

A New Strategy for UK Aviation – The Case for New Hub Capacity

Baroness Jo Valentine, Chief Executive, London First: The importance of hub capacity to the London economy

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Introduction

1. Thank you for inviting me to speak today.
2. I am Chief Executive of London First, a business membership organisation focused on making London the best city in the world in which to do business.
3. Let me set out the context for this debate as I see it by considering:
 - why international air links are critical to the economy
 - the current situation and the forecast need for new capacity
 - and the ways in which this need can be met

Why are international air links critical to the economy?

4. London's trade and commerce are driven by international business, dominated by the export of services.
5. The UK is the world's second largest exporter of services after the US.
6. And London accounts for over a third of these exports.
7. So it's obvious that we depend on good connectivity with world markets – which means air travel.

8. There is a strong correlation between air travel and volumes of trade – the OECD says the major drivers of demand for travel are: GDP, GDP per capita and international trade.
9. It predicts highest economic growth in the next 20 years in the Asia-Pacific region.
10. This will translate into rapid growth in trade and demand for transport.
11. Our ability to win new markets in Latin America, Asia and the Far East against fierce global competition relies heavily on our ability to fly direct and establish trade.

The current situation

12. London is served by four point-to-point airports and the UK's only international hub airport.
13. It also has a network of smaller, Tier 2 airports such as Biggin Hill which are yet to be recognised in national policy or planning, but which provide business flights to a large range of destinations.
14. The key point is that the two types of airport have to be considered separately.
15. Adding capacity at a point-to-point airport – which we can do, to some extent – does not solve the capacity shortage at the hub.
16. That would be like addressing London's housing shortage by building flats in Cardiff.
17. Hub airports work because airlines are able to pool a critical mass of transfer passengers.
18. As a result, their local customers enjoy frequent flights to a wide range of destinations, without having to change planes.

19. So when we talk about Heathrow's competitors, we don't mean the other London airports, or even Birmingham or Manchester
20. We mean other European hubs - Frankfurt, Paris, Amsterdam.
21. It is to these airports that an increasing number of emerging market airlines are turning.
22. And it is to these locations that we will see our trade go, if we don't act now.

Why is demand increasing?

23. The global economy has shifted on its axis
24. The economic situation in Europe is worsening
25. So it is essential to be able to reach the emerging and developing economies in Asia, South America and Africa.
26. These countries will provide nearly half of all the economic growth in the world in the next decade. They will overtake the advanced economies' share of global GDP by around 2025.
27. But at the moment we are at risk of being cut off from them.
28. In the last 20 years alone demand at London's airports has grown 50 per cent
29. This is expected to double again by 2050.
30. And all of London's airports are forecast to be full by 2030.
31. And of course, Heathrow is full now.
32. As a result, we have fewer weekly flights than any European rivals to half of the emerging market economies.

33. We have fewer flights than our rivals to 7 of the 8 growth economies identified by the IMF.
34. We have no direct air links to the emerging economies of Chile, Colombia, Peru, Venezuela, Indonesia and the Philippines – links that other European cities possess.
35. There are already 1,000 more flights a year to China's three largest cities from Paris and Frankfurt than from Heathrow.
36. And we are turning away business.
37. The Indian airline Jet Airways was unable to gain enough slots at Heathrow and created its main European hub at Brussels.
38. TAM Airlines wished to fly daily routes from Brazil to London but was offered only three slots at Heathrow. It now flies more frequently from Amsterdam.
39. Chinese airlines have had difficulty securing landing slots at Heathrow and have gone elsewhere.
40. Once made, investment and location decisions like that are difficult – if not impossible – to reverse

The options

41. If we are serious about being a global trading nation, we need to address this issue and reverse this trend.
42. The fact is, London requires additional hub capacity **now** and will need further investment in point-to-point capacity over time.
43. And there is NO easy option
44. All options for new capacity present substantial challenges in terms of their financing, funding and local environmental impact, and all will require political will.

45. Pressing need is for options that can be delivered in the short and medium term - the next 15 years.
46. We should also have discussions about long term solutions.
47. But let's not muddle the two.
48. Of course, we could choose to do nothing.
49. I have heard arguments that demand for long haul flights will shift to airports outside London or that people will stop flying and use videoconferencing instead.
50. Both suggestions ignore human nature.
51. It is clear that airlines – and passengers – want access to a hub.
52. And as for holding key meetings in cyberspace – while that may be an attractive idea, there is no evidence that technology has radically altered demand for travel.
53. It is seen as a *complement* to face-to-face communication, not a *substitute*.
54. Politically, to do nothing might seem to be the easiest option.
55. But with growth in Europe flat, it's not a choice we can afford to take.
56. So, if we are agreed that we have to do something, the question is: what?

