

**Baroness Jo Valentine**

**26 January 2011**

**CHECK AGAINST DELIVERY**

**A new strategy for UK aviation – Transport Times Conference**

**'Why the South East needs more aviation capacity'**

Good morning. Thank you Chairman. I'm Jo Valentine. I am CEO of London First. London First is an independent business membership group representing the capital's largest employers. Our mission, shared with those businesses, is to make London the best city in the world in which to do business; for London to be and to be recognised as the world city for the 21st century. Even in this room, not everyone will agree with what I am about to say; the title gives you a clue as to my position.

But I hope we can all agree on this: London's links to the world have been and remain one of its greatest assets. But what does London and business in London require now from London's international links? What is needed to support UK economic growth in a competitive, globalised world?

You might accuse me of pleading for special treatment for London and the South East. I am!

**London's place in the UK and the world**

London and the South East generate a third of the UK's GDP.

London makes a net annual contribution of between £14 and £19bn to the Exchequer. Of the other regions and nations, only the South East is a net contributor to the nation's finances.

London is:

- The major trading partner for all of Britain's other regions.
- A major trader with the world -- London's exports have doubled in the last ten years.
- Home to the European headquarters of one third of the Fortune Global 500 companies.
- The number one European destination for foreign direct investment -- worth over £50bn per year to our economy.

Why are Theresa and her colleagues so nervous of acknowledging London's success? A Government who believe in the market, who wish to seek an expanded private sector, and growth driven by business investment and exports?

The market has decided that London is the world city for business. Should her Government be seeking to constrain that growth?

London is the world's favourite city for trade. But international competition is increasing. Not just New York, Frankfurt, Zurich or Paris. Look east to Shanghai, Mumbai, Beijing, Cairo, Delhi, Istanbul. Look West to Rio de Janeiro, to Buenos Aires.

These are the fast growth markets. London must continually sharpen its act if it wants to compete. Must attract new investment, new talent. Must pursue new markets and new suppliers. Success relies on accelerating investment in people and in infrastructure.

The Government pledged to prioritise transport projects which support economic growth and jobs. And they made it real in October with commitments to Tube modernisation, Crossrail and Thameslink, providing precious capacity for another 20 years of growth in London. But there has been no comparable commitment to London's airports, despite the readiness of the private sector to invest. The Government's otherwise coherent and credible transport infrastructure strategy is stuck in two dimensions. They are dogmatically ignoring the problems in the sky over their heads!

For London business leaders, international air links are critical to their business. They need direct flights to more destinations, airports which provide world class service. They already use video conferencing and other alternatives to flying, and plan to use them more. But I ask every one of you -- does email and phone reduce your desire to see your far flung friends face-to-face? In my case it doesn't.

A courtship begun by video, often requires consummating face to face, with a handshake and a jointly signed contract, in case you thought I meant anything else!

The number of passengers at UK airports more than quadrupled between 1980 and 2008, from 50 million a year to 213 million a year. And Government forecasts see passenger numbers at London's three largest airports growing by a further 60% in the next 20 years. We surveyed business leaders and they too expect demand in London for flights to continue to grow.

For example, London's world-class engineering consultancies, are seeking and gaining new business in China, driving exports and hitching a ride for London on the rapid convoy of Asian economic growth.

If London is to remain globally competitive, capacity can't remain static. To remain competitive, we will require the best international connections to those fast growing markets.

### **In the short term**

Progress has been made. Passengers at Heathrow – where two thirds of London-bound business passengers land - are starting to experience the benefits of a rigorous focus on operational improvements. This follows an outcry from business a few years ago at the discomfort and poor service to which visitors were being subjected.

I welcome new legislation which will put the passenger at the heart of the regulatory regime. Other short term improvements are being sought; some are already in place. Gatwick has a £1bn capital investment programme which promises significant improvements for passengers. Heathrow's £5bn investment in renewed and refurbished infrastructure will help bring service standards in the rest of the airport up to those of Terminal 5. Service level agreements with the Borders Agency should bring down immigration queues. Sharper incentive regimes on operators might help to drive up service quality.

