

The Institute of Economic Affairs, "Future of air transport" conference
Meeting increasing passenger demand
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Introduction

I am pleased to be here today to talk about meeting passenger demand, so close to the second anniversary of the Government's air transport White Paper.

Meeting increasing passenger demand is fundamentally about runway capacity, making the best of the potential capacity there is in existing runways, and investing in new runways, to deliver significant capacity increases.

While a lot can be done to make the best of capacity, through operational improvements – being cleverer about how we work – generally, we are talking about significant capital investment.

Of course, for a private company like BAA to commit the significant funds that are needed for infrastructure investment, we need a comfortable degree of certainty that our investments will be safe.

We can handle commercial risk – we're a private company, after all.

What we need reassurance over, when we prepare to invest hundreds of millions, or even billions of pounds on capital projects, is that the political and regulatory risk is at an acceptable level.

In the UK, the White Paper has established a 30-year policy framework which has given us the confidence to plan for a second runway at Stansted, and to work with Government towards, potentially, building a third runway at Heathrow.

But within this framework we have had to make an assessment that the commitments we make will be respected by future regulators and Governments, of whatever political hue.

This isn't, incidentally, an issue which is confined to our UK operations, where we are seeking to meet passenger demand. We have to make the same assessment each time we consider investments abroad – particularly where we are taking a state enterprise into the private sector, as we did in Naples and Melbourne.

Today, we are waiting to find out whether we have won the bid to run Budapest Airport, which will involve a substantial investment to gain control of the airport, followed by commitments to invest in the airport's growth over time.

These are large judgement calls, even for a substantial company like BAA, and we only make them when we think Governments are serious about attracting and retaining foreign investment, and that future Governments will respect these investments.

We believe that the Hungarian Government justifies this confidence, even though these are issues which cause political controversy.

Aviation growth is also a controversial issue in the UK, which is why we have welcomed the White Paper's clarity about meeting additional demand.

And as I said at the start, this means runway capacity.

That may sound obvious, but we seem to take this for granted, and then we focus our talk about delivering growth on the related issues of surface access, the planning system and, inevitably, how we pay for it.

These *are* big issues, and growth won't happen unless they're sorted out, by Government and by the industry. But unless we tackle the central question of runway capacity, there is little point in discussing these related issues.

Runway capacity dominates the issue of aviation growth around London. But it's not an issue that all in the industry have experience of. I once had to explain slot constraints to a no-frills airline operator. To him, flying was about choosing a slot that suited his operation and using it. He wasn't aware of the pressures of scarcity at Heathrow, Stansted and Gatwick.

So today I'm going to talk about developing runway capacity in three ways: improving operations, developing new infrastructure around our existing runways, and building new runways.

Many of the steps that could be taken under these headings carry social or environmental costs, which we have a duty to work to mitigate. They also have clear economic benefits.

It's incumbent upon us to look at each capacity-enhancing measure with the fullest possible understanding of both costs and benefits. If, having done so, the decision is made to proceed with delivering capacity, then we also have a responsibility to see that decision through.

Operational efficiency

Those steps that have the lowest impact but deliver the least benefit are those that improve the operational efficiency at our four existing London runways. They are of course still very worthwhile.

Air traffic controllers have an important role in delivering these efficiencies through effective airspace planning. We're fortunate to have in NATS the best in the business.

I'm confident that NATS will continue to deliver, for airlines and passengers, the capacity in the air that is needed to match capacity on the ground. And I believe that the core of long-term business for both BAA and NATS will be in developing the South East's runways.

Closely linked to airspace planning is the need to maximise slot efficiency. There is very little scope around London to increase the number of peak-time slots. Airlines, therefore, have needed to look at taking up unused off-peak slots.

That's happening, and at Heathrow we already have a pretty flat profile, with little difference in peak and off-peak usage: the runways are already operating at a near maximum slot usage.

Load factors and large aircraft

The next step in matching capacity to passenger demand is, blindingly obvious: it is making sure that the planes are more full – what is known as increasing the load factors.

From an airport point of view, full aircraft make fuller use of runway slots. It's a quick, but not dirty way to squeeze more operational efficiency out of a scarce slot resource.

