

TSC hearings on Airports NPS:

Clarification of issues raised by DfT and HAL

February 2018

1. Introduction

- 1.1 The purpose of this paper is to clarify of some of the issues raised by Heathrow Airport Limited (HAL) and the DfT, including the Secretary of State (SoS), in their respective hearings before the Transport Select Committee (TSC) on Monday 5 February and Wednesday 7 February.

2. Surface Access

Schemes required for expansion

Ref: Q551

Luke Pollard: *What schemes do you think Heathrow needs to have a three-runway world in operation in terms of surface access?*

Chris Grayling: *... Let us go through these in order. Crossrail arrives next year....HS2 will arrive at Old Oak Common at approximately the same time as TfL is planning modernisation of the Piccadilly line to expand its capacity... We are in the development process for western rail access at the moment. I expect western rail access to begin construction in CP6 and to conclude before the opening of the runway. We are currently in initial discussion with would-be private promoters of southern access... We are making passive provision initially at Old Oak Common for a Chiltern station... Frankly, I think that is a pretty good package of surface access.*

- 2.1 The package of rail schemes cited consists entirely of two categories of scheme: pre-existing schemes designed to meet London's predicted population growth challenge and schemes which are uncommitted and unfunded.
- 2.2 The former category includes schemes such as the Piccadilly line Upgrade and the Elizabeth line (Crossrail), which were designed to meet London's need for transport infrastructure to support housing and jobs - in a non-expansion world. Using up this capacity with expansion-related demand undermines the ability of these schemes to achieve their objectives and effectively allows Heathrow expansion to bank the benefits of schemes that were meant to accrue to Londoners.
- 2.3 The latter category notably includes western rail access and southern rail access. The SoS implied both are needed for a three-runway Heathrow; that should be clearly

stated in the NPS, together with a requirement for consent to be refused if not in place. With neither scheme committed or funded, they cannot simply be assumed.

Role of the Elizabeth line (Crossrail)

Ref: Q562-564

Huw Merriman:...*When I looked at the journey time reductions that Crossrail would offer...it felt to me as if there could be a real sea change in behaviour.*

When I put that to Transport for London...it said that its model had looked at it...It would seem to suggest that it is impossible to deliver this no increase in traffic because Crossrail will not have the impact that it struck me it may well do...

Lucy Chadwick: *We certainly think we can achieve the mode share targets that we have set out, particularly because, as the Secretary of State mentioned, TfL's modelling at the moment deals with four Crossrail trains as opposed to six, which is what it will be coming on stream... Taking into account the other surface access options, we think you can credibly achieve the surface access mode share targets that we have set out.*

- 2.4 TfL's modelling shows that the Elizabeth line (Crossrail) will contribute to mode shift. It will improve access to Heathrow from west and central London in parallel with existing rail services. It will also provide direct services to east London for the first time. However, it is notoriously difficult to achieve more than a few percentage points mode shift with a new rail service; this is particularly so in the case of airport passengers, often travelling with family and/or luggage. As such, the modelling results are consistent with previous experience.
- 2.5 In any case, the Elizabeth line is unable to play a substantial role in improving access to Heathrow from the west and south, areas which are currently not served by direct rail links and which have a higher car/taxi mode share as a result.
- 2.6 TfL's modelling was undertaken based on four Elizabeth line trains per hour to Heathrow, which was the committed frequency at the time. TfL's decision to increase the frequency to six trains an hour had to be delayed while HAL continued its legal challenge of the rail regulator's decision to reduce its unduly high proposed track access costs.
- 2.7 TfL will be modelling the impact of the additional two trains per hour on mode share. Given that these trains will broadly serve the same stations, there is expected to be a small capacity uplift but little change to connectivity. As such, it is expected that the increase in public transport mode share as a result of the extra two trains per hour will be small.

