# All Party Parliamentary Group on Heathrow and the Wider Economy

## The Wider Economy - Report 2

### Questions raised by the APPG on the Airports Commission's Consultation

Introduction

The All Party Parliamentary Group on Heathrow and the wider economy (the Group) is concurrently submitting a report to the Airports Commission titled *'The Wider Economy - Impact of Heathrow Airport's expansion on the number and distribution of UK passengers and destinations'* referred to here as the *APPG Passenger Report*. The report focuses on the Commission's Strategic Fit Forecasts - Report 5.

The following report is a second report from the Group on the Wider Economy and comprises two parts. **Part A** raises questions specifically on the Airports Commission's Technical PWC Report - Economy: Wider Impacts Assessment – prepared by PWC and dated November 2014 (the PWC Report). **Part B** raises a set of questions that do not explicitly address any particular consultation report.

Consultation Documents were published by the Airports Commission (the Commission) on 11th November 2014 with a deadline for responses by 3rd February 2015. The APPG has undertaken an initial review of the Commission's Consultation and prepared comments and questions to better understand the direction the Commission is taking on the Economy, the analysis undertaken to date and the analysis to be undertaken.

**Publication/website**
*The Wider Economy – Report 2* can be found online at the Group's website www.heathrowappg.com.

**Contacts**
Correspondence should be addressed to Zac Goldsmith MP, 372 Upper Richmond Road West, London, SW14 7JU. Tel: 02089390321

Mr Peter Willan acts as the Group's secretariat for the wider economy report in a personal and unpaid capacity. E-Mail: willan829@btinternet.com

2 February 2015

*This is not an official publication of the House of Commons or the House of Lords. It has not been approved by either House or its Committees. All-Party Groups are informal groups of members of both Houses with a common interest in particular issues. The views expressed in this Report are those of the Group.*

## PART A

### Questions raised on the Airports Commission's Technical PWC Report - Economy: Wider Impacts Assessment – prepared by PWC and dated November 2014

The PWC Report describes the substantial efforts that have been made in developing a model appropriate for forecasting the impacts of increases in aviation capacity on GDP and highlights the difficulties in attempting to forecast those impacts. The PWC Report details a substantial Literature Review that has been undertaken including consideration of case studies, with particular reference to the Australian studies in Sydney, to inform the decision on the approach and the model to be adopted to forecast these 'wider impacts'.

The Group's questions comprise three parts –

1. the assumptions input into the model,

2. clarification of the calibration and validation processes, techniques and methods used to ensure that the results coming out of the complex (S-CGE) model are robust and can be used with confidence,

3. the results from the model.

To place the subject in context, the following table shows the wider economic values forecast by the Commission for the Heathrow northwest runway expansion case and the Gatwick two runway expansion case for five economic scenarios described by the Commission. The values are the incremental values compared to a baseline 'do minimum' (DM) case.

**TABLE 1 Present Value of Real GDP impacts by Scenario (£bn, 2014 prices)**

| Scenario | Heathrow NWR expansion | Gatwick 2R expansion |
|---|---|---|
| Assessment of Need (AON) CT | 147.2 | 89.0 |
| Global Growth (GG) CT | 211.4 | 114.7 |
| Relative Decline of Europe (RDE) CT | 111.7 | 62.8 |
| Low Cost is King (LCK) CT | 209.6 | 127.4 |
| Global Fragmentation (GF) CT | 118.3 | 41.7 |
| Range | 112 - 210 | 42 - 128 |
| % increase in GDP over 60 years | 0.3% to 1.2% | 0.2% to 1.0% |

Source: Airports Commission PWC Report Table 29/Figure 38 and Table 11/Figure 6)

The key 'Effects' as derived for Heathrow expansion are shown in the following table.

**TABLE 2 Present Value of Real GDP impacts by 'Effect' (£bn, 2014 prices)**

| Effect | Low | High |
|---|---|---|
| 1. Passenger Flow | 16.7 (RDE) | 32.8 (AON) |
| 2. Productivity | 41.8 (RDE) | 79.7 (GG) |
| 3. Frequency | 4.5 (GF) | 10.6 (LCK) |
| 4. Transport Economic Efficiency | 21.6 (AON) | 73.6 (LCK) |

Source: Airports Commission PWC Report Table 32

The PWC Report divides the effects into the construction and operational phases with the former forecast to have a PV on Real GDP over the 60 year appraisal period of £12.6bn.