I know it's not that simple for airlines. A half-empty plane may be more profitable than one three-quarters full. I understand that. But from an airport operator's perspective, the calculation *is* straightforward and linear.

And there is a shift toward bigger aircraft. I'm not just talking about the jump to the A380 – though the dual deck stands we need to accommodate it at Heathrow are already built.

I'm also talking about the more gradual, incremental shift within airline fleets to bigger aircraft, such as from A320 to A340, or from different models of 737s, helping to edge up aircraft loads by 20 or 30 seats at a time.

Some of this comes free. Some requires new infrastructure, which I'll touch upon shortly. But all of it – take up of slots, more passengers per aircraft and bigger aircraft – increasingly pushes airlines, at Heathrow certainly, towards long-haul routes, where there are often greater returns than on short-haul.

Open Skies

So I'm encouraged by the tentative agreement reached recently in Washington on the liberalisation of transatlantic services. If concluded on present terms it will deliver greater market access between the EU and USA, and the big prize is, of course, the liberalisation of rights to fly between Heathrow and the USA, which will promote greater competition, lower prices and spur further passenger growth.

We will have to wait and see how the process plays out, and what conclusions EU Transport Ministers reach. We want to work with any airline that wishes to operate additional US services out of Heathrow, but it is important to point out that the scope to accommodate such new services at present is limited.

There are few spare slots – at any time of day. And airlines will only be able to operate runway slots if there is also space in terminal for their passengers and somewhere to park their aircraft. Even then, we would be hard pressed at present to find suitable office accommodation, ticket desks and other space for new operators.

Terminal 5 will relieve a number of these constraints, but it will not be on line until March 2008.

When we move up the curve of potential operational measures, the benefits are larger, but so are the impacts, and so the issues become a lot more difficult and controversial.

Night flights

Take night flights. The limits to the hours of operation at our London airports, imposed for perfectly understandable and defensible community reasons, effectively cut these airports' capacity for a third of every 24-hour period.

Greater use of runways in periods which are currently restricted would realise considerable capacity – assuming people wanted to fly at three in the morning.

I'm not advocating a relaxation of night restrictions – indeed in our response to the recent Government consultation we opposed any relaxation of the night flights regime, and we made clear our understanding and sympathy with the problems that night flights cause to people living under flight paths.

But I am pointing out that this is an issue which has to be considered and debated if we are serious about evaluating all the options for making the best use of runways.

It's right, though, that such judgements are made by Government, and BAA will work within whatever restrictions the Government decides are appropriate for striking the balance between economy and community,

In London, it is central Government that has reserved the power to determine such matters. But at Aberdeen airport, the local authority voted to lift its local restrictions on night flights, having taken the view that the economic and other advantages of increased flight movements outweighed for their communities the problems of night noise.

Mixed mode

Another operational capacity issue, which applies only to Heathrow, is how we currently use our two runways in segregated mode, with one used for arrivals and one for departures, alternating at 3pm every day. This gives local communities predictable relief from noise for half the day, but necessarily constrains aircraft movements, compared with those which could be achieved with the simultaneous use of both runways for both landings and take-offs.

The question of moving to mixed mode operations is soon to be the subject of a Government consultation. There is no doubt that this would be a tremendous benefit for the economy, increasing the range and frequency of services from the airport, maintaining Heathrow's, airlines' and the UK's international competitiveness and helping to reduce delays and costs for airlines and passengers.

But mixed mode – whether for part of the day or all day – will have a significant impact on those communities living under arrivals and departures flight paths.

Our goal at this stage is to provide the Government with the fullest understanding of the community and environmental costs as well as the economic and operational benefits of this option. Ultimately, it is their judgement call.

New infrastructure around existing runway

I've described all the major ways to extract more operational gain from existing runway capacity. Some of it needs new physical infrastructure to ensure that there is enough

capacity in the associated facilities – whether in terminal buildings, baggage systems, security operations, fire services or even car parks.

So our investment over the last decades and much of the investment we will be making in future years has been about providing the associated infrastructure to match the capacity potential of our runways – because, let's face it, we haven't had a new runway in the South East for over 60 years.