Surface access costs

Ref: Q555

Luke Pollard: *In the evidence we heard from Transport for London, it suggested that the surface access upgrades necessary for an expanded Heathrow would be in the region of £15 billion. The Airports Commission says it is about £5 billion. There does seem to be a big discrepancy between these two figures. I am trying to get at what the difference is.*

Chris Grayling: *...There is no reason for what I have described to cost anything like £15 billion. HS2 has already arrived and Crossrail is nearly finished. The costs of western and southern rail access would be a little in excess of £1 billion, but not massively so.*

Ref: Q379

Luke Pollard: *With regard to the costs of this work, we heard in previous evidence with which I am sure you are familiar that the costs for surface access could be £5 billion or between £10 billion and £15 billion. That seems like an awfully large range. What is your estimate of what surface access improvements will cost?*

Emma Gilthorpe: *I think the £10 billion to £15 billion was a number that came from TfL. It related to all of west London's transport needs. I think we can all agree that that is not Heathrow's responsibility. It is clearly something that TfL is planning at the moment. I could not comment on whether those numbers are right or wrong, but they are numbers I have heard them use before.*

- 2.8 TfL is not promoting any particular package of schemes, nor is it the responsibility of TfL to do so. TfL does have a responsibility to raise concerns about the proposals that the DfT and HAL are presenting which assume that no new rail infrastructure is required for an expanded Heathrow (beyond what is already committed to address London's extant population growth challenge).
- 2.9 We are pushing for the DfT and HAL to come up with credible proposals for how the surface access challenge is addressed - in terms of provision of sufficient capacity and driving mode share.
- 2.10 The SoS appears to include western rail access and southern rail access in the package of schemes to enable expansion, even though neither is committed nor funded.
- 2.11 Furthermore, analysis by TfL indicates that Network Rail's southern rail access scheme will provide new connectivity but little if any new capacity. Therefore, the current southern rail access scheme will do little to meet the needs of an expanded Heathrow and its inclusion in any package of measures to address demand should be regarded as having limited impact.

- 2.12 The £10-15bn figure quoted by TfL is an indicative cost based on an outline understanding of options which TfL considers could be used to address the surface access challenge. But it is for HAL and the DfT to present a credible surface access package which is capable of meeting the requirements of a three-runway Heathrow and sets out the cost and how it could be funded and delivered. We eagerly await this.

Mode share targets

Ref: Q554

Luke Pollard: *Transport for London again suggests that it needs 69% in terms of public access to be able to offset some of the demand pressures and the congestion in the local area that expansion could cause. Do you think that 50% by 2030 and 55% by 2040 of people arriving by public transport is not ambitious enough?*

Chris Grayling: *I think it is a good ambition... The combination of all those investments will deliver surface access to Heathrow that is as good as at any other airport I could name.*

Lucy Chadwick: *If you look at taxis currently, 80% of those are empty one way. There are opportunities to intensify and incentivise more of those journeys to have people in them both ways. Those are the kinds of things that Heathrow is looking at. TfL's modelling presumption is that all of that demand would need to go to public transport as opposed to thinking about whether some of that could be more intensively used.*

- 2.13 The SoS is right to claim that achieving 50% public transport mode share would be amongst the best enjoyed by any UK airport today; but that is not a sufficient objective. It is essential that expansion achieves no increase in highway trips if the severe risk to air quality is to be avoided. Indeed, it is doubtful that the scheme could legally be given planning permission if it is forecast to slow down achievement of air quality thresholds and worsens air quality overall. TfL estimates that the NPS criteria, if met, could result in 40,000-60,000 additional vehicles on the roads every day.
- 2.14 Ms Chadwick highlights that there could be other potential opportunities to reduce highway trips not involving mode shift; HAL also cites staff carsharing. Achieving such intensive use of cars, while desirable, is very difficult to achieve in practice, which is why HAL has had limited progress to date.
- 2.15 Mode shift is likely to be central to achieving no increase in highway trips. Analysis by TfL indicates that this will require a public transport mode share, for passengers and employees combined, of between 66% and 69%. Accordingly, the NPS mode shift criteria should be strengthened.

Demand forecasts and mode share target breakdown

Ref: Q388-389

Iain Stewart:...When we heard from TfL at a previous evidence session, it said that a public transport mode share of 69% is required to meet your "no net increase in car traffic" pledge. Your supplementary written evidence says that this is based on a forecast of 148 million passengers per annum. You say that your modelling suggests that we are not going to reach that level until 2040. Could you give us more detail about how you have arrived at that conclusion so that we can make an objective decision or judgment on whether you or TfL are right?...