The Report describes the effects as follows:

***Effect 1: changes in passenger flows*** *– Changes in passenger flows will result in changes in the pattern and level of spending in the UK and overseas.*

***Effect 2: productivity effects (captured through increased international trade)*** *– The increase in connectivity associated with more passenger flights will provide a productivity benefit to businesses.*

***Effect 3: frequency benefits to airport users*** *– An increase in flight frequency also means that business travellers benefit from greater choice and a reduction in effective travel time and time spent while transferring at the airport.*

***Effect 4: transport economic efficiency effects (TEE)*** *– The relaxation of the capacity constraint in the UK aviation sector may reduce prices and make aviation affordable to more customers, but may also reduce the margins that airlines are able to charge. The net effect on the economy is captured through this effect.*

The PWC Report says the Effects 1 and 2 are directly dependent on passenger forecasts.

<u>Assumptions input into the PWC model</u>

The following questions arise:

1. The APPG Passenger Report examined the Commission's forecast of Total UK passenger numbers and it was found that a reasonable assessment through to 2050 would be no increase over the DM case on account of Heathrow expansion.

   Q1 Does this remove a significant part, if not all, of the value attributed to the Passenger Flow and Productivity Effects shown in table 2, above, and hence a large part of the overall value attributed to the Wider Economy?

2. The APPG Passenger Report also finds that the Commission's forecasts result in no incremental increase in the Total UK business passengers through to 2050, either those that are UK resident or those that are foreign resident and no increase in leisure foreign resident passengers. These three groups potentially add value to the UK.

   Q2 With no impact from Heathrow expansion on the three potentially economically valuable market segments, are not the Passenger Flow and Productivity Effects undermined?

3. The PWC Report says it is based solely on the carbon traded scenarios. The APPG Passenger Report found all carbon traded scenarios increased Total UK passengers. But Heathrow expansion in all the carbon capped scenarios is forecast by the Commission to reduce Total UK passengers compared to the DM case. The Commission has not provided a risk assessment of its ten scenarios (the five basic scenarios each with a carbon traded and carbon capped case) but it is not unreasonable to assume in the absence of further guidance that the risked outcome will be around the middle of the carbon traded and carbon capped scenarios and that this would result in no increase in Total UK passengers arising from Heathrow expansion.

   Q3 By modelling only the carbon traded scenarios is not the result significantly biased towards an overstatement of economic value?

4. The PWC Report says it is based on the assumption that removal of the runway capacity bottleneck in the southeast will allow more passenger flights to and from a wider range of destinations and that this will benefit Effects 1 and 2. However, there are three concerns: (1) This ignores the carbon capped scenarios that are severely restricted by carbon limits, and in so far as the runway restriction is replaced by a carbon restriction, the benefit to the wider economy seems likely to be significantly overstated. (2) The Commission's forecasts strongly imply that by 2040 or even 2035 Heathrow could reach the capacity of its three runways - thus re-instating a runway bottleneck. (3) The expansion of Heathrow, according to the Commission's forecasts, does not increase the number of UK destinations, and whichever scenario materialises, the forecast number of UK destinations remains at around 400 in 2050, as in the DM case.

   Q4 Will it not be the case that carbon restriction, renewed runway constraint and lack of additional destinations are likely to reduce or even eliminate the benefits to the wider economy from Effects 1 and 2?

5. The number of destinations and frequency of flights are key to connectivity. The absence of any additional destinations in the Commission's forecasts was referred to in para. 4. But the APPG Passenger Report also found that it is reasonable to assume Heathrow expansion will not add to the number of Total UK flights. So given an unchanged number of destinations and unchanged number of flights the overall frequency of flights would be unchanged - resulting in no frequency benefit to connectivity.

   Q5 Will not the absence of an overall frequency increase largely, if not entirely, remove the benefit to the wider economy of Effect 3?

