CAA does point out that 'quieter' planes can enjoy a lower fee, and that these planes are likely to be the small planes favoured by domestic carriers.

[16] See Airports Commission Discussion Paper 06: Utilisation of the UK's Existing Airport Capacity, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/318211/utilisation-existing-capacity.pdf, para 1.10.

[17] 'Regional Airports: Ups and Downs', *The Economist*, Volume 418. no 8974, January 30th-February 5th 2016, p.28. One could mention Flybe's 2014 services to London City Airport as a success story.

[18] CAA submission, p 3.

[19] DfT, 'Single Departmental Plan', https://www.gov.uk/government/publications/dft-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020, Objective 2.

[20] Gatwick Airport, Norwegian UK submissions to BIG.

[21] Norwegian UK submission to BIG. See also the Boeing rubric for the 787 Dreamliner, which promises 'new business models': http://www.boeing.com/commercial/787/.

[22] City Metric, 'What is a Hub Airport and Why Should You Want One?', http://www.citymetric.com/what-hub-airport-and-why-should-you-want-one-100.

consumers who appreciate a wider range of travel options.[23] The transfer of passengers from small to medium airports has doubtless brought aggregation benefits.

Yet some passengers do not have multiple airports to choose from. They, and their areas, rely upon small airports. The submission from the Highlands and Islands Transport Partnership ('Hi-Trans') points out that, following the cancellation of the Inverness service, the nearest direct flight to Heathrow for highlanders now entails three and a half hours onwards travel to a lowlands airport.[24] The closure or partial closure of airports, as at Plymouth, Filton, Blackpool and Manston, wastes capital investment, disperses staff, and impoverishes local areas. Since government policy states that growth should be matched by the 'best use of existing airport infrastructure', our implicit intention should be to support capacity where it is already up and running.[25] Indeed, the Regional Air Connectivity Fund (RACF, 2013) runs on this assumption. According to the Government's Aviation Policy Framework, smaller local airports have an important role to place in accommodating growth.[26] Smaller airports have been disproportionately damaged by recent policy, making nonsense of the Government's intentions.

BIG does not believe that growth should be regarded as a fixed quantity, to be allocated between airports in advance. In fact, on current predictions some mid-size airports, including Birmingham, Bristol, East Midlands and Manchester, are likely to reach full capacity between 2025 and 2040.[27] Growth is a reality, not a choice. As the Airport Commission Final Report states, we should 'invest in an airport system which can cater for a range of airline business models… not predicated on any single view of the future of this industry.'[28] In other words, given the demands and uncertainty of aviation's future, some airports ought to be supported, in order to prepare future benefits for their areas and constituents.[29] With this in mind, BIG has assessed some of the Government's current policies, in order to anticipate upcoming decisions.

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[23] Parliamentary POST Note 496, June 2015, http://researchbriefings.files.parliament.uk/documents/POST-PN-0496/POST-PN-0496.pdf, p.4.
[24] Highlands and Islands Foundation submission to BIG.
[25] Aviation Policy Framework ('APF'), http://tinyurl.com/gsa7rlm, pp. 17, 24.
[26] APF, p. 23.
[27] APF, p. 29.
[28] *Airports Commission Final Report*, p. 105.
[29] The CAA is of the view that aid should be given where the market is reluctant to act due to 'risk aversion or a lack of awareness of commercial potential'. CAA Response, p. 11.

A Summary of UK Infrastructure Policy for Airports

UK Aviation Policy

"The Government's primary aim is to achieve long-term growth."

The central guide to UK aviation policy, particularly as it concerns economic growth, is the *Aviation Policy Framework* (APF, 2013).[30] Written under the Coalition, this document follows the broad lines of the Labour Government's 2003 Air Transport White Paper. The White Paper had recommended the growth of specific regional airports in order to develop their local economies and reduce congestion in the South East.[31] The APF replaces those specific recommendations with general principles, in order to 'guide' decision-making at national, regional and local levels.[32]

"The Government expects developers to make the major contribution to upgrades."

The APF states that the Government's primary aim is to achieve long term growth; its secondary goal is that the UK should remain one of the most well-connected countries in the world.[33] As a matter of general policy, proposals are made for preserving flights to London through public service orders (PSOs), for finance for new domestic routes, and for case-by-case liberalisation (allowing non-UK carriers to use regional airports). Capacity is the focus of the Government's proposals, from small domestic flights to new markets. Disappointingly, however, the APF does not give unequivocal support for airport expansion, cautiously suggesting that proposals must be judged on their individual merits.[34]

In the short term, the Government intends to make the most of existing capacity, to encourage new routes and services, to support airports outside the South East to grow and develop new

[30] APF, p 73.
[31] House of Commons Library, *Briefing Paper: Regional Airports*, 26 April 2016, no SN00323, p 3.
[32] APF, Foreword.
[33] APF, p 9.
[34] APF, p. 22.

routes, and to integrate airports into the wider transport network.[35]

There are limits to the APF's growth agenda. The document warns that the aviation industry must make a significant contribution to reductions in carbon emissions. In order not to place the UK at a competitive disadvantage, the Government intended to negotiate a programme for its contribution through the International Civil Aviation Organisation (ICAO) and the European Emission Trading Scheme (ETS).[36] UK membership of the ETS was an aspect of its EU membership and is no longer certain. As to noise reduction, the Government will act through a combination of incentives and demands for community engagement as part of the planning system.[37] Other health obligations will be met through legal controls. Finally, the Government supports the introduction of Airport Consultative Committees (ACCs), airport master plans and airport transport forums (ATFs), in order to improve community engagement.[38]

Surface Transport Policy

The DfT's 'Single Department Plan' outlines an ambitious programme in which transport spending is set to increase 50% by 2020.[39] Crossrail, HS2 and the integration of the Northern city regions, under the banner of the 'Northern Powerhouse', are all high on the agenda. The DfT's intention to support and maintain the strategic road network is also important for airports. The Government intends to work through Network Rail, Highways England and the other national organisations to bring forward a number of projects which will improve surface access.[40]

[35] APF, p. 30.
[36] APF, p 41ff.
[37] APF, p 55 ff.
[38] APF, p 67 ff.
[39] DfT, *Single Departmental Plan 2015-2020*, https://www.gov.uk/government/publications/dft-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020
[40] DfT, *National Infrastructure Delivery Plan*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/520086/2904569_nidp_deliveryplan.pdf, p. 40.

"Rail transport is not a viable replacement for short-haul air travel."

However, confirming the position in the APF, the Government does expect airport developers to make the major contribution to surface access upgrades.[41] In effect the requirement to pay covers all cases. It is a reactive policy: upgrades will be commissioned once larger numbers of passengers make them necessary.

"Heathrow is a national hub shorn of its spokes."

In recent years High Speed Rail has come to the forefront of public policy. Within a decade, London, Birmingham, Manchester and Leeds will be connected by a 'Y'-shaped HS2 line. Journeys between the most distant cities will be cut by an hour, bringing large parts of the population within a time of London that would render flights superfluous.[42] There is a suggestion, therefore, that domestic or even European flights could be replaced by a high speed rail network. This scheme has been assessed by the Airports Commission as follows:

> *If all domestic flights were replaced with high speed rail services this would on current schedules only free up some 55,000 air transport movements across all London airports and 35,000 at Heathrow. It would require a level of investment several times higher than that of an additional runway and would entail significant environmental impacts.*[43]

Though rail transport is not a viable replacement for short-haul air travel, HS2 will connect regional airports to larger catchment areas, making them yet more attractive to consumers.

[41] DfT, *National Infrastructure Delivery Plan*, p. 40.
[42] Hi-Trans suggests that this limit would be around 3 hours or less.
[43] *Airport Commission Final Report*, p. 84.

Upcoming Policy Decisions

The following upcoming decisions and documents are especially relevant to airports.