Emma Gilthorpe: I thought it was 2050 rather than 2040, but I may be misremembering that...The TfL forecasted projection was 148 million. That was an unconstrained forecast...Our view is that there will be constraints on how that traffic arrives—whether it is about route viability or capacity being available, the level of actual demand versus the supply of capacity. We are questioning the TfL 148 million at the year it suggested it. There is another issue, which is the 69% mode share it talked about. It has conflated, in effect, staff mode share and passenger mode share. If you take our two targets, then we deliver the mode share targets across both of those.

- 2.16 In the absence of any proposed planning condition that stipulates the gradual release of capacity, it is standard practice in assessing new developments to consider the impact based on full, rather than partial utilisation. As such, TfL's initial modelling was based on full utilisation of the new runway, applying the passenger demand estimate cited by the Airports Commission (AC) of 148 million to give 409,000 daily demand trips per day (compared to 234,000 in 2015).
- 2.17 The use of this figure for modelling in 2030 reflected the AC projection that the new runway would be full at some point between 2030 and 2040. In any case, using background (non-airport) surface access traffic projections for 2030 rather than 2040 understated the wider network impacts (i.e. crowding and congestion would be lower).
- 2.18 Nevertheless, TfL recognises the sensitivity of the surface access demand to a variety of factors, notably the passenger demand but also the transfer traffic share and the staffing levels. As such, TfL subsequently ran a sensitivity with 10% fewer total daily demand trips, namely 368,000. This was also broadly in line with the 370,000 total daily demand trips that arises from the forecast in the DfT's revised NPS.
- 2.19 With full utilisation, a total passenger and staff mode share of 69% is required to ensure no increase in highway traffic, including freight (for example, 71% for passengers, 66% for staff).
- 2.20 Under the 10% sensitivity, a mode share of 66% is required for no increase in highway traffic, including freight (for example, 67% for passengers, 63% for staff).

- 2.21 TfL also calculated the effect of the NPS requirements. Under full utilisation, the NPS criteria would result in a total passenger and staff mode share of 56% (50% for passengers, 68% for staff) – and around 60,000 additional highway trips.
- 2.22 Under the 10% sensitivity, the NPS criteria would result in a mode share of 55% (50% for passengers, 65% for staff) – and around 40,000 additional highway trips.
- 2.23 The passenger/staff breakdown of the no extra traffic scenarios is based on TfL’s modelling of how the mode shift could be achieved, which included road user access charging. The analysis assumed that a greater charge could be applied to passengers than staff, which is reflected in a higher mode shift for the former.
- 2.24 The passenger/staff breakdown of the NPS criteria is a direct result of how the criteria are set; they have the effect of requiring a much greater mode shift from staff than passengers.

Car parking provision

Ref: Q377

Luke Pollard:...*If... you are expecting 40,000 extra car parking spaces to be built, how does the surface access via car fit with that pledge of having no more traffic than you do today?*

John Holland-Kaye:...*We are [not?] looking at 40,000 extra car parking spaces. We are looking at reproviding the car parking spaces. In fact, we won’t have any more car parking spaces with expansion than we have today.*

- 2.25 The material presented in the DCO consultation (“Our Approach to Developing a Surface Access Strategy”, 12.1.19) indicates that the staff parking at Heathrow will be reduced. Nonetheless, it is implicit that there will be an increase in passenger parking compared to today and this is consistent with Mr Holland-Kaye’s statement that there will be no overall increase in (passenger and staff) parking.
- 2.26 Allowing the burden of mode shift to fall disproportionately on staff raises questions in terms of achievability as well as fairness. Staff work shift patterns at times when the public transport provision is lower and they have to access a wider range of locations around the airport, most of which are less well served by public transport than the airport terminals. That is why HAL has had limited success in its efforts to shift staff to public transport to date.
- 2.27 Moreover, if HAL is assuming an increase in passenger car parking, it suggests that it has little confidence in its own ability to hold passenger highway trips constant based on the current expansion proposals.

Road user access charging

Ref: Q561

Luke Pollard:...There is not enough tarmac to cope with the amount of cars that need or want to access Heathrow. The Airports Commission talked about a charge of about £40 per car to access that area. Do you have an idea of how much the road charging scheme around Heathrow should be?