Can we do more? As Obama might once have said: Yes we can! The 45 minute queue time target for non-EU passengers at immigration was breached more than 20% of the time at Heathrow Terminal 4 in the first two weeks of September 2010. I wouldn't wish a 45 minute wait on anyone, not even a Transport Minister or a UK Border Agency official. London's success is said to be at least partly built on its welcome to visitors. Some welcome!

The Government's Taskforce, created to find ways of making London's three largest airports better -- and on which London First sits -- has vital work to do to identify operational improvements which key players and the industry can deliver.

### **The medium term**

Short term fixes are necessary but will only take us so far. What about flight delays -- the underlying cause of most poor service quality? Theresa wouldn't want to hear this, but I'm afraid that capacity is at the root of this problem.

Heathrow is one of the most delayed airports in Europe because its runways are congested. Gatwick is nearly full at peak times.

No airport of Heathrow's size and economic significance can ever be truly world class when it runs at 99% of maximum permitted capacity. Its rival European hubs have headroom -- operating at around three quarters of permitted capacity. When snow struck before Christmas, most Western European airports suffered disruption. But quickest to recover, to get back on schedule were the airports with spare capacity. That applies to snow, fog, or any unscheduled disruption.

Suppressed demand at London's airports contributes to less choice of direct destinations for passengers. Airlines consolidate on the most profitable routes. Routes are made viable by a sufficient level of feeder, or transfer, traffic. Through consolidation and alliances, airlines hunt in packs for markets, congregating at those hub airports that can most efficiently meet growing, global demand.

Heathrow? No. Continental hubs in France, Germany and Holland, in Middle East and Far East countries, and in North and Latin America, are expanding the range and frequency of long haul destinations to business centres. London and the UK will have fewer direct long haul links to the world.

In 2011, Heathrow serves fewer destinations than it did in the 1990's. Other than a couple of charter operations to Goa, Heathrow is the only UK airport offering direct services to Brazil, Russia, India or China. But while Frankfurt has 47 flights a week to China, and Paris 45 -- London has 30. While Frankfurt has 88 flights a week to Russia -- London has 74. While Paris has 48

flights a week to Brazil -- London has 20. London has direct flights to 3 Chinese cities, Amsterdam has 5, Frankfurt has 5. They're growing while we're struggling.

So what are our options?

### **Demand management**

We could continue to manage demand downwards by the constrained capacity at London's airports. Is the stacking of aeroplanes over London queuing to land (because of congestion on the ground) a price worth paying for limiting flight capacity into and out of London?

This approach will surely constrain flights -- but not in a way that supports London's ability to compete. A restricted choice of direct long haul flights to high growth economies will make London less attractive as a place to locate and do business, and will limit the UK's ability to attract investment and trade. Any business leader will tell you, failing to meet growing demand is a recipe for decline. Competitors will step in and meet that demand instead.

### **High Speed Rail**

Can High Speed Rail generate a shift away from short haul domestic and European flights towards quicker and more convenient rail journeys? I love High Speed Rail. Totally in favour.

It is sometimes overlooked that 80% of all journeys from London to Paris are already taken by rail; similarly, 80% of all journeys to Manchester.

But assuming some form of High Speed link to Heathrow, and assuming that all journeys to Manchester, Newcastle, Edinburgh, Glasgow and Paris were taken by rail, about 10% of runway capacity at Heathrow would be released -- that's after 30 years of building a full domestic high speed railway.

So even if all of this freed capacity were somehow kept back as headroom to improve reliability and bring down delays, it would still not bring Heathrow's headroom in line with its European rivals. Without factoring in growing demand. There's even a chance that a high speed rail link to Heathrow will in fact increase journeys to the airport, to connect to long haul flights.