Expansion of Heathrow or Gatwick

Theoretically, the aviation network in the UK conforms to a 'hub and spoke' model. In the past Heathrow has been the designated 'hub airport'. Handling multiples of the flights and passengers of other UK airports, Heathrow concentrates traffic and sustains international routes.[44] In recent years, however, Heathrow has become a national hub shorn of its spokes. Increasing its proportion of lucrative international flights, it has lacked the capacity to support the majority of domestic flights.[45] For those that have survived, lower frequencies have been the price.[46]

Gatwick airport, the second largest, faces a capacity crisis of its own. Though it sustains many more domestic routes, it cannot be expected to accept them all. In any case, since it lacks Heathrow's 'hub' status, at present it cannot offer the same advantages to those needing connecting flights.

Either Heathrow or Gatwick must expand. If Heathrow does so, it will have to fulfil various pledges towards regional aviation including new domestic routes and a £10 million Route Development Fund. If Gatwick expands, it has similar promises to fulfil, though on a smaller scale.

The Airports Commission unambiguously favoured Heathrow. The Government postponed its decision following this report, firstly to October 2015, then to June 2016. In the wake of the EU referendum result and the resignation of the Prime Minister, the then Transport Secretary stated that a decision will not be made until a new leader enters office.[47]

BIG supports an immediate and urgent decision on airport expansion in the South East.

[44] Heathrow handles 75 million passengers per annum (mppa); the nearest in size is Gatwick at around 40 mppa. House of Commons Library Research for BIG.
[45] Airports Commission, *Discussion Paper 06: Utilisation of the UK's Existing Airport Capacity*, para 1.10.
[46] *Airports Commission Final Report*, p. 311.
[47] BBC, 'Airport Expansion Decision on Hold', 30/06/2016, http://www.bbc.co.uk/news/business-36671328

Aviation Policy Framework

"A new framework may be expected fairly soon after a decision on South-East expansion.

Since a major element of 2013's Framework involved introducing the work of the now-dissolved Airports Commission, a new document may be expected fairly soon after a decision on South-East expansion. Several of our respondents anticipated a fresh issue.[48]

"With a decision made on South-East expansion, other airports will call for a report which addresses their needs."

The *Aviation Policy Framework* guides decisions on airport reorganisation and expansion, both for the Department for Transport (DfT) and other key decision makers. The Government's pro-growth agenda is unlikely to change. However, many short-term strategies will have to be newly devised. Previous Government commitments in the *Framework* included pushing for US pre-clearance (by which immigration, customs, and agricultural inspections of international air passengers can be completed before departure) and Global Entry (allowing expedited clearance for pre-approved, low-risk travelers upon arrival in the United States), as well as modernising air services agreements and offering funding for specific rail and road links. New commitments would be significant.

National Policy Statement

The recommendations of the Airport Commission are intended to support the Government in preparing a National Policy Statement, in order to accelerate the resolution of any future planning application(s).[49] The scope of this statement is not yet clear, nor how it will interact with the Aviation Policy Framework.

[48] E.g. London Luton Airport Limited.
[49] Planning Inspectorate, National Policy Statements, https://infrastructure.planninginspectorate.gov.uk/legislation-and-advice/national-policy-statements/. See also Aviation Policy Framework, Executive Summary para 23.

Recommissioning of the National Infrastructure Commission

The National Infrastructure Commission (NIC) is a non-ministerial body which provides advice on infrastructure to the Government. The organisation is non-partisan, but has been championed by George Osborne, when he was Chancellor, in particular.[50] According to the Queen's Speech the NIC will be placed on a statutory footing from this year, attaining a semi-permanent constitutional position.[51]

The Commission's importance lies in its power to make recommendations. After receiving a brief from the Chancellor, the NIC conducts research and returns its answers. Since its establishment, the NIC has produced reports on high-speed rail in the North of England, Crossrail 2 and 'smart power'.[52] The Commission is currently working on 5G deployment and 'growth, housing and jobs' in the Cambridge-Milton Keynes-Oxford corridor. Given that the first round of reports took around five months to write, the current round should be completed in October or November 2016.

At that point, if a decision has been made on airport expansion in the South East, other airports will be in a good position to call for a report which addresses their needs. Based on the submissions of its respondents, BIG believes that the NIC should investigate the issue of surface access to UK airports.

[50] BBC News, 'Osbourne launces National Infrastructure Commission', 30 Oct 2015, http://www.bbc.co.uk/news/business-34670024.
[51] HM Treasury, 'Government underlines its commitment to establish the National Infrastructure Commission via primary legislation', 19 May 2016, https://www.gov.uk/government/news/government-underlines-its-commitment-to-establish-the-national-infrastructure-commission-via-primary-legislation.
[52] NIC Publications, https://www.gov.uk/government/publications?departments%5B%5D=national-infrastructure-commission

Recommendations

1) Improving our Hub Connections

(i) Decision on Expansion in the South East

"Indecision on their question was extremely damaging throughout the UK."

In its call for evidence, BIG asked its respondents if the binary Heathrow-Gatwick decision overshadowed British aviation. London Luton notes that the Airport Commission had been concerned by the narrowness of its remit, and stated it is "imperative" that regional airports continue to grow and make best use of their capacity.[53] Mike Kane MP – member for the constituency of Manchester Airport – believes that government has not been paying enough attention to airports beyond Heathrow and Gatwick.[54]

"Confidence in Britain will be broken if the Government cannot act decisively on advice."

These and similar reservations aside, there was a strong consensus among our respondents that what was damaging to the UK industry was not the governmental obsession with the hub decision, but indecision.

Under the Planning Act 2008 (as modified by the 2011 Localism Act), the final choice over airport expansion in the South East lies with the UK Government.[55] For 'Nationally Significant Infrastructure Projects', which include airports capable of handling 10 million passengers per year, applicants have to obtain 'development consent' by submission to the National Infrastructure Directorate of the Planning Inspectorate. [56] 'Development consent' includes planning consents and any necessary compulsory purchase orders. The applicant receives a final decision, on the advice of Planning Inspectorate, from the Secretary of State for Transport. A selected airport then has to align itself with an Airports National Policy Framework, devised by the Department for Transport (DfT), and the requirements of the Civil Aviation Authority (CAA).

[53] London Luton Airport Operations Limited response.
[54] Mike Kane MP submission to BIG.
[55] Planning Inspectorate, Nationally Significant Infrastructure Projects, https://infrastructure.planninginspectorate.gov.uk/application-process/the-process/
[56] DfT Note, 'Nationally Significant Transport Infrastructure Projects in the Transport Sector', updated 7 November 2012, https://www.gov.uk/government/publications/nationally-significant-transport-infrastructure-projects/nationally-significant-infrastructure-projects-in-the-transport-sector

The Secretary of State has the role of arbiter. In order to make the decision on a new hub, he commissioned evidence from an independent commission. According to its Chairman, Sir Howard Davies, the Airports Commission aimed to put the Government in a position 'in which rapid and implementable decisions [could] be soundly made.'[57] After three years, it published a Final Report in June 2015. At that point the Secretary of State hoped to study its conclusions, assess the planning process, and report back to Parliament by autumn of that year.[58]

However, the DfT has not kept to that deadline. Instead it followed a recommendation from the Environmental Audit Committee to run further environmental air-quality checks, together with carbon emissions, noise and local impact.[59] This delay prompted an Early Day Motion for a final decision on the matter: EDM 1162, tabled on 29th February 2016, attracted 65 signatures.[60] While stakeholders conceded the importance of the environment, they questioned the need for further evidence this late in the process. [61] By setting up the Airports Commission, and more recently the National Infrastructure Commission (NIC), the then Government committed to a new model for making decisions, in which independent studies would eliminate political biases and better represent the national interest as revealed by evidence. The Government is by no means bound to follow Sir Howard's recommendations and permit a new north-west runway at Heathrow, but confidence in Britain and particularly the NIC will be shaken if the Government cannot act decisively on advice.[62] The latest delay, following the referendum, will undoubtedly worsen industry relations.