Chris Grayling: No. I think that needs detailed work. As I say, my personal view is that it is sensible to have a scheme built around pollution reduction. This is something that is going to have to be worked on in the months and years ahead. It is not my expertise or the team's expertise right now.

Ref: Q566

Chair: Does that mean you might need a congestion charge in place? One of the concerns around access is that people drive. Even if they are driving a clean vehicle, they could still create a lot of congestion.

Chris Grayling: It is a possibility. I think it is something that needs to be addressed a bit nearer the time, but I will be surprised if there is no demand management around Heathrow when this opens.

- 2.28 Analysis by TfL found that a road user access charge at a similar level to the Airport Commission would be essential if the objective of no increase in highway trips is to be achieved, on top of the requisite investment in new public transport infrastructure. As such, that should be an integral component of the NPS and not something left to chance and/or determined many years in the future.

Enforcing the NPS criteria

Ref: Q387

Chair:...If you are saying that you think you can achieve 50% or better, then it is not unreasonable to say if you are confident enough for that to be binding in relation to release of capacity, is it?

Emma Gilthorpe: I think I would want to see what the planning regime was and precisely what the infrastructure was. The commitments we have made are based on our plan. The plan can change between now and then. It is absolutely appropriate to have commitments, but they would come at the stage of the DCO rather than in the planning policy, which is the NPS that we are talking about today.

Ref: Q559

Luke Pollard: I asked the Heathrow chief exec on Monday about whether it would be appropriate to put the public transport mode shares as a condition for unlocking more capacity in the NPS...What happens if they don't get there? Would that be something that you would be minded to go with—having that as a

condition for unlocking more capacity?

Chris Grayling: *What we are going to look at is how we put into the various development consents requirements on surface access. I do not want to be specific today about exactly what form they will take, but we will want some conditionality in there that requires the progress on surface access. It would not be appropriate to do otherwise.*

- 2.29 These excerpts indicate a reluctance on the part of both the DfT and HAL to have an effective mechanism for monitoring and enforcement of surface access conditions which are critical for expansion. If they are to have any force, it is essential that the NPS specifies a mechanism for monitoring and enforcement.

3. Air quality

Banking the benefits of unrelated air quality measures

Ref: Q538-541

Daniel Zeichner: *... most recent evidence, particularly in those years between 2026 and 2030, suggests that there is a high risk of breaching air quality compliance at that point, and yet the NPS states that it is capable of taking place within legal limits. Given all the issues that have been raised in the last couple of years, how can you be so confident that there are not going to be strong legal challenges on air quality compliance?*

Chris Grayling: *That does not reflect mitigation measures. The do-nothing scenario is that it comes pretty close...*

Chair: *...Wasn't the modelling reassessed after the air quality plan was done so that it did take account of mitigations?...*

Caroline Low: *It takes account of the Mayor's plan, on which he has been consulting, but it does not take account of anything additional that the Mayor might do if it seems that we are in the top part of that range that you talk about, and it does not take account of anything the airport might do. So, the Secretary of State has said that the airport is consulting on a low emission zone. That would have a significant impact on the types of cars that are being triggered by airport expansion.*

Chair: *So there is a level of mitigation that has already been taken into account in the modelling.*

Chris Grayling: *We have taken it into account on the national air quality strategy in the second bout of modelling. What we have not taken into account is specific Heathrow-related mitigations.*

Daniel Zeichner: *In effect, the Mayor can be trying to improve air quality in general. He may be pushing water upstream, if we are not careful, because you will be making it more difficult for him.*

Caroline Low: *If you look at the analysis we have done, the increment related to Heathrow is very small.*

- 3.1 It is clear from the exchange that the DfT is relying on the vital measures the Mayor is taking to improve air quality in London to enable Heathrow expansion, and so erode the public health benefits that would otherwise accrue to Londoners.
- 3.2 Even if HAL were able to show that a third runway could be delivered without jeopardising legal compliance with limit values it is doubtful that the scheme could legally be given planning permission on the basis that it was contributing to a significant worsening of air quality across a large area of London.