## **Carbon**

Another medium term option: Can we rely on the growing cost of carbon pricing out all but the most economically valuable flights?

Arguments about global carbon impact are often misconstrued and misunderstood. Policy should not plait together the global impact of flights -- carbon emissions -- with their local environmental impact -- noise and air pollution.

So let us consider carbon on its own. If the Government is to meet its commitment to reduce the UK's carbon emissions, a framework is required that prices carbon consistently across all investment decisions.

But there isn't yet a credible mechanism to price in the carbon cost of all forms of production and consumption, internationally, at European level or even nationally. The best we have is the European Emissions Trading Scheme which still has to prove its credibility. At best it could reflect the carbon cost of flying from 2012.

We have the technologies to decarbonise heating and industrial energy and even to decarbonise land transport but, despite continual innovation from aeroplane manufacturers, no realistic alternative to petroleum has emerged for planes.

So meeting growth in demand for flights will require carbon reductions from other activities, if member states are serious about shrinking their carbon footprints. Neither the EU nor the UK should be picking winners and losers, favourites or pariahs. The Climate Change Committee during the last Parliament (and I note David Kennedy will speak later today) said significant growth in flights can be commensurate with reducing overall carbon.

Can a carbon reduction strategy support an economic growth strategy? Maybe it can. But blaming aviation won't suffice for the former and will positively hinder the latter.

The Government has set tough national targets for emissions reduction by 2050. But where is the policy certainty? Where are the incentives for private sector investment which would help achieve these targets?

In the absence of strategic coherence in policymaking and presentation, flying is being made a scapegoat.

The UK unilaterally denying itself the benefits of sufficient airport capacity won't necessarily reduce flights, but it may displace them. Passengers poorly served or unserved by Heathrow will catch a fast train to Paris, Schipol or Frankfurt and fly from there. It might not be long until they ask themselves: "why don't we move our offices near to where we fly from?" and the carbon impact will be the same or worse.

### **Growing demand**

So what is left to meet growing demand? You've heard of the 'fight or flight' instinct. Business in London is faced with a fight for flights.

Policy that rules out the growth of London's three largest airports, and rules out new runway capacity in the South East, handicaps not just the fight for flights, but also the fights for growth, for investment, for jobs.

A review of the UK's aviation policy that ruled out growth options for London and the South East would be neither comprehensive nor credible.

Let me be clear. I'm not wedded to any one solution. Business is not wedded to any one solution. We are wedded to being able to go about our business, to competing for trade, to growing our businesses. That will generate investment, tax revenue and jobs for Britain, but it will require a plan for the medium and long term.

I urge the Government, in their review of aviation, not to rule any option out, to enter into the review with an open mind.

In the meantime, London First is to launch its own Commission -- London's Connectivity Commission -- to examine the strategic economic and political issues which impinge on the provision of infrastructure which links London to the remainder of the UK, to Europe and to worldwide markets. Watch this space!

I am not seeking some sort of free for all for the aviation industry. Far from it.

The local environmental impact of airport expansion must be firmly and credibly contained. Flight slots should be removed if ever more stringent pollution and noise limits are breached. And similarly for service quality. Scheduling and slot allocation should be managed to ratchet runway use downwards if need be, instead of incessantly upwards. Use of any new runways should be conditional on entrenched and continuous improvement in service quality -- no new flights until service levels compare to rival European airports.

So to those in the aviation industry and policymakers -- talk to us; engage business on the options. Beating us over the head with an answer, before we understand the question, does not work. We're ready to discuss the best ways of delivering world class international links.

And to Government -- I believe you are serious in wanting to rebalance the economy towards exports, to deliver the infrastructure that will underpin private sector investment and trade. You need policies which will deliver the infrastructure to underpin private sector investment and trade, in the next 10 to 20 years as well as after.

And it makes no sense to begin your policy discussions by ruling out half the options.

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