Our respondents were clear. Some stated that the Government should approve Heathrow (such as Heathrow, Leeds Bradford Airport and the Isle of Man Government); others stated that BIG should support Gatwick (such as Gatwick and Birmingham Airports). But all were

[57] Sir Howard Davies, DfT Press Release, 2 November 2012, https://www.gov.uk/government/news/airports-commission-membership
[58] The Rt Hon Patrick McLoughlin MP, Oral Statement to the House of Commons, 1 July 2015, https://www.gov.uk/government/speeches/airports-commission-final-report-oral-statement
[59] The Rt Hon Patrick McLoughlin MP, Oral Statement to the House of Commons, 14 December 2015, https://www.gov.uk/government/speeches/aviation-capacity
[60] For the names of the signatories, see http://www.parliament.uk/edm/2015-16/1162.
[61] For example, the CBI. Carolyn Fairbanks, http://news.cbi.org.uk/news/cbi-comments-on-further-aviation-capacity-delay/
[62] For example, see The Economist, 'Airports in London: Now get on with it', July 4 2015, http://www.economist.com/news/leaders/21656663-britain-needs-expand-heathrow-airportand-soon-now-get-it; IoD Press Release, 11 May 2016, http://www.iod.com/influencing/press-office/press-releases/government-has-run-out-of-excuses-for-delaying-airport-expansion.

clear that a decision must be made right away.[63] The leader of the Institute of Directors claimed that his members cared more about a quick decision than whether a runway were built at Heathrow or Gatwick.[64] Despite the Transport Secretary's reassurances, British business believes that a quick decision is only way to ensure an open runway by 2030.[65]

The sense of urgency among businesses shows the value of a quick decision to the nation as a whole. Few figures exist which convey the cost of further delay. The Airport Commission's Final Report put a cost on delayed flights at around £5.1bn drained from the UK economy between 2021 and 2080.[66] But on-time flights are a relatively small aspect of the economic benefits brought by hub airports. One method of calculating the costs of the current delay is to consider the difference between the economy before and after expansion. Taking the figures of the Airport Commission, for example, and assuming an equal benefit for each year of expansion, one can calculate a reduction in value for each year of delay:

	Value added to the UK economy over 60 years	Value added to the UK economy over 59 years
LGW	£89 billion	£87.52bn
LHR NW	£147 billion	£144.6bn
LHR Extended Northern Runway	£131 billion	£128.8bn

Similar reductions would produce a value for 58 years, 57 years, and so on.[67] The costs of delay would then appear as:

	Lost Value for each year's delay	Lost value for each month's delay	Lost value for each day's delay
LGW	1.48bn	123 million	4,054,795
LHR NW	2.45bn	204 million	6,712,329
LHR NR	2.18bn	182 million	5,972,603

[63] London City Airport, Newcastle Airport, W S Atkins PLC, South Tyneside Council, the Scottish Government, Gordon Henderson MP and Sir Roger Gale MP.
[64] http://www.ibtimes.co.uk/heathrow-expansion-businesses-tear-their-hair-out-delayed-decision-set-cost-billions-1532856
[65] The Rt Hon Patrick McLoughlin MP, Oral Statement to the House of Commons, 14 December 2015.
[66] Airport Commission Final Report, p. 76.
[67] Airport Commission Final Report, p 81.

The cost of delay to the UK economy is then between 4 and 6 million pounds a day. This cost is between a half and three quarters of the direct tax take from every flight in the UK.[68] It may be argued that the cost of a year's delay is lower than represented, since one could argue that 'one-off benefits', which may not be weakened by one or two years' delay, make up a larger proportion of the Commission's original estimate than is shown in this model. In the alternative, the true cost of delay may be higher, because there are compound costs. If international hubs gain ground against the UK during the delay, for example, the resulting shift of routes and passengers would be hard to correct, especially at such a vulnerable moment in the UK's international image.

Only urgent action can mitigate the approaching 'capacity crunch'. According to the CBI (Confederation of British Industry), maximum capacity should be expected at *all* London airports as early as 2025.[69] The more cautious Airports Commission still anticipates 90% capacity in the London system by 2030.[70] Since Heathrow already runs at near-maximum capacity, and has done for some years, we know the probable effects of this crunch on airports themselves: low resilience, circling planes, cancelled respite, raised landing charges and deletion of appropriate slots.[71] Lost capacity at a hub would spread out through the 'spokes', weakening the entire network.

It is worth confirming here that regional airports do, on the whole, want a UK hub link. In some cases this is a matter of easier links onward from London, as a 'world city' that attracts global traffic. The Scottish Government notes that nearly 40% of long-haul passengers to Scotland travel through Heathrow.[72] It also notes that the exit of Virgin Little Red service from Aberdeen and Edinburgh to Heathrow ended competition on that route. Similarly, Regional

[68] Revenue from Air Passenger Duty was £3.2 billion in 2014/2015. Office of Budget Responsibility, *Economic and Fiscal Outlook*, Cm 9153, November 2015, p. 103 (Table 4.6).
[69] Carolyn Fairbairn, CBI Director-General, http://news.cbi.org.uk/news/cbi-comments-on-further-aviation-capacity-delay/
[70] Airports Commission Final Report, p. 83.
[71] Airports Commission Final Report, p. 16.
[72] Scottish Government submission to BIG.

"Not only existing links are damaged, but future routes are forestalled."

and City Airports (RCA) mentions its connection from Norwich through Schiphol, but worries its international links are effectively tied to one network, KLM's.[73] RCA's links through Manchester, as an international jumping-point, are by interline or codeshare agreements and do not currently generate large passenger flows. Of course there are airports with specific ties – the Isle of Man, for example, is determined to maintain links with the northwest – but on the whole the most valued connection is that of the London hub.[74]

"Even with expansion, less profitable routes will be unlikely to afford a place at the hub."

If that hub cannot be provided, not only will existing links be damaged, but future routes will be forestalled. Long-haul routes have gained against short-haul and domestic flights at Heathrow. Yet a major theme of the Airport Commission's Final Report is that the range of long-haul destinations has not widened. Indeed the number of destinations served weekly narrowed altogether from 175 to 157 between 2006 and 2010.[75] The UK economy does not stand to benefit from fast-growing cities like Chongqing and Wuxian, which have taken on greater importance today. The UK has been relegated to 4th or 5th position for new routes to China, Brazil and Russia from the EU in the last 20 years.[76] The CBI claims, in relation to Heathrow, that 8 new daily routes alone to fast growing nations could boost exports by up to £1bn per year.[77]

Delay damages the UK aviation network and its industries. It allows Britain's global rivals to continue to race ahead of her. BIG repeats the cry of its respondents and of airports, carriers, Councils and businesses for an immediate decision on expansion.

[73] RCA submission to BIG. The Norfolk Chamber of Commerce confirmed in its submission to BIG that a Heathrow link from Norwich would be highly popular.
[74] Isle of Man submission to BIG; RCA, Liverpool John Lennon submissions to BIG.
[75] CAA Statistics, quoted in APF, p. 28.
[76] http://news.cbi.org.uk/news/31-billion-cost-to-uk-trade-whilst-waiting-for-new-runway-to-be-built/
[77] http://news.cbi.org.uk/news/cbi-responds-to-airports-commission/

(ii) Landing Charges

In connection with hub airports, many of our respondents complained about the high cost of landing charges at Heathrow and, to a lesser extent, Gatwick.[78] Small carriers and airports in particular raised the issue; they are disproportionately affected. 'Landing charge' is a term for a charge levied by an airport on incoming aircraft. A landing charge is one part of 'airport charges' that may have to be paid.

Large airports are subject to the Airport Charges Regulation 2011, a European Directive brought through the UK Parliament which demands an annual consultation with carriers and transparency when setting the rates.[79] For airports larger than 5 mppa, the CAA also sets a ceiling to the amount an airport can charge (its 'maximum allowable yield').[80] The CAA calculates the amount according to forecast capital expenditure, operating expenditure and capital depreciation.