Binding air quality commitments

Ref: Q404

Daniel Zeichner: *I want to go back to an earlier point about when you would be prepared to see this hardwired and make a binding condition. We were talking about the period between 2026 and 2030 when you are going to release capacity in chunks. You were prepared to suggest that some of it should be tied into the NPS; you thought it should be in the planning process. Are you prepared to make the binding commitment that you will only release it if the air quality issues are met in one way or another?*

John Holland-Kaye: *Yes, we are. That is our triple lock. The development consent order process is the right place to do that when plans are more detailed, and when we are making binding legal commitments about the way that we will operate the expanded airport...*

- 3.3 The air quality requirements are sufficiently fundamental that these require embedding in the NPS, including an effective mechanism for monitoring and enforcement.
- 3.4 The National Networks NPS explicitly requires the Secretary of State to refuse permission for an application under the Planning Act 2008 regime that slows down achievement of air quality limit values. This precise and necessary wording is absent from the draft Airports NPS. If the Government is convinced that these limit values will be achieved on time, an explicit requirement that the Secretary of State must refuse consent should be inserted where granting an application would lead to non-compliance with air quality legislation and plans.
- 3.5 HAL's current aim is flawed, namely to proceed with the expansion project and then not increase the number of flights until it can be shown there will be no overall impact on air quality, including legal limits. All the construction impacts should not have to be incurred with the attendant cost and time for the new runway then not to operate – it should be written into the NPS that construction should not start until future compliance with air quality legislation is demonstrated.

4. Noise

Banking the benefits of unrelated noise measures

Ref: Q567

Iain Stewart: *Turning to noise, Heathrow believe that "an expanded Heathrow will be quieter," yet the estimates are that the northwest runway will cause significant annoyance to an additional 92,000 people. How do you balance those two statements?*

Chris Grayling: *The position is basically this. Aircraft are getting quieter all the time. The new generation of aircraft are a fraction of the noise levels of the existing ones. If you look ahead 20 years, I expect an expanded Heathrow airport to be quieter than the existing two-runway airport. Our projections suggest, and it is important to say without any mitigation, that there is a short period of time around the end of the next decade when there is an expanded noise footprint. That is based on current assumptions about the take-up of flights and the rate at which the aircraft fleet is replaced. We think that is a relatively short period of time, and it only happens if there is no mitigation put in place, which clearly will happen. It is part of the community package. By the time you get well into the 2030s and the runway usage has expanded to a substantial degree—we know about lifespans of the current fleet and noise technologies coming forward—our projection is that this airport will be quieter than it is today.*

- 4.1 The approach to noise outlined by the SoS is wholly predicated on banking technology changes unrelated to expansion – including future quieter aircraft and new navigation technologies (in line with airspace modernisation) – to justify expansion. Heathrow already accounts for around 28% of all those across the EU who are exposed to significant aircraft noise and it is a concern that improvements in the noise environment are not being used to reduce Heathrow's impacts but instead to allow a 50% increase in the number of aircraft.
- 4.2 There also remain questions about the scope and speed of "noise technologies coming forward"; this should be properly evidenced and should they not materialise as planned, there needs to be appropriate monitoring and enforce mechanisms in the NPS.

Respite and night noise

Ref: Q569

Iain Stewart: *An issue of huge concern to the communities around Heathrow is the respite periods. The NPS states that the northwest runway will offer more predictable periods of respite, although the period will fall from half a day to a third of a day. What does that mean in practice? It is very vague, and the people we have heard from want more clarity as to what the impact will be on their communities.*

Chris Grayling: *The key point here is that, at the moment, Heathrow operates in a way that means that half the flightpaths—two out of the four—do not have a plane flying over them at any one time. With three runways, one will operate in mixed mode normally, and that means that, of the six, two out of the six at any one time will not have planes flying overhead. That is clearly a change. It means less respite for some areas than they have at the moment. We will want to try to mitigate that through smart use of the approach technology...*

The other thing to say is that, unlike at present, we want to move to a clear six-and-a-half-hour ban on night flights, rigorously enforced. I think that is a necessary quid pro quo given the other respite issues.