6. The PWC Report says that the removal of the southeast bottleneck results in lower air fares as airlines are less able to charge premium prices for congested peak services. However, the Commission's forecasts point to substantially increased aeronautical charges required to pay for Heathrow's expansion. Also, in the carbon capped scenarios the price of carbon sky rockets to over £800 a tonne in order to keep to the carbon limits. As discussed above the Heathrow's runways may rapidly fill up to capacity thus re-instating a bottleneck and higher prices. PWC Report admits to higher costs but says on page 53 that '*the impacts of higher airport charges have been considered in the AC's airline competition and cost and commercial work, but are not explicitly included in its modelling of TEE'*. The PWC Report goes on to say that '*The relatively limited nature of the work undertaken so far to understand the possible impacts of aeronautical charges on fares and demand, and the lack of explicit modelling to take account of the possible impact of aero charges to generate TEE inputs, is an important limitation of the analysis.'*

   Q6 In the absence of an increase in overall flight frequencies is it not likely there will be no value added to the wider economy from Effect 4?

7. On page 41 of the PWC Report it says *'In the model, the baseline GDP and employment numbers are based on the 2010 IO table. The model then projects this baseline over a 60 year horizon. In 2010 London & South East constituted 38.7% of UK GDP and 30.2% of UK employment while the Rest of England constituted 47.1% and 55.0% respectively and the Rest of the UK constituted 14.1% and 14.8% respectively.'* Yet the APPG Passenger Report observes that in all the scenarios passengers and flights are re-distributed from regional airports to Heathrow. In many of the scenarios the Heathrow expansion is largely sourced from this re-distribution. It seems illogical and inequitable for the largest economic area of the UK (i.e. that outside the southeast) to have its growth held back by concentrating UK aviation at Heathrow.

   Q7 Will not the re-distribution of passenger and flight growth from other airports, and in particular the regions, harm the wider economy? Will not the result be a concentration of risk on a single UK airport, over - heating of the south east, stifling of competition and regional economic growth, higher costs of airport access from a large catchment area and increasing operational, commercial and financial risk?

   8. The APPG Passenger Report raises doubts about the value to the UK economy of international transfer passengers. The evidence provided suggests they add to the frequency of the most popular routes but do little to sustain the thin routes which it is said are needed to open up international markets. The Commission forecasts a large incremental increase in international transfers at Heathrow compared to the DM case, which results in a significant amount of runway capacity being used.

   Q8 What justification in terms of benefits to the wider economy is there for international transfers at Heathrow if they do not support low frequency flights?

9. The PWC Report does not appear to have taken into account the issue as to whether or not Heathrow expansion would be compatible with national climate change commitments. There are potential constraints and costs in meeting the commitments. The Commission's forecasts of carbon dioxide emissions from aviation would appear to be lower than official forecasts from the Department for Transport, according to the Aviation Environment Federation. The AEF makes the point that even with lower forecasts the Commission's own work has shown that building a new runway would be inconsistent with UK climate change commitments unless new, unspecified action was taken by Government to cap aviation emissions. But there is currently no clear policy statement on what action might be taken. The Climate Change Committee has estimated that between 2009 and 2050, the aviation industry might become about 35% more fuel efficient in "carbon intensity." With larger planes, some biofuel, more efficient routing and other changes, the CCC estimated that all this would allow around 55% more flights by 2050 compared to 2005 – and about 60% more passengers. This amounts to approximately 370 mppa UK passengers in 2050. The Commissions forecasts for the carbon traded scenarios in 2050 with Heathrow expansion range from 420 mppa to 496 mppa or 456 mppa on average, all of which are clearly in breach of the carbon limit. The carbon capped scenarios with Heathrow expansion range from 342 mppa to 369 mppa or on average 357 mppa, all of which are compliant. The Commission has calculated a slightly higher compliant maximum of 389 mppa. Apparently, the carbon traded figures have been made into input assumptions in the PWC model but the figures would all appear to be in breach of CCC limits.

   Q9 Is it not the case that the passenger number assumptions used by the model result in a substantial breach of future carbon limits and therefore an over-estimate of the contribution from Heathrow's expansion to the value of the wider economy?

