

The Mayor of London's response to the Airports Commission consultation on shortlisted options

Strategic Fit: competition and connectivity

Supplementary Note 01b

February 2015

Key findings

- Of the Commission's Interim report scenarios, the Commission's assessment recognises that Gatwick's development as a second, competing hub is the least likely scenario – and that a single hub will deliver greater connectivity (for passengers and freight) than any attempt at a 2-hub system.
- The Commission are not clear which measure of 'competitiveness' they will use to ultimately reach a conclusion.
- The Commission's report overstates the potential for low-cost carriers at an expanded Gatwick to provide competition to a hub at Heathrow.

Key recommendations for further work

- The Commission's final report in the Summer of 2015 should place the shortlisted options in the context of what alternative options available to Government might achieve.

A: Key observations

1. The Commission's report recognises that Gatwick's development as a second, competing hub is the least likely outcome of a second runway at Gatwick

- 1.1. The Commission have conducted their assessment to a greater level of detail than in the Interim Report. Connectivity is considered and monetary values are assigned to the benefits offered by the 6 industry response scenarios identified.
- 1.2. The Commission's report recognises that
 - Gatwick's development as a second, competing hub is the least likely scenario;
 - a single hub will deliver greater connectivity – for passengers and freight – than any attempt at a 2-hub system.
- 1.3. However, the Commission's assessment is non-committal on the question of which of the shortlisted expansion options delivers the greatest consumer benefits.
- 1.4. The report perhaps overstates the hub airport benefits of a new runway at Heathrow, given the high likelihood of a three runway Heathrow being capacity constrained shortly after opening.

2. It is not clear what measure of 'competitiveness' the Commission will ultimately use to reach a conclusion, although the Commission do make a number of plausible competition-related arguments

- 2.1. It is unclear as to what 'competitiveness' is more important to the Commission within the context of their objectives or how they are assessing it. For example are the Commission seeking to maximise:
 - the competitiveness of the UK airports with European and Middle East airports?
 - competition between UK airports, particularly the London airports?
 - the competitiveness of the airlines within an airport or route network?

Whilst the competitiveness of one airport with another is important in attracting new routes and carriers which benefits the wider economy; the competitiveness of airlines benefits the passenger in terms of better service and commercial offerings but may damage the commercial viability of routes.

- 2.2. Notwithstanding this, the Commission's approach includes many plausible arguments to achieve its stated objective of determining which factors (or combination of factors) will drive the most 'competitive' outcome for each of the expansion options.

2.3. Airlines, airports and consumers all derive different benefits and disbenefits from competitive outcomes that seemingly cannot be distilled down to airfares only. The total benefit to the UK's overall competitiveness globally and its unique position in the market is discussed but not concluded upon.

3. The evidence base and assumptions applied seem broadly appropriate but are incomplete. For the most part there are good references to source data

3.1. The assumption to consider both Heathrow options as the same option may not be entirely correct insofar as the peak hour capacities are concerned and the differences in environmental impact may well affect public opinion and subsequent airline behaviour which is not considered here. Airlines and other users may distinguish between the extended northern runway (ENR) and northwest runway (NWR) options for other reasons too (e.g. safety or resilience).

3.2. The validity of any assumption that airlines or alliances will voluntarily move to Gatwick is not plausible. Such a move will affect the competitiveness of the airline or alliance negatively, especially in the short term. Yields at Heathrow are significantly higher and slots extremely valuable – making it hard to see what would incentivise a complete move. Any 'incentives' would likely be costly, and would warrant quantification to make comparisons fair.

3.3. The likely impact of a significant new hub emerging (e.g. Istanbul) with an aggressively expanding and largely unregulated airline is not considered. This type of mega hub is likely to be ready before significant additional capacity is added in the UK (or indeed elsewhere; Dubai will only have its new airport ready by 2025). This will to some extent affect airline behaviour in the UK and also at the established competitor hubs. The new terminal in Istanbul will have available runway capacity in excess of 90 million passengers per annum (mppa) by 2019, up to 150mppa and beyond shortly after, and it will look to compete with all the major hubs including Heathrow and Dubai, for a share of short haul international and long haul transfer traffic. Some defensive airline responses will be a likely result.

4. The Commission's analysis does not give any consideration to alternative options and how they might achieve the objectives stated

4.1. The report clearly states upfront that the decision was made not to shortlist and therefore to exclude from the analysis plausible alternatives such as an Inner Thames Estuary option.

B: Does the Commission’s assessment constitute a robust approach?

To be robust, the option appraisal must entail a complete assessment. It must also be consistent across all the options, with the Commission’s previous analysis, with best practice in the appraisal of large infrastructure projects – including principles of HM Treasury Green Book – as well being aligned with the Commission’s own Appraisal Framework. The table below sets out a summary of the extent to which the Commission’s assessment meets these requirements.

Table 1: Does the Airports Commission’s assessment constitute a robust approach

Criteria	Met?	Comments/examples
Approach to Assessment		
Aligned with Airports Commission Appraisal Framework?	No	<p>The assessment does not consider true long term needs and impacts. It is focussed on a requirement for a single new runway by 2030 – as per the Commission’s strategic fit objective 1. While the assessment is therefore consistent with the Appraisal Framework in this way, the Commission’s assessment does not meet the needs of Strategic Fit objective four ‘to maximise benefits in line with relevant long-term strategies for economic and spatial development’. Long term growth, development, and spatial planning considerations are not addressed or even mentioned beyond the initial expansion proposal.</p> <p>The Commission’s second objective is ‘To improve the experience of passengers and other users of aviation’, and the third ‘to maximise the benefits of competition to aviation users and the broader economy’. The Commission’s assessment is inconclusive in both regards because the scale and beneficiaries of ‘improved experience’ differ between options and aviation user types.</p>
Consistent approach to assessment: <ul style="list-style-type: none"> • Between options? • With previously considered options? • With best practice/Green Book? 	No	<p>Not consistent with previously considered options as strategic fit not tested to this level previously.</p> <p>Competition and connectivity requirements will extend beyond the opening of the shortlisted options</p>
Assessment complete (evidence gaps addressed, suitable geographic/temporal scope)?	No	Inconclusive comparisons made, no real definition of competitiveness and not all options considered.

Assumptions		
When multiple scenario/assumption sets used, has the most appropriate been identified – or worst case scenario tested?	Partial	<p>The macro-economic scenarios presented seem appropriate but airline response scenarios could include dual development options. Assumption that Heathrow ENR and NWR are same may not be safe.</p> <p>The outcomes depend entirely on the assumptions used. For example an assessment to 2050 would result in a very different set of observations.</p>
Analysis: impacts and conclusions		
Risks fully stated and impact reflected in conclusions?	No	Risks and mitigations not defined or evaluated.
Understanding of net/cumulative impacts?	Partial	What type of competitiveness and level of competition is not defined and lacks conclusions of which option is most likely and delivers greatest benefits.