Ref: Q431-432

Chair: *...I want to come back to the issue about the respite period. It is very clear in the NPS; at the moment, people have a respite period of half the flying day, resulting from the switch in runway use, and this will reduce to one third of the day with the northwest runway. Can you confirm that that is accurate? That is what it says in the NPS and you seemed to say something different a few moments ago.*

Emma Gilthorpe: *It depends on whether or not the respite is given as parts of the day or in another way, which could be days of the week. It depends on how the respite is designed...*

Ref: Q424

Ronnie Cowan: *The NPS specified a night-flight ban of six and a half hours for nearby communities.*

Emma Gilthorpe: *We have made a commitment to a six-and-a-half-hour night-flight ban as part of this process.*

Ref: Q449-450

Paul Girvan: *What mechanism do you have in place to ensure that you abide by the parameters that have been set down in relation to the planning restriction on late flights?...*

John Holland-Kaye: *The reduction in late-running flights is a voluntary measure. I wanted it to be a voluntary measure to show that we do not have to be forced to do the right thing... Just to give you some context, on average, in the previous year there were about 350, so that is almost one a night. We have seen a significant reduction in that.*

- 4.3 The SoS is correct in his elaboration of respite; however, he fails to mention that according to HAL, of the three runways, the middle one will not be able to operate in mixed mode. This means the middle runway will continue to offer respite for half the traffic day – but those under the flightpaths of the other two runways will experience respite for just a quarter of the day. On average this works out as a third – but the impact on most will be more severe than the average figure implies.

- 4.4 Ms Gilthorpe's response on respite reflects one of the options for flightpath design being proposed by HAL. This could change the distribution of flights further from the airport, but is less likely to benefit those under the flightpaths in close proximity to the airport. Further away from the airport, it implies more people being exposed to significant aircraft noise and many for the first time. Moreover, the design of the standard averaging noise metrics (LAeq, Lden) means that they might not fall into the noise contour under this flightpath design option, because periods of intense aircraft noise will be averaged with periods without aircraft overhead.
- 4.5 The DfT and HAL both reiterate their six-and-a-half-hour night flight ban. However, a voluntary agreement with HAL already means no flights are scheduled between 11.30pm and 4.30am, while around 16 flights per night are scheduled between 4.30am and 6am in line with Government night flight regulations.
- 4.6 It should also be noted that the proposed ban only covers scheduled flights. Typically flights at Heathrow are not scheduled between 11pm and 11.30pm and most flights in this period are late-running flights, as described by Mr Holland-Kaye; these would be unaffected by any scheduled night flights ban.
- 4.7 The fundamental issue is that the night period as officially recognised by Government is from 11pm to 7am, reflecting when most people are trying to sleep. Both the AC-proposed ban (11.30pm-6am) and the HAL-proposed ban (11pm-5.30am) fall short. They would remove the small number of scheduled flights in the period after 4.30am but, in the absence of other conditions, would permit a very significant increase in night flights in the period up to 7am (from as early as 5.30am under the HAL proposals). Overall, the total number of scheduled night flights could increase by over 30% compared to today with the proposed ban in place.

5. Economy, capacity and connectivity

Phasing and economic benefit

Ref: Q397-398

Chair:...*In relation to questions around surface access, you were talking about the phased release of capacity. In fact, it seems always to have been Heathrow's position that you would have to build up the use of that capacity. You talked about it in relation to certainty around costs. Doesn't the phased release of capacity change the economic case that is presented in NPS, given that the numbers on net present value are based on capacity being used within the first two years of the new runway being complete? How does it impact the economic case?*

John Holland-Kaye: *I do not think it materially impacts the economic case. We are talking about the phasing over the first 10 to 15 years and how quickly that*

builds up...

Emma Gilthorpe: *The demand forecast shows a range: a low case, a medium case and a high case. It shows that from a passenger point of view, not from a trade point of view. We are talking about releasing in quite small increments, in quite quick succession. Our view is that there is not a material difference in what we are proposing. Rather than building something and then waiting for the demand to come, we are proposing to make sure that we do this in a way that lines up with passenger demand, which is a much more responsible way of developing the airport. That allows us to keep our costs as low as possible while making sure that we maintain a great passenger experience and deliver on our public commitments, but not foreshortening or delaying the significant benefits that will accrue to the UK from having the best connective hub in the world.*

- 5.1 This raises fundamental questions when, in the revised NPS, Heathrow expansion is explicitly predicated on the faster delivery of economic benefits, while at the same time, HAL is planning a phased introduction of capacity, however small the increments.
- 5.2 While the affordability might be HAL's key consideration, the revised NPS makes clear that passenger demand would support a relatively rapid introduction of capacity, given the new runway is forecast to be full just two years after opening.
- 5.3 If phasing is to be permitted, then the consequential slower realisation of economic benefits should, accordingly, be recalculated to measure against the adverse impacts of the project.