10. The PWC Report says it is assumed that Heathrow expansion is financed by the domestic

financial markets and that the surface access is financed by the government, although it says the latter assumption is for modelling purposes only. The northwest runway scheme is forecast by the Commission to cost in 2014 prices £18.6bn plus £5.7bn for surface access. It forecasts that additional debt of £23.4bn and £3.7bn of equity will be required (excluding surface access funding) over the assessment period 2014-2050. The Commission's raises doubts that this very high requirement can be met by the domestic market alone. This requirement funds ongoing asset replacement in addition to expansion. But given the size of the funding challenge, the incremental impact at the margin in terms of financing cost could be substantial. It is possible that a substantial part of the funding would have to be provided by the Government but this is not recognised by the PWC Report.

Q10 Has not the PWC Report substantially under-estimated the financing cost and the feasibility of funding the expansion of Heathrow?

11. The PWC Report says '*Demand for transport is what economists term a "derived" demand – travel is not (normally) seen as an end in itself, but as a means to an end.' It goes on to say 'So improving air connectivity acts as an "enabler" for sectors other than aviation to expand. This is the reason that the extent of GDP growth may appear large relative to the initial investment ...' 'Furthermore, in order for GDP to expand as much as predicted by our S-CGE model, businesses outside of the aviation sector must take advantage of the new opportunities open to them as a result of improved air connectivity by making their own investments and incurring operating costs associated with extra output. The overall forecast additional GDP figure is underpinned by significant investment that is additional to the initial airports investment, which is made across a wide range of businesses in the UK economy, incentivised by the new opportunities associated with improved air connectivity. For this reason a calculation which expressed the additional GDP we have estimated as a multiple of only the additional airport investment would be highly misleading if compared with, for example, the ratio of the PV of revenue to the PV of investment in standard discounted cash flow appraisal, or the ratio of the PV of benefits to the PV of investment in transport cost benefit analysis.'*

If the PV benefits to the wider economy cannot be compared logically with the investment cost then logically the PV cannot be compared with any other cost, such as the monetised environmental cost of noise. It would only be possible if the other investment costs were forecast and netted off against the value as currently calculated. As it stands, the values quoted in tables 1 and 2 above for the wider economic value are akin to the revenue in a company and do not give any idea as to the company's profit after deduction of costs.

Q11 This raises the question as to what use is the economic value as calculated? Will the substantial investment required in the wider economy to support the benefits be forecast and netted off against the value to the wider economy of Heathrow's expansion?

12. The PWC Report aims to gauge the incremental impact on the UK GDP and on page 57 the report says *'In the baseline, the economy grows at a steady-state growth rate of 2.75% per annum. This in is line with HM Treasury's (HMT's) trend growth rate assumption for GDP.'* However, the APPG Passenger Report finds that Total UK passenger growth between 2030 and 2050 is 1.44% per annum. Not only is this significantly lagging the UK GDP growth but the rate is not increased by expanding Heathrow.

Q12 Under these circumstances, is it not the case that there will be little if any overall contribution to the UK GDP from the expansion of Heathrow?

13. As noted in table 1 above the percent increase in GDP over 60 years from the expansion of Heathrow is estimated in the PWC Report as between 0.3% and 1.2%. This is small and more or

less within the margin of error that might be expected of an untested model. Also, many of the sub-sectors that contribute to GDP are shown by the PWC Report to have negative impact on the GDP.

Q13 Is not the size of the added value and increase in GDP from Heathrow expansion relatively insignificant in the context of the UK as a whole?

14. The wide range in the PV forecasts, as illustrated by tables 1 and 2 above, suggests considerable uncertainty in the forecasts. Reference in para. 9 to potential climate change restrictions on growth present substantial additional commercial and financial risk to the wider economy.

Q14 Is not the risk of adding value to the wider economy from Heathrow expansion high and unmitigated?

15. The PWC Report says that '*All PVs are calculated on the basis of a 60 year appraisal period (from 2019 to 2078) using a 3.5% discount rate for the first 30 years and a 3.0% rate for the remaining years (following HM Treasury Green Book guidance)'*. A higher discount rate could materially reduce the PV.