For the period running from 2014 to 2019, the CAA has allowed Heathrow to increase charges by a maximum of inflation less 1.5% per year. This reduction implies that the CAA considers Heathrow's charges to be too high in comparison to its costs and plans.[81] Heathrow's chief carrier, BA, had called for a maximum of inflation minus 9.8%, which shows the extent of the dissatisfaction among airliners. Heathrow's fees are already the highest in Western Europe by some margin. After expansion they would almost certainly rise, in order to absorb the costs of expansion and infrastructure. Respondents noted that, even with released capacity, less profitable routes will be unlikely to afford a place at the hub after expansion.[82]

Smaller airports are also penalised by the structure of fees. In Heathrow, for example, airport charges are divided into three categories: Landing Charges, Departing Passenger Charges and Aircraft Parking Charges, representing 21%, 75% and 4% of the total airport charges revenue respectively (excluding ANS).[83] Landing charges make little concession to the size of aircraft,

[78] Gatwick Airport, Ruth Cadbury MP, Aurigny, States of Guernsey, CAA and Flybe's submissions to BIG.
[79] http://www.caa.co.uk/commercial-industry/airports/economic-regulation/competition-policy/airport-charges-regulations/
[80] http://www.caa.co.uk/commercial-industry/airports/economic-regulation/competition-policy/airport-charges-regulations/
[81] The Economist, 'Airport Expansion in London: BA's big bluff on a third runway at Heathrow', 4 August 2015, http://www.economist.com/blogs/gulliver/2015/08/airport-expansion-london
[82] Gatwick, Ruth Cadbury.
[83] http://www.heathrow.com/company/company-news-and-information/economic-regulation/airport-charges-and-passenger-volumes

"Passenger numbers have nearly returned to their pre-recession peak"

penalising smaller, less profitable craft – although these craft are often less pollutant. Departing Passenger charges are made on onward flyers, damaging connecting domestic flights. These effects are not notional: in 2014, Flybe sold its Gatwick slots, formerly supplying a Guernsey-Gatwick route, in response to a rise in landing charges.[84] The OECD International Transport Forum reports that high-frequency, low capacity feeder flights would be discouraged by charges at an expanded Heathrow.[85] The planned reduction in charges on domestic services to Heathrow from January 2017 is small comfort.[86]

"Many of our larger regional airports are pursuing ambitious programmes"

Not only does the profitability and usefulness of many regional airports rely on a hub connection; the hub itself will lose out on passengers to sustain its routes. BIG does not propose lowering landing charges for domestic flights alone, which would be direct discrimination under European law, as it currently exists. However, **BIG would support a rearrangement in the structure of airport fees so that fairer distinction was made between smaller aircraft and larger ones. It calls on the Government to enter voluntary arrangements with Heathrow and Gatwick** on this matter, in line with policies on the slot regime.

[84] States of Guernsey submission to BIG.
[85] OECD, 'Impacts of Expanding Airport Capacity on Competition and Connectivity: The case of Gatwick and Heathrow' https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388848/impacts.pdf, p. 17.
[86] Newcastle International Airport submission to BIG.

(iii) Slot Regime

For regional airports that want a connection through the hub, the capacity crunch manifests itself in a lack of slots. 'Slots' are the right to land at a particular time. They are owned by airlines and traded through a system called 'secondary trading', intended to maximise competition. The scarcer hub slots have become, the higher their price has risen. As our respondents confirm, the elevated price has narrowed the number of carriers and destinations to the largest international flights.[87]

However, ring-fencing slots will not be possible without considerable regulatory change. The current regime is based on a global framework administered by the International Air Transport Association (IATA), amended by the EU to apply rules on competition and the single market.[88] A private company owned by the UK's airlines, 'Airport Coordination Limited', manages the allocation of slots in line with European law. The system is grounded in an open-market of secondary trading: those that can command the highest price will win the most slots, and airlines themselves are free to change the slot's use or sell it.[89] Of course, change will follow from Brexit. But Airport Coordination Limited is likely to hold to the international framework of IATA.

Slots can be protected under the 'grandfathering' rule: as long as a slot has been used over 80% of the time, an airline may keep it in the next period.[90] However, this 'use it or lose it' principle tends to pick off routes that need greater support, and excludes new routes. The regime also has a rule that 50% of slots from the 'slot pool' (i.e. those not covered by grandfather rights) must be offered first to new entrants if they seek them. This rule may benefit smaller services. Secondary criteria including type of service may be applied, and airports, operators and air traffic services may agree airport-specific rules. Latterly, those rules had to be compatible with EU law, which did not allow the favouring of domestic routes beyond the limited exception of Public Service Obligations (PSOs). The CAA therefore

[87] E.g. Southend Airport, Atkins.
[88] The current regime is governed by the 1993 Slot regulation (Regulation 95/93/EEC) as amended by Regulation 894/2002/EC and 793/2004/EC.
[89] CAA submission to BIG, p. 22.
[90] CAA submission to BIG, p. 19.

"Those slots should be appropriate in price, timing and frequency."

concluded that a general attempt to depart from the slot system would be void and unenforceable.

Now change is possible. However, the Government has been a historical supporter of the slot regime, its aspiration being rather to optimise the commercial market for the trading of airport slots. Leaving aside the matter of EU renegotiation, the most practical suggestion would be to **enter into voluntary arrangements on slots with Gatwick and Heathrow Airports, as a condition of their expansion**.[91] Those slots should be appropriate in price, timing and frequency, and protected from resale for a certain period.

"A 'London location' is becoming less convincing than it used to be."

[91] States of Guernsey submission to BIG.

2) Expanding Regional Airports to meet growth

While expansion in the South East has delayed, large airports in other parts of the country have been seizing the opportunity to attract new passengers. Coinciding with a proliferation of low-cost carriers, schemes for new point-to-point routes have stimulated an upturn in the fortunes of regional airports.[92] Many now argue that they can play a larger role in accommodating excess capacity than the Airports Commission and Sir Howard Davies allowed for.[93] Airports such as Manchester, Birmingham and Bristol have upgraded themselves; they believe that the UK Government can go beyond the 'predict and provide' approach of the 2003 White Paper to show more ambition in its infrastructure plans.

The term 'regional airport' generally refers to a UK airport outside the South East of England. It is not a statutory or legislative term, but has a long history of use in Whitehall reports and White Papers.[94] The opposition of 'regional' and 'London' airports has historically been based on proximity to London as a market, on absolute numbers of passengers, and on the 'hub' function of the London system as a whole. It is worth pointing out that a 'London location' is less convincing as category than it used to be. Once HS2 and Crossrail are complete, Birmingham and Manchester airports, for example, will be a shorter time than London Luton from Heathrow.[95] In terms of absolute numbers, too, Manchester is the 3rd largest airport in the country, larger than London Stanstead, with Edinburgh and Birmingham of an equivalent size to Luton.[96] The only convincing dividing line between London airports and regional airports of this stature is the 'hub effect'. As we have seen, hub benefits, at least in relationship to domestic flights, have been weakening at Heathrow for some years.

With the weakening of the hub system, regional airports have been expanding rapidly. By asserting their importance as bases for medium and long-haul travel, larger airports have won a measure of independence from the UK and European hub system.[97] At the largest scale,

[92] CAA submission to BIG, p. 6.
[93] House of Commons Library, 'Regional Airports', Briefing Paper Number SN00323, p. 3.
[94] House of Commons Library, 'Regional Airports', Briefing Paper Number SN00323, p 4.
[95] According to Google Maps, the swiftest journey between Luton and Heathrow airports by train is 1h15 mins. The projected journey time between Birmingham Airport and Birmingham Interchange, Birmingham Interchange and Old Oak Common, Old Oak Common and Heathrow (by Crossrail) will be around 53 minutes; the equivalent journey from Manchester will last 1h3 mins. HS2 Ltd, 'Journey Times and Frequencies', http://tinyurl.com/jufry8f
[96] House of Commons Library research for BIG.
[97] CAA submission to BIG, p. 5.