International connectivity

Ref: Q471-472

Chair: *Why are the benefits of international transfer passengers not reflected in the connectivity numbers? Wouldn't you expect the increased connectivity to be higher if those 16 million international transfer passengers are there?*

Caroline Low: *It goes back to the number of additional flights as well as the number of additional destinations, because what those transfer passengers are giving you, as well as new destinations, is greater frequency. It is incredibly important to business and to freight to have frequency as well as reach of destination.*

Chair: *Is there any evidence that specifically shows where that extra frequency is going? If it was into more flights to New York, you might think, "Aren't we already well served to places like New York, Frankfurt and Schiphol?"*

Caroline Low: *Our modelling puts the flights where the demand is, rather than picking the flights and then seeing what happens. It comes the other way round. Of course, over the period to 2050 life will change; markets that we are serving will change. A new runway gives us scope to take advantage of that, and the ability for airlines to flex and respond to the market and the demands it is*

making, rather than being constrained, as they are at the moment, and therefore operating only the most profitable routes.

- 5.4 The increase in connectivity is lower than one might expect because, as per the revised NPS, the third runway will be full in 2028, two years after opening. As capacity fills up, the airport will quickly become constrained again, with airlines operating only the most profitable routes. As an expanded Heathrow nears capacity, the proportion of transfer passengers is also likely to fall.

Domestic connectivity guarantees

Ref: Q478-480

Steve Double: *A significant amount of support for Heathrow has come from the expectation that it will create great opportunities for domestic connectivity. How many new domestic routes will an expanded Heathrow offer?*

Chris Grayling: *It is difficult to give you an exact answer on routes, because that is to a significant degree dictated by the market. Clearly, there are some routes that are supported by the public purse because they are of strategic importance. Let me focus here on slot allocation rather than route numbers.*

Our view is that we would expect to reserve up to about 15% of slots on the new runway for domestic connections. They are a really essential part of the case for this. I have been very clear that there has to be capacity that is available only for domestic connections, and that that capacity has to be spread across the day; it cannot be loads of slots at 11 o'clock at night. We will make provision, through the process of the NPS and the DCO process that follows it, to ensure that there is specific reserved capacity for regional connections within the United Kingdom. Beyond that, it is for the market to decide which routes to pursue...

Steve Double:...*You have alluded to the fact that some of these new routes are not likely to be commercially viable, so you see very much a role for the Government with PSO supporting those routes.*

Chris Grayling: *I think there will be. Heathrow itself has identified a number of airports to which it expects to have connections. I expect that most, if not all, of those will be commercially viable.*

Ref: Q482

Grahame Morris: *Secretary of State, you mentioned the figure of 15% as the guarantees...Given the nature of commercial pressures from other airports and the international aviation industry, how long can we expect those guarantees to remain in place?*

Chris Grayling: *This is a long-term commitment and is part of the rationale for the expansion of Heathrow. I want to see business taken through Heathrow rather than Schiphol, Frankfurt or Charles de Gaulle.*

Ref: Q483

Chair: Does that fit with what the Secretary of State said a few moments ago about a proportion of slots being secure? Is there a cost issue in that? You also said that demand to get into Heathrow is enormous, and these are commercial decisions. How would you secure the slots?

Lucy Chadwick: We can secure these slots through a combination of PSOs as much as commercial commitments from the airport itself. Both of those mechanisms will enable us to do that.

- 5.5 Legal advice previously sought by TfL indicated that both Government and HAL are legally limited in the steps they can take to determine how slots are used by airlines. The rules are there precisely to prevent Governments distorting the market and seeking to favour one airport (e.g. Heathrow) over another (e.g. Schiphol).
- 5.6 It would also be illegal for the Government to give any forward commitment to how slots will be allocated. Any determination of Public Service Obligations (PSOs) can only be done at the time of introduction, based on the economic circumstances of the city region to be served at that point.
- 5.7 As such, there appears to be no legal basis for the “long-term commitment” behind a guarantee of 15% of slots of domestic flights, nor is it credible for this to be deemed an essential part of the case for expansion, as the SoS states.
- 5.8 The SoS refers to his expectation that most of the routes will be commercially viable; but at a three-runway Heathrow whose runways will be full in 2028, it will not be absolute profitability but relative profitability – i.e. relative to other routes – that will determine how airlines use their slots. That is why the Revised NPS forecasts the number of domestic routes from an expanded Heathrow to be just five, down from eight today.