Short term

57. In the next five years, there is only one option: increasing operational freedoms at Heathrow.

58. We could increase runway capacity there by 10 to 15 per cent if the airport were allowed to use its runways on the so-called “mixed mode” basis.
59. This is where each is used for both take-off and landing concurrently, as happens at other airports.
60. As the head of the UK’s air traffic control service said in the press earlier this week, this would alleviate the problem of stacking.
61. And, to use his words, “would be the single biggest thing we could do to reduce CO2 in the UK”.
62. The capacity created by operational freedoms could be used to give greater headroom resilience to recover from delays, and provide for new services.
63. The main objection to more services is focused on increased noise. Operational freedoms should be accompanied by credible, deliverable and independently enforced measures to mitigate and compensate for the local impact of additional noise.
64. There should be an independent noise regulator with the teeth to give confidence to the local community that agreements will be stuck to.

Medium term

65. In the medium term, building an additional runway or runways serving London is essential.
66. The options are:
- a dual hub, linking Heathrow with another site
 - a new hub airport; or
 - expanding Heathrow

67. Let me consider these options in turn.

Dual Hub

68. The idea is that we develop a 'virtual' hub at Heathrow, by expanding capacity elsewhere and improving transport links between the sites to enable passengers to connect.

69. The main suggestions have been 'Heathwick' – a link to Gatwick with a second runway – or the use of an expanded RAF Northolt.

70. And I know we are going to hear a similar idea from Birmingham next.

71. Sorry, Birmingham – but these suggestions miss the point.

72. A dual hub faces exactly the same problem as expanding Heathrow. It still involves adding more capacity, but, vitally, it brings no operational benefit whatsoever.

73. If Heathrow needs to achieve a minimum connection time of around 45 minutes to compete with its European rivals, how then could a virtual hub – involving a complete additional journey for both passenger and baggage – come anywhere close to this standard?

74. I'm afraid a dual hub is simply not a hub.

75. Cities such as Berlin, Montreal and Milan have tried and failed to split their hubs. These were messy, expensive experiments that London would be unwise to try to repeat.

A new hub airport

76. This, in a sense, is the most attractive of the options on offer.

77. It offers the prospect of a new, shiny, modern airport with the scale to meet London's long-term needs against the most stretching forecasts of growing demand.
78. Represents the sort of long-term infrastructure planning that London will need if it is to remain competitive.
79. Depending on its precise location, it also offers the potential of dispersing local environmental impacts, such as noise, over a less populated area.
80. Suggested proposals include a new site in the Thames Estuary or the transformation of an existing airport, such as Stansted, into a hub.
81. If we start now, this could be built in the next 20-30 years.
82. But that would be assuming we have the political will and the small matter of £50 billion to hand.
83. A not insubstantial figure, if you factor in that there will be little or no return on investment for 20 or 30 years into the life of the project.
84. There is also the issue of surface access – road and rail links. I bear the scars of the campaign for Crossrail – a project that took over three decades to agree and will be another 7 years in the building.
85. Connecting a new hub airport to London would be like building three Crossrails all at once.
86. Finally, we would need to plan the new social infrastructure that would be required, while managing the consequences for businesses and communities reliant on Heathrow.

87. Economic activity in West London – whether generated by companies such as BOC and GSK, or of course by Heathrow itself – would be faced with a radical shift in demand and location. Is it in anyone’s power to fully predict and factor in the social consequences?
88. Let’s not rule out a new hub in the long term, but let’s be clear about the amount of work that will be involved in making it happen.

Expansion at Heathrow

89. Finally I turn to expansion at Heathrow.
90. Of all the options mentioned, a third runway at Heathrow is the only one with a planning application, financing and funding in place.
91. Partly for that reason it is the most controversial – explicitly ruled out by the current government and most recently by the Opposition.
92. There are good grounds for thinking that this would give Heathrow sufficient critical mass for the foreseeable future. With an almost 50 per cent increase in capacity, it would give us a reasonable shot at keeping up with demand.
93. And it could be delivered within the next decade.
94. The extra flights supported by this runway, and by a further runway at a point to point airport in London, would enable London to increase its connectivity until 2050. This growth would be consistent with our national carbon reduction targets and would be compatible with the 55 per cent growth in flights The Committee on Climate Change believes the UK can accommodate.

95. So while all options to meet growing demand for flights have the potential to lead to an increase in carbon emissions, the effects on the local environment – principally through noise – will differ and must be rigorously managed.
96. Permission to build a third runway at Heathrow should therefore be accompanied by limits on noise levels.
97. And, as I have already touched upon, there will need to be genuine and robust measures in place to minimise the impact. Measures that have the backing of local residents and the respect of the airlines.
98. I am confident that can be achieved. But let's at least examine and test the hypothesis.
99. A comprehensive review might conclude that the local environmental impact would outweigh the national benefits from growth – but this option should be transparently evaluated, not arbitrarily ruled out.

Finally

100. Meeting the need for extra hub capacity is a little like world peace – almost everyone agrees that we need it, but not on how we achieve it.
101. There are a number of options, but we must be realistic about the potential obstacles.
102. It's disappointing that the government has already ruled out one of those options – expansion at Heathrow – from its forthcoming review.
103. I think that's a mistake and I think that it's an approach that will undermine any conclusions that the review reaches.

104. So, I'm not going to offer you a solution today but I do call on the government to make its review credible by ensuring that ALL possible options are properly considered.

105. London – and the UK – deserves nothing less.

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