"The UK's future may lie in a lattice of competing regional airports."

Manchester Airport now offers 200 foreign destinations, including an extremely popular route to Dubai.[98] Its passenger numbers have risen by more than a fifth since 2010, up to 23m a year. Similarly, Newcastle airport's value of exports has risen from £20m per annum to over £310m since the introduction in 2007 of a daily Emirates flight to Dubai.[99] This regional airport has made a significant contribution to making the North East the sole region of the UK with a positive balance of trade.[100] Although links between UK regional airports and long-haul destinations are still small compared to what is available in the London area, they are growing rapidly, particularly towards the US and the Middle East.[101] Birmingham airport offers flights to Doha. Thus some of BIG's respondents see the UK's future within a lattice of competing regional airports, rather than a London-hub system.[102]

"Regional airports provide a rebalancing effect for the economy."

The principal advantage of regionalism is its push towards competition. The global hub system originated in a world where national carriers dominated national markets. Gatwick Airport, whose business model favours smaller carriers, notes how greatly the British aviation market has diversified since the breakup of BAA Plc (now Heathrow Airport Holdings) in 2009.[103] As a result, carriers and airports could have many different owners, competing to attract airlines and routes.[104] Further airlines entered the market following the 2008 EU-US Open Skies Agreement, which relaxed certain traffic restrictions. New business models, such as that of Norwegian UK, and movements across airports, such as Ryanair's backing of Stansted, have since demonstrated the

[98] The Economist, 'Regional Airports: Ups and Downs', 30 Jan 2016.
[99] South Tyneside Council submission to BIG.
[100] The Journal, 'North East Chamber of Commerce linking local business with overseas networks', 5 Mar 2014, http://www.thejournal.co.uk/business/business-news/north-east-chamber-commerce-linking-6772963
[101] CAA submission to BIG, p 7.
[102] Birmingham Airport, Bristol Airport, Gatwick Airport submissions to BIG.
[103] Gatwick Airport submission to BIG.
[104] CAA submission to BIG, p. 8.

liberalising effects of competition.[105] Benefits have been passed onto customers, according to Gatwick, who cites the improvement in its service levels from 12th (Q4 2009) to 8th (Q4 2015).[106] More passengers have been attracted to all the major regional airports (Manchester, Edinburgh, Birmingham, Aberdeen, Leeds), the main proponents of competition, beating trends at larger and smaller airports alike

Another merit of regional airports is in the rebalancing effect which they provide to the economy – both in the Northern Powerhouse and the Midlands Engine. Airports themselves provide employment and pay for the local economy. To stay with Manchester airport, there are 22,000 people employed on site, with 46,000 jobs supported directly and indirectly. The tourism industry, with 90,000 jobs, also relies upon the airport. The development of 'Airport City' (a designated Enterprise Zone) has attracted inward investment and created jobs in valuable job sectors. One foreign business, for example, is the Hong-Kong based Mercedes dealer Lei Shing Hong, who acquired five sites in the North West employing 336 staff.[107] Just as the Thames Valley relies upon Heathrow, areas throughout England rely upon their local airport to stimulate investment. It is unlikely that so much could be obtained for the regions without direct flights to other parts of the world, and those flights must be driven by increased passenger numbers. There remains considerable scope for airports other Heathrow to develop long-haul services.[108]

The relative success of large regional airports may have owed something to the delay in expansion in the South East. Bristol follows the logic of this argument when it argues against the expansion of Heathrow on the basis passengers will be drained from its South West catchment area towards the hub.[109] Larger airports worry about a slow-down in new long-haul routes if, as expected, an expanded hub is hard-wired with the capacity to reach out to new and emerging markets. Yet there seems to be consensus from our respondents that their long-haul flights are not a replacement for a renewed hub programme.[110] Leeds Bradford

[105] Norwegian UK submission to BIG; CAA submission to BIG, p. 8.
[106] Gatwick submission to BIG. Rankings from a ranking of European airports by Airports Council International.
[107] Mike Kane MP's submission to BIG.
[108] ACFP, p. 28. Norwegian UK notes in its submission that it will be opening direct transatlantic flights from Edinburgh.
[109] Bristol airport submission to BIG.
[110] Liverpool John Lennon, Leeds Bradford and Newcastle International airports' submissions to BIG.

points to its attainment of Heathrow slots in 2012 as an important growth factor.[111] Newcastle, likewise, attaches importance to its hub connections.[112] There is not necessarily a zero-sum game between the hub and regional airports. Manchester's new Hainan airlines service, which is expected to bring economic benefits of £250 million to the area over the next 10 years, runs alongside a Heathrow service.[113] The evidence suggests that the growth of our hub airport and our regional airports can be complementary.

Indeed, the expansion of regional airports would be necessary regardless of whether a hub were expanded at all.[114] According to the Airport Commission's *Final Report*, which takes a somewhat modest view of regional aviation, the airports at Birmingham, Bristol, East Midlands and Manchester are likely to reach capacity over the same time scale as the major South East airports.[115] Regional airports believe that they can supply much of the capacity gap that will result from our delay in choosing a hub airport. Some, such as London Stanstead, have existing planning permissions that will cover expansion for some years to come, and face problems more from surface access than total capacity.[116] Yet in the case of many other regional airports their own growth, if they are not allowed to expand, will fill them. They must be allowed to provide for this demand, so that they can continue to provide benefits to their local areas.

BIG therefore recommends that the upcoming National Policy Statement and Aviation Policy Statement contain substantive proposals in support of the expansion of regional airports.

[111] Leeds Bradford International Airport submission to BIG.
[112] Newcastle International Airport submission to BIG.
[113] Centre for Aviation, 'Hainan Airlines eyes ambitious 2015 with wish-list for nine new long-haul routes', 23/10/2014, http://centreforaviation.com/analysis/hainan-airlines-eyes-ambitious-2015-with-wishlist-for-nine-new-long-haul-routes-191664
[114] Sir Howard Davies, speech to the Centre for London, 7 October 2013, https://www.gov.uk/government/speeches/aviation-capacity-in-the-uk
[115] ACFP, p. 29.
[116] Stanstead currently serves 22.7 mppa, with permission for 35 million without the need for further major expansion on site. House of Commons Library Research; Haven Gateway Partnership submission to BIG.

3) Progressively Lowering Air Passenger Duty

"The growth of our hub airport and our regional airports is complementary."

Air Passenger Duty ('APD') is Britain's major tax on the aviation industry. The tax is charged on all passenger flights from UK airports. Its rate is determined by a combination of the itinerary of the passenger, i.e. the distance of a country's/territory's capital city from London, and the class of the passenger's travel, i.e. commercial plane or private jet. The tax is paid by airlines, but due to competition it acts as a tax upon airports and the entire UK industry. It is also a tax on exports. There has been considerable noise around APD reform in recent years. The Coalition's promises of reform in its first Queen's Speech resulted in an inconclusive investigation of per-plane rather than per-passenger charges. Since then, the duty has been extended to business flights (2011 Autumn Statement) but successively withdrawn from children under 12 in economy class (from May 2015) and 16 in all classes (from March 2016). The 4 distance bands have been combined into 2 since April 2015. APD has been frozen at inflation for short-haul and domestic flights for four years, but will rise against inflation this year. [117]

"BIG found a near-unanimous hostility to Air Passenger Duty among its respondents."

