12 August 2019

To:-
Economic Regulation
Civil Aviation Authority
By email: economicregulation@caa.co.uk

Dear Mr Rock

I am writing with comments on your working paper on affordability and financeability modelling on expansion at Heathrow Airport (HAL), and in the light of HAL's Masterplan on which public consultation is now being undertaken. I do so as a member of the public with an interest in ensuring a sound economic outcome on what is a controversial project with large economic and environmental implications, though I should also declare an interest as a small shareholder in International Airlines Group (IAG) which of course is a major customer of Heathrow Airport.

As emphasised in paragraph 1.6 of the working paper, stakeholders have consistently said that capacity expansion should be both affordable and financeable, and they are right to so. I also note in paragraph 1.10 that the CAA is guarded on whether this is achievable.

Indeed it is highly doubtful that the very expensive 3rd runway project itself is deliverable against such criteria since it appears that HAL expects to pay only to the extent that its own users benefit, not the wider supposed benefits underlying the Airports Commission's recommendation, but the project has been sold on the basis that it will be delivered by the private sector and not as a charge on the public purse.

However, other aspects of the Expansion Plan are almost certainly capable of delivering expansion on a cost-effective basis, and returns in the form of additional revenue from an earlier date, and thus both affordable and financeable.

This can be seen up to a point from HAL's Early Growth supporting document to its existing consultation exercise. However, this document underplays – indeed scarcely acknowledges at all - the potential increase in movements that would be achievable through the use of Mixed Mode rather than Segregated Mode operation. Mixed mode is nevertheless an integral part of the 3rd runway proposal and the only real constraint against its useful earlier adoption is the existing cap on air transport movements (ATMs) at Heathrow of 480,000 per annum which HAL is committed to seek to raise through its planning application.

If mixed mode operation were to be introduced just during a part of the working day, say at peak periods, it would be quite possible to introduce a similar level of relief against overflights – 25 per cent of each operational day - at the four existing runway ends as were to be provided at four of the six runway ends under the 3rd runway proposal. Restricting planned mixed mode operation to part of the day only would also build in useful buffers of resilience against ATM delays which are a current major disadvantage to existing users of the airport under existing patterns of operation. (By contrast, elements of HAL's explicit Early Growth proposals, in particular independent parallel approaches (IPAs) may worsen resilience to the extent that they are not able to be used in conditions of poor aerial visibility.)

These early expansion elements have the potential to deliver have high levels of benefits to users relative to costs, certainly much greater than for the 3rd runway. Any increase in the existing cap on ATMs at the airport of current dimensions should of course be on the basis that it makes efficient use of the existing runways, ensures that users pay on a fair basis for the benefits they receive and the costs incurred in providing them, and that adverse environmental impacts will be minimised.

It is also evident from its current consultation that HAL is having difficulty in meeting the environmental commitments in respect of expansion. For example, the interpretation of the hours of the night flight ban has changed, where notional arrival times rather than runway times are being used in order to reduce the effective length of the night quiet period, while the previously proposed period of daily respite for each runway end has now been dispensed with. HAL implies that it is now obliged to override each of these commitments in order to achieve the increase in air traffic movements that the proposals, as incorporated in the Airports National Policy Statement, were supposed to deliver.

In any event it is clear that raising landing charges in the nearer term to finance the construction of a 3rd runway that would be operational at a later date would involve the charging of the wrong group of users – whether this cost were to be absorbed by airlines or passengers. By contrast, creating new slots through early expansion, even of a modest extent, would create valuable assets that should ideally be auctioned off and the up-front capital value achieved, reflecting their scarcity value, should be directly allocated to the funding of the requisite elements of the expansion plan. The incremental investment case for the 3rd runway can then be addressed on its merits and, if built, should then be financed by the owner with the costs in due course being paid by the eventual users of the additional capacity.

Yours sincerely,

*Michael W McKersie*