Airport influence of domestic routes and changing PSO regulations

Ref: Q335-336

Steve Double: As you will be aware, considerable support for Heathrow expansion has come because of the potential for domestic connectivity...Can you guarantee that Heathrow will offer a minimum number of domestic connections if the expansion goes ahead?

John Holland-Kaye: At this stage, we cannot guarantee a minimum number of domestic destinations. The reason is that it is not within our gift or control. What we can do is make sure that it is economic for airlines to fly domestic routes, and I can talk about some of the actions we have taken to do that, and encourage the Government to change the way that public service obligation routes work, so that we have airport-to-airport PSO routes rather than the current city-to-city routes. That is important because, for markets such as Newquay and Inverness, where they have a PSO, they want to make sure that it opens up the global connections that come from Heathrow, not just a connection to London.

If I may touch on some of the things we have been doing to play our part in making domestic connections viable, over the last couple of years...we have reduced our domestic charges by more than half. Charges per passenger have come down from about £30 to about £13 or £14. That is a significant reduction to provide better value for money for domestic passengers. We have seen the benefits of that. We have seen more flights being added on the Inverness route. We have seen Flybe come in and offer competition and choice on Aberdeen and Edinburgh, and that in itself has led to a very significant reduction in ticket prices on those routes, which is one of the main benefits that expansion will bring for domestic airlines. We have reduced our minimum charges so that it is viable for operators such as Flybe, with smaller planes, to serve Heathrow routes economically.

Steve Double: *You have alluded to the fact that some domestic routes are not always commercially viable or not very lucrative. If new slots are awarded to airlines, and effectively they own those slots, what is to stop them moving on to other more lucrative routes in the future rather than those domestic ones?*

John Holland-Kaye: *This is where I think the PSO routes need to come in, to make sure that those routes are kept open. The last time I was in front of this Committee, we were talking about Brexit and what it might mean for aviation. At the moment, the thing that is stopping the Government making those changes around PSOs, as I understand it, is that we have to comply with EU rules. That may be an area where, as we leave the EU, there is more flexibility to do what is right for the UK.*

- 5.9 Mr Holland-Kaye claims HAL can make sure it is economic for airlines to fly domestic routes. But the example he gives illustrates the limits of what it can do. Halving the domestic passenger charges increases the absolute profitability of domestic routes but has little effect on their relative profitability – i.e. relative to key international business destinations, especially longhaul flights with premium cabins, for which seats sell for over £1,000. Legally, there are also restrictions on the price differential HAL can introduce between its charges for domestic and international flights (which have to be rooted in the actual service provided).
- 5.10 Mr Holland-Kaye also gives the highly misleading example of Flybe’s new domestic Heathrow routes. These flights have only been possible thanks to the slots that British Airways was required by the competition authorities to loan following its takeover of Bmi. The slots can only be used for the three domestic routes where Bmi and British Airways used to compete (Manchester, Edinburgh and Aberdeen) - though Flybe has decided to operate only the two Scottish routes. Unlike a standard slot, if Flybe stopped the routes, it could not redeploy or sell these slots, but they would revert back to British Airways. Therefore, Flybe has an incentive to maintain the less profitable use of the slots, which would not be the case with a standard slot.
- 5.11 PSOs are cited by Mr Holland-Kaye, but with the recognition that changes to the existing EU-based law would be required to let them be specified from airport-to-

airport rather than city-to-city and allow them to be made permanent. If, following Brexit, the Government were to make such changes to the rules governing the functioning of the UK aviation market which resulted in significant divergence from EU rules, this could jeopardise UK access to the European Common Aviation Area, which has been the cornerstone of UK aviation connectivity. Such a decision must not be taken lightly and should not be deemed an easy step to securing domestic connectivity into a capacity-constrained three-runway Heathrow.