BIG found a near unanimous hostility to the tax among its respondents. Many are annoyed by the weight of APD. Bristol airport points out that the UK ranks 137th out of 138 when it comes to aviation taxes – charging more than any country on earth except Chad.[118] With such a high rate of tax, it is hardly surprising that many airports' ideal solution would be the abolition of APD altogether.[119] The tax raised around £3.2 billion for the Exchequer in 2014/5, and the Treasury holds the opinion that a total abolition

[117] Based on House of Commons Library Briefing Paper, 'Air Passenger Duty: recent debates and reform', number 05094, 12 January 2016, p. 3.
[118] Bristol Airport submission to BIG.
[119] Leeds Bradford, RCA group, South Tyneside submissions to BIG.

would not pay for itself.[120] In the words of the Treasury Minister David Gauke, abolition 'would have a limited effect on GDP and cause a net loss of tax receipts.'[121] Opposing this view, an industry-commissioned study by PwC found that the economic benefits of abolishing APD would increase tax receipts elsewhere to a sufficient level to offset the loss to the Exchequer.[122] This result has been borne out in Ireland, Denmark, Belgium and Holland.[123] It is matter of confidence in the industry's prospects as much as fiscal priorities. It seems incredible that the Government can afford to delay the runway decision in the South East, but not to remove an export tax which is causing serious distortions in the market and damage to the industry.

Making national reform more urgent, APD rates are becoming a matter for devolved competence. Under the Scotland Bill, APD has been fully devolved to Scotland. Although the Scottish Government has not yet reduced APD, it has the aspiration of doing so by 50%.[124] A reduction in APD would reduce prices in flights departing from Scottish airports, putting airports in England at a competitive disadvantage, though this may be mitigated by the relatively large distance of the major Scottish airports from their English counterparts.[125] Further concern was raised about the possibility that APD powers could be granted to the Welsh Assembly, which would affect airports across the west of England.[126] The consequences of differing APD rates have already appeared in Northern Ireland. Belfast International Airport faces a crisis of *overcapacity* as a direct result of unequal competition with Dublin Airport, since in the Republic of Ireland the APD rate is zero.[127] City of Derry airport presents a statistic of 1.6m passenger journeys per year migrating from the north to Dublin airport.[128] Since January 2013, the rate for direct long-haul flights from Northern Ireland was devolved and set to zero by the Northern Ireland Executive.[129] There is therefore a good case for waiving APD entirely in Northern Ireland, to reflect the market there, and an

[120] Office of Budget Responsibility, *Economic and fiscal outlook*, Cm 9153, November 2015, p. 103 (Table 4.6)
[121] HC Deb 20 October 2015 cc297-320WH.
[122] PwC, 'The Economic Impact of Air Passenger Duty', http://corporate.easyjet.com/~/media/Files/E/Easyjet-Plc-V2/pdf/content/APD-study-Abridged.pdf, p.2. The report was commissioned by EasyJet.
[123] Flybe brought these cases to our attention. Flybe submission to BIG.
[124] 'A Scottish replacement to Air Passenger Duty - Strategic Environmental Assessment Screening and Scoping Report', March 2016, http://www.gov.scot/Publications/2016/03/6647/325364.
[125] Liverpool John Lennon submission to BIG.
[126] Bristol Airport submission to BIG.
[127] Danny Kinahan MP's submission to BIG. The situation is similar at Belfast City Airport too.
[128] City of Derry Airport submission to BIG. Belfast International Airport puts the figure between 1.6-2 mppa.
[129] Commons Library Briefing Paper, 'Air Passenger Duty: recent debates and reform', p. 32.

argument that England should follow cuts to APD made in Scotland or, less plausibly at present, in Wales.

"The consequences of differing APD rates have already appeared in Northern Ireland."

Similarly, BIG received a number of complaints about APD from respondents in the Channel Islands. The reason is so-called 'double charging'. Many regional connecting flights work through an 'interline agreement', an agreement between individual airlines to treat the other's passengers as if they were their own. When an interline agreement has not been agreed, airlines will require passengers to buy two separate tickets. Each ticket then commands APD. APD should not be charged on the second leg of any journey within 24 hours of arrival in a UK airport. However, HM revenue and customs currently offers no mechanism for Channel Island passengers to claim back the wrongly paid APD.[130] The second problem faced by the Channel Islands is that the cost of APD is takes up a considerable proportion of the ticket price for short-haul flights. APD is calculated within two 'distance bands', broadly speaking 'short-haul' and 'long-haul'. As longer flights tend to command higher prices, the longest flights within each band can shoulder the costs more easily than the shortest. Flights from Guernsey, and domestic flights more widely, are among the shortest in their band.[131]

"APD has a grave effect on routes from small airports and carriers."

APD has a grave effect on routes from small airports and small carriers. One reason is that domestic journeys, upon which the smallest airports rely, incur many times the APD of international

[130] Aurigny, Ports of Jersey, States of Guernsey submissions to BIG.
[131] Band A: 0-2000 miles; Band B: 2000+ miles.

"Our aim should be for an end to APD over the long term."

flights.[132] APD is charged on flights leaving a UK airport; this included return flights, doubling this effect. Even medium-sized airports, such as London Southend and Liverpool John Lennon, regard this double charging as harmful to route finances. Regional and City Airports (RCA) suggested that the tax forestalls new routes as well. There are only a small number of dedicated regional airlines. They operate on thin margins and need higher yields to cover the costs which, as we have seen, hit smaller aircraft the hardest. APD puts into question the viability of new routes, in an extremely risk-averse environment. Finally, since UK carriers pay more APD as a proportion of their revenue than foreign carriers, the tax puts the former at a competitive disadvantage in their own market.[133] In March 2015, the Transport Committee concluded that the tax was 'the principal threat to the smaller airports sector.'[134]

"As a minimum the Government should offer some response to the submissions it received to its discussion paper.

Since APD has such a significant effect on the aviation industry, many of BIG's respondents suggest using the tax as a tool of policy. One suggestion was for APD 'congestion charges', largely on the basis that this would promote regional aviation as an alternative.[135] In BIG's opinion such a proposal would be damaging to the whole UK aviation industry. Congestion charges are known to have reduced surface traffic flow through London, for example, but it is by no means clear that it would do so through London airports. The probable outcome would be loss of flights.[136] Another suggestion was that APD should be relaxed for those airports which are willing to try new routes, particularly those that

[132] Flybe contrasts a trip from Manchester to the Isle of Man (approx. 109 miles), incurring £13 tax (12p per mile) and a flight from Manchester to Auckland (approx. 11,311 miles) incurring £79 (0.6p per mile). The domestic charge is around 19 times higher.
[133] PwC, 'The Economic Impact of Air Passenger Duty', p. 2.
[134] House of Commons Library, 'Air Passenger Duty: recent debates and reform', p. 29.
[135] Cornwall Airport, Peel Airports, Birmingham Airport, Flybe submissions to BIG.
[136] For support on this point, see the Airport Commission Final Report, p. 81.

connect the UK's regions.[137] As an alternative to the Public Service Obligation (PSO) system, such variation in tax would likely have constituted a form of 'state aid' under EU law.[138] Of course, there is now the possibility of reconsidering such rules.

The suggestion that APD funds be 'ring-fenced' for reinvestment in the industry is an interesting one.[139] Despite record spends in recent years, surface transport infrastructure in particular would benefit from a tranche of the £3.2 billion pound APD take. However, BIG believes that a redistributive system would further distort the industry. Our aim should be for an end to APD over the long term, with support for smaller airports in the interim that recognises the higher burden that they bear. The former Chancellor has already acknowledged the latter aim; the Treasury Minister has acknowledged the former.[140] In Northern Ireland, a devolution of powers over APD would be the best solution, allowing airports there to compete with those in the ROI. Regional devolution in England is unlikely to be helpful, since it would 'spread a patchwork of market distortions across the UK'.[141] BIG's respondents favoured an exemption of airports under 3 mppa from APD.[142]

BIG calls on the Government to devolve full powers over APD to Northern Ireland; to end the double charging of travellers to the Channel Islands, or at least to devise some system of rebate; to offer some protection from APD to airports under 3 mppa; and to keep England and Wales in step with reductions in APD in Scotland. By bringing forward the decision on airport expansion in the South East, the Government could partially offset the cost of these reductions in the short term; in the long term, they would fund themselves.