So, at Heathrow, Terminal 5 remains on budget and ahead of schedule for a March 2008 opening, and will provide terminal capacity for 30 million passengers.

And many of you will have noticed our recently unveiled plans for Heathrow East, a project that will bring a T5 level of quality to the central terminal area and provide capacity for 30 million passengers.

At Gatwick, we already have support in principle from our local authorities to develop the airport to grow from 32.5 million passengers today to around 40 million, and we have a £685 million programme for that development.

And at Stansted, we already have a range of permissions for much of the physical infrastructure that will allow us to grow beyond 22 million passengers today, and we will be applying to remove the planning cap on passenger numbers to realise that growth potential.

New runways

Lastly, we move beyond making use of latent runway capacity into developing new runways. This brings the biggest benefits in terms of increased aircraft movements and the number of passengers carried. It also brings the greatest impacts.

We accept that, and we work hard to meet our responsibilities to deal with those impacts. But we also need to remind ourselves that the White Paper was clear on this issue – maximising capacity is the first step. It is not a lasting solution. Two new runways in the South East are needed to meet the long-term growth in demand.

The Government stated that the first of these is a second full-length runway at Stansted, a project we are calling Generation 2, because it marks a transformation of the airport beyond what is implied by two miles of concrete.

It's a huge project. The Government estimates that it could cost up to £4 billion in total. Our intention is to build the development in phases, and in a few days' time we will be announcing our preferred option for the location of the second runway and will launch a public consultation on it. We'll also, at that point, give some indications of our estimates for the project costs. We have indicated for some time that it is likely to be less than the Government's early estimates.

We'll submit our formal planning application for Generation 2 in 2007. Our hope is that the reformed planning process will deliver a decision within a couple of years, rather than in the seven years it took from formal application to decision for T5. If that happens, and all else goes to plan we believe that we can open the new runway in 2013.

Alongside the preparatory work on Stansted G2 goes the exploratory work on a third, short runway at Heathrow, which could lift capacity by 25 million passengers or more. There is much to be done before we know if this runway and associated infrastructure is deliverable.

The Government is leading a series of studies, called the Project for the Sustainable Development of Heathrow, into three main environmental issues: air quality, noise and surface access.

In a nutshell, the Government must be convinced that the air quality in the area around Heathrow with a third runway will meet the air quality limits that the EU is introducing.

This is a real difficulty for Heathrow, especially since the majority of the air pollution problem in the area is actually caused by commuter and other traffic moving around the M25 and in and out of London on the M4; only a small proportion of this traffic is bound for the airport.

The Government must also be certain that the total area around Heathrow exposed to noise of 57 decibels or above does not exceed 127 square kilometres.

And it must be sure that the road and rail systems can support an airport handling just shy of 120 million passengers a year.

Only if there is a tick in the box for each of these three issues will the Government give BAA the go-ahead to start planning for the third runway development.

Project Heathrow, as we call the process, aims to complete its studies and come up with answers, possibly by the end of 2006, and BAA is playing a full and active part in these studies, along with the DfT, airlines, local authorities, academics, consultants, transport providers and others.

As and when these and other preconditions are met, BAA can move ahead the work on the terminal facilities which would be needed for a third runway.

Conclusion

I've gone briefly through those areas where runways capacity can be developed, because ultimately meeting increased demand depends on being able to do so. Which measures are taken in the end will depend on where the balance is deemed to lie between living with the impacts and exploiting the benefits. I cannot say for sure which measures will be adopted and which won't, but I believe in many cases that the benefits are so clear to the prosperity of this country that that they will happen.

There is no doubt, for example, that we will be disadvantaging the competitiveness of the UK if the number of runways in the South East is not increased over the next period. It's also clear that this country needs infrastructure growth to drive other areas of the UK economy. T5, for example, has trained more construction workers on its own than the rest of the UK put together.

To use a phrase beloved of this Government, the choices are tough. But the advantages are real, apparent and crucial to this country. As long as we can invest

against a background of reasonable certainty, you can be sure than BAA will be ready to deliver our part of them.

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