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The Case for Aviation

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Executive summary

- Businesses trade 20 times as much with Emerging Market countries that enjoy a direct daily flight. Lack of access could already be costing the economy £1.2bn a year. In 1990, Heathrow's route network reached 227 destinations. It is now 180, and forecast to drop to 147.
- London is falling behind other European cities. Paris and Frankfurt enjoy 1,000 more annual flights to the three largest cities in China than Heathrow.
- Demand is set to double over the next decades, while our airports are already nearing capacity, Heathrow is 99% full, while Gatwick is 95%. The economy cannot afford to wait the thirty years it would take to build a new airport.
- Expanding the current airports is the only viable option in the short to medium term. To deliver growth, airport operators should be enabled to build at least one more runway in South East England by 2020 – either Stansted, Gatwick or Heathrow.
- Government should expedite this by allowing compensation to be paid directly to affected residents for this critical infrastructure project by the airport operator. This could be the precursor of wider planning system reforms.

The Argument for Aviation

The cities that grew in the past were the cities that were best connected to the trade routes of the world: the merchant cities of Venice and Florence, or the industrial powerhouses of Manchester and New York. Today the leading transport technology is aviation, and the leading trade cities are accordingly defined by their aviation hubs.

While demand is projected to double over coming decades, Heathrow is already suffering from overcrowding. An airport that was originally designed to cope with a maximum of 50 million passengers, now sees over 60 million pass through each year.¹ Things often go wrong, because without any space capacity, there is zero margin for error. The recent opening of Terminal 5 has helped, but the airport's runways still run at nearly 99% capacity.² During peak periods, aeroplanes can often be held circling at Heathrow up to 45 minutes.³ Gatwick operates at 95% capacity, and is considered the busiest single runway airport in the world. By comparison, other European hubs airports generally operate at only 75% capacity, allowing them to recover from early mistakes.

In the last 20 years, Heathrow has fallen from 1st to 5th in terms of destinations served.⁴ While Heathrow contends with two runways, the world's biggest airport, Atlanta, already has five runways. The second and third biggest, Chicago O'Hara and Dallas Forth Worth, have seven each. Amsterdam Schiphol has six, Paris Charles de Gaulle and Tokyo have four, Beijing and Frankfurt three (and one more under construction). Paris and Frankfurt enjoy 1,000 more annual flights to the three largest cities in China than Heathrow. Heathrow misses out on at least 21 Emerging Market destinations that are served by daily flights from its European rivals.⁵ These facts are well known and should be a cause for serious concern.

London's economic strength comes from being a crossroads for the world. 90% of respondents to a London First survey argued that growing the number of international air links was critical to the long term health of London and their business.⁶

Britain is falling behind in signing vital business deals with the new, emerging markets. According to a recent report by Frontier Economics, businesses trade 20 times as much with Emerging Market countries that enjoy a direct daily flight than

1 (Boyfield, 1994), p 8

2 (British Chambers of Commerce, 2009)

3 (Greater London Authority, 2011)

4 (British Chambers of Commerce, 2009)

5 (Frontier Economics, 2011)

6 (Greater London Authority, 2011)

those that do not. The organisation calculated that the lack of access to new markets could be costing the economy as much as £1.2bn a year. The report argues that aviation is essential to grow the face-to-face business meetings between UK and overseas businesses which already add more than £150bn a year to UK GDP. Around half of the increase in the UK's trade in the last ten years has come from Emerging Markets, while the IMF suggest that the eight largest developing markets will account for more than half of worldwide growth in the next ten.⁷ The UK is already missing out on much of the new tourism from the middle class in the emerging world. Earnings from tourism grew by only 37.4% in the UK from 2000 to 2010 compared with 85.6% in Germany.⁸ One reason for this is that Germany has a better developed network connecting its major cities to Asia.

The health of the UK's connections into the wider aviation network depends on transfer passengers. There are eight million passengers transferring through Heathrow every year. In recent years, less valuable short haul routes have increasingly been forced out of Heathrow, putting the health of the wider transfer network at risk. Up to three quarters of the long haul routes operating from Heathrow may not be viable if they lose their transfer passengers.⁹ In 1990, Heathrow's route network reached 227 destinations. It is now 180, and forecast to drop to 147.¹⁰

Beyond this, aviation employs 1% of the UK's workforce, and remains a key industry for the economy as a whole. According to the Department for Transport, aviation contributed 1.1% of GDP in 2004 and employed 186,000 people. Aviation jobs on average add twice as much value as for the average UK employee.¹¹

The usual argument against the expansion of aviation capacity is that it is environmentally unaffordable, but this is simply not the case. Aviation and foreign holidays have become a symbol of environmental excess far beyond their actual impact on the environment.

The Government estimates that the country could still meet its environmental targets for 2050 with up to an additional 564,000 annual Air Traffic Movements (ATMs), the equivalent of an airport larger than Heathrow.¹² The aviation industry already pays a high level of tax through Air Passenger Duty. As the majority of economists argue, the best means of tackling climate change is taxing industries the cost their carbon emissions create for the rest of us. According to the Department for Transport, this in effect means that aviation already pays £100m in tax more than total costs of its

7 (Frontier Economics, 2011)

8 (Maynard, 2011)

9 (Frontier Economics, 2011)

10 (Maynard, 2011)

11 (Frontier Economics, 2011)

12 (Greater London Authority, 2011)

pollution.¹³

The UK's shortage of aviation capacity is growing urgent. Hub airports depend on economies of scale. If London loses its position as Europe's business hub, it will not be easy to regain. Britain will need at least one new runway within the next ten years.