At a minimum, **the Government should offer some response to the submissions it received to its discussion paper of July 2015**, and which the Treasury Minister alluded to in his Westminster Hall debate last October.[143]

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[137] London Luton Airport Limited submission to BIG.
[138] For a summary of the legal test, see the Europa website: http://ec.europa.eu/competition/state_aid/overview/index_en.html.
[139] John Lennon Liverpool Airport submission to BIG.
[140] HM Treasury Press notice, 'Speech by the Chancellor, George Osborne: Our long term economic plan for the North East', 27 February 2015.
[141] Transport Committee, quoted in House of Commons Library, 'Air Passenger Duty: recent debates and reform', p. 29
[142] Cornwall Airport, South Ayrshire Council, Cardiff Airport's submissions to BIG.
[143] HC Deb 20 October 2015 cc297-320WH; see Early Day Motion 2591, 'Air Passenger Duty', tabled 11/01/2012. Flybe also called for this response in its submission to BIG.

4) Joining Up Infrastructure

"It is clear the Government has a role when upgrades are beyond a developer's reach."

Each airport sits within a network of road and rail, described within the industry as its 'surface access'. The uneven history of airports' fortunes has led to an uneven quality of surface access. Under the Aviation Policy Framework, the costs of improvements to surface access are largely the responsibility of the developer.[144] In principle, BIG accepts that airport companies that benefit from improved access must also bear the cost. However, it is clear that the Government has a role to play when upgrades are beyond the immediate financial reach of a developer and where returns are to the wider economy and population. Where prudent, BIG believes the Government should remove obstacles to growth and inward investment.[145] Moreover, as the Government has a principle responsibility for road and rail, through agencies such as Highways England and Network Rail, it has a chief role in organising our transport links into a coherent system.

"Regionalism is affecting transport spending."

BIG's respondents pointed to several factors which should compel the Government to improve surface access. Firstly, the Government is in the midst of expanding the high speed rail network. HS2 will shorten times between the North West and London, and the projected HS3 will improve connections between the cities of the North. Thus there is an opportunity to join up major airports in those areas, creating 'transport hubs' which will make travel faster and more seamless. These hubs will also be more commercially attractive. Birmingham Airport looks forward to its new interchange with HS2 and suggests that a new 'Central

[144] APF, p. 75.
[145] London Luton Airport Limited adopts the same formulation in its submission to BIG.

business hub' could be created around it.[146] Airports are in many ways themselves cities. The growth of business in the periphery of airports should underline the need for excellent onward transport. Yet currently journey times are static or even worsening. Times on the Stanstead Express have increased from a low of 41-2 minutes to 45-49 minutes, with the longest journey taking up to one hour. Stanstead themselves, when proposing line enhancements, have been told to wait until Crossrail 2 and four tracking – 10-20 years from now, at a cost of thousands of jobs.[147] Infrastructure ought to be planned in advance of growth in order to avoid such problems.

It is worth considering the effects of increasing regional powers on transport spending. Though historically larger airports have commanded the resources to lobby for and co-fund dual carriageways, special rail services and light-rail links, medium and smaller airports are turning to local authorities. For example, the Haven Gateway Partnership which includes Stanstead includes Local Authority partners including Essex County Council.[148] Bristol airport, the only UK airport in the top 10 without dual carriageway access, has begun working alongside West of England authorities for their new Joint Transport Study.[149] Local areas are bidding for improvements; the Government has the chance to unify these demands.

High speed rail, new commercial growth and devolution are all creating opportunities for improved networks. So it is of vital importance that the results form part of a coherent strategy. **BIG would therefore suggest, alongside the Transport Committee and number of its respondents, that the National Infrastructure Commission (NIC) should take on a brief to investigate the state of surface access in the country as a whole.**[150] When the NIC was first formed, it stated that it would not consider airport infrastructure, in order not to repeat the work of the Airport's Commission.[151] Now that the Commission has closed, without having reported significantly on regional infrastructure, there is no obstacle to the NIC contributing to this important issue.

[146] Birmingham Airport submission to BIG.
[147] Haven Partnership submission to BIG.
[148] Haven Partnership submission to BIG.
[149] Bristol Airport submission to BIG.
[150] Transport Committee, 23 Feb 2016, http://tinyurl.com/hbkpl2l
[151] NIC Press Release, 5 October 2015.

5) Lessening the burden of regulation on smaller airports

The cost of regulation has risen dramatically over the past decade. Absolute costs have risen for all the UK's commercial airports; thus the relative costs have increased much more for smaller airports. Humberside airport attached some indicative figures to its response, which we reproduce here:

Ofcom charges for Radio Licensing
(pounds sterling)

Service Type	2011/2	2012/3	2013/4	2014/5	2015/6	2016/7 onwards
Other Air/Ground, Tower and Aerodrome Flight Info	150/100	350	500	1200	1900	Up to 9900
Area Control, Approach, Arrival ATSI, ACARS and VOLMET	250/150	1000	2000	3000	6000	Up to 9900
VHF Digital Links per frequency (50kHz channel spacing	250	2000	4000	6000	12000	Up to 19800

Humberside screens circa 90,000 passengers per annum. In June 2012 the hold baggage screening equipment was upgraded at a cost of £580,000. Annual maintenance was £40,000. The equipment was intended to last for 15 years; owing to a UK direction coming into force in September 2018, several years in advance of the EU directive that enjoined the change, the equipment will be obsolete after only four years. A replacement will have to be purchased from among the following:

Hold Baggage Screening Equipment

Manufacturer	Morpho	Rapiscan	Smiths
Description	CTX 5800	RTT	High-Scan 10080 XCT
Unit Costs In-Line including ancillary and networking costs	£500,000	£1,500,000	£850,000

Small airports are facing very large and increasing fixed costs. Changes of machinery or procedure are proportionally more expensive for them. Unlike large airports, they have little opportunity to pass these costs on to carriers and passengers. Smaller airports feel that

airport regulation is designed to a 'one size fits all' standard. Indeed, the Regional & Business Airport Group (RABA), the largest body of such airports, was formed primarily to carry out its research into the operating and capital cost burdens created by this attitude.[152] Two areas of concern are the CAA's approach to Airport fire service multi-tasking and the exponential increase of radio licence fees (to accommodate 5G).[153] Safety regulation is a 'reserved matter', and under the UK's and the CAA's purview.[154]

"The cost of regulation has risen dramatically over the past decade."

The regulator, the CAA, currently has no responsibility towards regional connectivity, something which airlines feel is leading to its support of damaging positions.[155] **BIG would therefore echo RABA's call for the CAA to commit itself to considering the importance and value of smaller regional airports in the UK.** 'Smaller airports' could be defined, in RABA's terms, as those smaller than 3 mppa.[156] If the CAA had a remit to consider smaller regional airports, it would have an obligation to approach regulation with consideration for its probable effects upon them.

"If the CAA had a remit to consider smaller regional airports, it would consider its probable effects upon them."

[152] Regional and City Airports, RABA Group, Norfolk County Council submissions to BIG.
[153] Norwich City Council submissions to BIG.
[154] APF, p. 77.
[155] Flybe notes that the CAA supported Gatwick in its recent change of fee regime, which lowered winter landing fees and drastically raised those charged in summer, although this change disproportionately hit smaller carriers. Flybe submission to BIG.
[156] City of Derry Airport, Regional and City Airports, Norfolk County Council submissions to BIG.

6) Supported Services: Public Service Obligations and the Regional Air Connectivity Fund

"The onus of building a case for a PSO lies with airports, carriers, devolved administrations, Local Enterprise Partnerships or local authorities"

Public Service Obligations (PSOs) are a form of support for non-commercial but socially or economically necessary air routes. They are exceptions to the 'state aid' rules of the EU.[157] They are only permitted in strictly circumscribed circumstances, and the EU Commission can demand a detailed economic report from a Member State in order to test whether a PSO route falls within the rules.[158] Of course, the rules may be jettisoned as Britain negotiates its exit from the EU. The key PSOs in the UK are for the service between Anglesey and Cardiff and that between Glasgow and the Highlands and Islands.[159]

"The RACF has been warmly welcomed by the aviation industry."

BIG encountered some support for a greater number of PSOs. Our respondent from the Shetland Islands considered that an appropriately designed network of PSOs could be a means of overcoming the expense of travel for businesses and tourists to the islands who do not benefit from the Air Discount Scheme available to locals.[160] This aspiration is close to the Government's current position on the use of PSOs. More ambitious hopes have arisen following the Government's recent designation of services from Dundee to Stansted and Newquay to London Gatwick. Moreover, the Airport Commission suggested that domestic aviation at Heathrow ought to be supported by '*specific measures*' including PSOs, which the Commission believed should be interpreted more widely – as indeed in other countries they are.[161] Government guidance left the onus of building a case for the Commission on airports, carriers, devolved administrations, Local

[157] Article 16 of the Air Services Regulation (ASR), Regulation 1008/2008/EC.
[158] House of Commons Library, 'Regional Airports'
[159] A full list of PSOs is given at http://ec.europa.eu/transport/modes/air/internal_market/pso_en.htm.
[160] Shetland Islands Council submission to BIG.
[161] ACFR, p. 316. Flybe notes that there are 24 PSOs in Portugal and 40 in France. Flybe submission to BIG.

Enterprise Partnerships or local authorities.[162] Post-Brexit, the Government is still likely to demand workable proposals from the proposers of new routes.

The more dynamic area in recent years has been the Regional Air Connectivity Fund (RACF). The RACF is an initiative to support new routes using public funds. New routes often incur losses before they mature; 'thin' routes have not yet benefited from the increase in contacts that routes tend to stimulate. Small carriers in particular sometimes need encouragement in order to begin routes which will ultimately prove profitable. The UK government had negotiated with Europe the option of creating so called 'Route Development Funds' (RDFs), of which RACF is one, on condition that an RDF would not support either long haul routes or services from larger airports outside the South East.[163] George Osborne launched the fund in the June 2013 Spending Review, allocating £20 million for the purpose, and reaffirmed it in the 2014 Budget.[164] After several rounds of bidding, £7 million was allocated in the November 2015 Spending Review to new routes through the RACF.[165]

The RACF has been warmly welcomed by the aviation industry. Indeed, airports larger than the 5 mppa criteria for qualification have suggested it should be extended to flights from them; the EU's current prohibition may no longer apply.[166] Airports were less impressed with the process of administration. Regional City Airports describes how it passed Stage 1 of the application with 5 airline partners. A delay in the fund meant that airline partners were unable to commit aircraft to two of these routes; because funding was not transferable between them, the opportunity to begin on these routes was lost. A third route was lost in the interim when the carrier, Links Air, was liquidated. Other airports present the same general charge, that the application process was too rigid and inflexible to tempt carriers to commit their resources.[167]

BIG would therefore call on the Government to simplify and speed up the RACF process and to consult with the industry on how best to administer the fund.

[162] DfT, 'Public Service Obligation: regional air access to London', 19 December 2013.
[163] House of Commons Library, 'Regional Airports', p. 10
[164] HM Treasury, 'Investing in Britain's Future', Cm 8669, June 2013, p. 50; 'Budget 2014', HC 1104, 19 March 2014, p. 54.
[165] DfT, 'New regional air routes offer fast journeys across UK and Europe', 2 December 2015.
[166] Newcastle submission to BIG; for its continuation, Leeds Bradford, Peel airports, Cornwall and South Tyneside all gave submissions.
[167] Cornwall airport, Cardiff Airport, Peel Airports submissions to BIG.

7) Enterprise Zones

"There are indications that Enterprise Zones have been effective."

'Enterprise Zones' are areas which enjoy certain fiscal benefits and simplified planning controls for their businesses. The Government devised the notion in 2011 and has entrusted their administration to Local Enterprise Partnerships (LEPs), where these exist. There are currently 24 enterprise zones in Britain.[168] In relationship with airports, enterprise zones should increase the 'catalytic' benefits of transport. That is, they should attract foreign investment and foreign businesses, or at least non-local ones. There are indications that the policy has been successful in the airports where it has been tried, namely Manchester, Newquay and Cardiff, with the greater benefits seen at Manchester's 'Airport City'.[169]

"Some parts of England have been squeezed between London and the other nations."

The importance of commercial activity around airports is well-understood. 'Fringe' activities have become central to airports' business models as competition has driven down air ticket prices. Airports were concerned at the recent HMRC review of airside shopping, and express some alarm at the CAA's review of the market conditions of surface access.[170] But Enterprise Zone status is keenly sought. Peel Airports has relaunched its commercial offerings at Sheffield Doncaster and Durham Tees Valley as AeroCentre Yorkshire and AeroCentre Tees Valley, for example, promoting its airports as commercial spaces. Peel is concerned that **more should be done to encourage Enterprise Zone status around airports, not only to facilitate economic growth but in order to create a more level playing field for airports.** BIG repeats this call.

[168] Enterprise Zones homepage, http://enterprisezones.communities.gov.uk/, accessed 06/07/16.
[169] APF, p. 76.
[170] Bristol Airport submission to BIG.

8) Tourism

As previously noted, tourism has been the major force in the recovery of aviation since the recession. Liverpool John Lennon notes that it has helped its city to become much more successful as an international attraction, moving from 16th to 5th largest destination in the UK since 2004, and highlights its importance both for the 'Northern Powerhouse' and northern Wales.[171] However, some respondents raised a perceived imbalance in tourism policy as a problem for them. Bristol considers that its part of England has been squeezed between the overwhelming attraction of London and the very significant marketing support of Welsh and Scottish areas receive from the devolved administrations.[172] Leeds Bradford makes a similar representation.[173]

If there is an imbalance in Visit Britain and Visit England's marketing, BIG suggests this should be corrected. BIG also agrees with its respondents that **more should be done to show regional airports as convenient gateways into their regions**.

[171] Liverpool John Lennon submission to BIG.
[172] Bristol Airport submission to BIG.
[173] Leeds Bradford Airport submission to BIG.

Conclusions

The aviation industry brings enormous benefits to Britain. BIG and its respondents are keen to see these grow further; indeed, trends in passenger numbers, and new developments in airports, suggest that the industry has the potential to do so. But as our research has shown, Government policy could either help or hinder this growth.

The priority is an immediate decision on hub airport expansion. The opportunity costs of not building new capacity are between £4 and 6.7 million a day to the UK economy. Delay is eroding the trust of the industry and investors. Only expansion can solve the problems in the system, from halted domestic flights to the exclusion of new long-haul routes caused by the capacity crunch. The Government should show that it can act firmly – especially as it handles Brexit. A decision should be the first thing to come from the desk of the new Prime Minister.

BIG would go further, and recommends that the Government support the expansion of regional airports as well. Dynamic regional airports can help to rebalance the economy of the UK, particularly where enterprise zone development is encouraged. The startling growth in medium and long-haul flights demonstrates that regional airports can take pressure off the hub system. But the transport systems that serve them will become clogged if serious consideration is not given to surface access, and many will become too full to contribute to the British airport system if they cannot expand. The Government should back expansion.

Airport Passenger Duty is still unsustainably high – higher than the aviation tax of any other country besides Chad – so BIG is calling for phased reductions to prevent further distortions in the market. In particular the tax is hitting airports that rely on domestic and short-haul flights, still recovering after the recession. By investing in the Regional Air Connectivity Fund, the Government has proven its commitment to bringing small airports back to sustainable profitability and growth. Now that the Government and the industry have the experience to streamline that system, they should administer it more successfully. The aviation regulator, the CAA, should also have a brief to consider smaller airports when enforcing regulation.

BIG does not pretend to offer this report as a comprehensive policy document. We offer it as a measured statement of our respondents' views; we offer it in advance of Government decisions, from South-East expansion through to the new Aviation Policy Framework, that will direct the industry for years to come. The call is urgent. The gate is closing.