13 (Department for Transport, 2008)

How Could We Expand Capacity?

Three types of option have been presented for expanding capacity:

1. Create a 'virtual hub'

If Britain needs a larger hub, but no new runways can be built, one innovative idea is to link Heathrow and Gatwick together through a new £5bn, 15 minute high speed rail link. 'Heathwick' could act as a single hub.

The virtual hub is only likely to be effective if transfer passengers and their luggage can be kept 'airside' the whole time; i.e. not have to pass in and out of immigration and security controls. Such a system creates significant logistical difficulties.

Ultimately, even if the logistical issues can be solved, it will only be a partial solution. If UK aviation demand is really to double over the next decades, then more 'virtual' rather than real capacity simply won't be enough.

2. Expand current airports

Expanding the current London airports is the simplest solution to the capacity shortage. In the short term, the aviation industry itself has already offered to fund the £9 bn necessary to build a third runway at Heathrow. The British Chamber of Commerce has calculated that this runway alone would produce £20 bn of wider economic benefits.¹⁴ A third runway could be built relatively quickly, in operation a decade after the decision was made to go ahead.¹⁵

The strategy of expanding current airports retains the flexibility to respond to changing patterns of demand. It takes advantage of the already existing infrastructure in both the airports and their transport links to the rest of the country. While their views should not be taken uncritically, this strategy has the approval of the industry, and has been by far their preferred option.

This strategy has, of course, also attracted considerable political opposition.

One common objection to the third runway is that it would lead to the demolition of hundreds of homes in villages such as Sipson. One means of avoiding this would be

¹⁴ (British Chambers of Commerce, 2009) pgs 6,7

¹⁵ The 2009 plan for a third runway would have had the runway finished by 2019. Most of this time was projected to be taken up by the planning process, with construction itself only starting in 2015.

to create a new runway by augmenting other already existing infrastructure, such as the runway at RAF Northolt. Northolt's runway is already 1687m long compared to the planned 2200m of the third runway.¹⁶ Northolt is only around 10km north of Heathrow. Other airports such as Amsterdam Schiphol have already demonstrated that situating new runways several miles from the control tower is perfectly workable.

3. Build a new airport

Another possible option is to build a new airport away from the local population. The airport can be located somewhere where it has room to expand and add as many runways as needed. It need require no Compulsory Purchase Orders or the demolishing of historic churches or villages. By situating the airport away from significant populations, we can ensure that noise and air pollution are no longer a problem for the locals. This in turn will allow the airport to operate twenty four hours a day, making best use of the resources and making the facility far more suitable for freight.

Neither is building a new airport unprecedented. Heathrow itself was developed as a replacement for London's previous primary airport, Croydon, after it ran out of capacity. Other countries such as Hong Kong and Tokyo have successfully added a new hub airport, while others such as Dubai and Qatar are in the process of doing so. China alone has built 33 new airports since 2006, while the next Five Year Plan calls for another 45 airports by 2015.¹⁷ In 2015, China plans to open a new nine runway airport, Beijing Daxing International, serving 370,000 passengers a day.¹⁸

The most important objection to the project is simply the time it would take to build. Current estimates say it would take at least thirty years to build, while Britain will need new capacity long before 2040.

16 <http://herbertwright.wordpress.com/2011/11/10/heathrows-third-runway-is-almost-ready-and-waiting/>

17 http://www.australianbusinessforum.com.au/_blog/ACBW_Feature_Articles/post/China_plans_45_new_airports_in_five_years/

18 <http://www.telegraph.co.uk/news/worldnews/asia/china/8752665/China-to-build-worlds-biggest-airport.html>

Solving the Shortage

Opinions can differ on how capacity should best be expanded. As we have seen, no choice is perfect or clearly dominates all others. Good cases have been made both for and against adding runways at Heathrow, Northolt, Gatwick, Stansted, Luton and the Thames Estuary. Clearly, the exact engineering difficulties and costs of each option are beyond the scope of this paper.

But then, neither is it a decision that the Government is likely to have much expertise on. Government has a poor track both at judging the future demands of consumers, and at estimating the costs of large infrastructure projects.

The industry needs a more flexible planning system. Decisions should be made by the price mechanism and free competition rather than special interests and political grandstanding. There should be a presumption in favour of development. Each new development should have to directly negotiate adequate compensation for affected locals, rather than lobby through politics and the press.

This would leave the industry free to respond to market demand, and able for itself to judge the relative costs and benefits of the different options. This does not, incidentally, necessarily imply more development everywhere. In the case of Heathrow, for example, adequate compensation with the residents could easily prove so expensive that relocating to another location such as Stansted or the Estuary becomes more attractive.

Reforming the planning system is now urgent. Expanding one of the current airports is the most viable option in the short term. If consensus cannot be reached, and building does not commence in the next few years, London will inevitably fall further behind its European rivals.

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