Q15 Should not the discount rate used to calculate the PV be higher on account of substantial carbon and financing risks, especially if the Government has to guarantee funding?

<u>The economic model</u>

The following is a brief examination of the "spatial" CGS (S-CGS) model employed by PWC to estimate the wider economic benefits of expansion of Heathrow. The section numbers refer to those in the PWC Report.

*Section 1.3, third paragraph states that 'The equations in the S-GCE model are calibrated based on historic actual UK economic data and a baseline scenario for the economy (absent any new airport capacity) has been created.'*

Q16 Would the Commission please provide details of that calibration and validation process, including details of comparisons made between 'observed' and model output 'forecasts'?

Q17 Has a separate validation exercise been undertaken using independent observed data not used in the model calibration process?

Q18 Do the calibration and validation processes undertaken meet industry standards? If so 'how', and if not 'why not'?

Q19 If the model has not been calibrated and validated 'satisfactorily', has it been used to 'back' forecast so as to increase confidence in the model and its forecasts?; e.g. using the model to 'forecast' the 'change in GDP relative to the baseline' for say 1994 and 1974 resulting in changes in airport capacity?

*Section 2.8, last paragraph, page 23, states that 'CGE models are technically superior to these (multiplier and IO models) approaches but their application is still in its infancy'.*

Q20 Does the Commission have any qualitative forecast and observed data either from this exercise or others to show that the results from CGE models are (the most) robust and can be used with confidence to forecast the GDP implications of increasing aviation capacity?

*Section 3.4 states that the model is categorised by three regions (London and South East, Rest of*

*England and Rest of UK); 23 industries and 23 product markets, and 11 GDP sub sectors.*

Q21 Has the calibration and validation been undertaken at each of these levels of categorisation?

*Section 7.8 describes the sensitivity analysis and the use of Monte Carlo analysis of the model elasticities, concluding that 'the average difference between the central estimate and each of the upper and lower bound estimates is between 0.05 and 0.1% of GDP…….Any variation outside of this would only be driven by changes in the model inputs'.*

Q22 Would the Commission elaborate on the reasons for that conclusion and how it relates to section 5.3 Levels of certainty in model inputs? Additionally, have alternative model inputs been used in the model to test the robustness of the forecast changes in GDP?

Model results

*Section 6.3 Table 11 and Section 7.3 table 29 show that the range in the increases in GDP across the five passenger forecast scenarios for LGW is £42bn to £127bn and for LHR North West Runway £112bn to £211bn. Those GDP impacts are 1% or less of the forecast GDP whilst the range across the five passenger forecast scenarios for LGW is a factor 3 between high and low, and similarly for LHR is a factor of 2. With such a small impact on GDP, the tremendous uncertainty as implied by the ranges across scenarios and the overlap between LGW and LHR,*

Q23 Do these forecasts provide a robust basis for decision making between options and why should they be used for decision making?

Q24 How do the changes in GDP resulting from the changes in aviation capacity compare with those resulting from projects such as HS2, Lower Thames Crossing, etc?

*The Commission has rejected a dispersed strategy that maximises the use of the capacity of the existing London airports and a strategy of maximising the use of other UK airports.*

Q25 Was the S-CGE model used to provide data on the GDP implications of those two strategies as part of that rejection process?

*Section 5.1 on page 59, explains that the GDP benefit should not be expressed as a ratio of the cost of airport expansion as 'business outside of the aviation sector must take advantage of the new opportunities open to them as a result of improved air connectivity by making their own investments and incurring operating costs associated with extra output'.*

Q26 Have those extra costs (investments) been incorporated into the model and taken account of in the resultant forecasts? and

Q27 Based on previous experience what proportion of those 'new opportunities' would be taken up by 'business outside of the aviation sector'?

Q28 Assuming the 'take up' will be less than 100%, how will that effect the forecast changes in GDP?

*Section 5.1 continues on page 59 to define 'the three links between investment in an airport scheme and the GDP impact we have forecast:*

*Link 1: The scale of the direct impact on aviation outcomes associated with new capacity needs to be*

*forecast, in terms of the forecast effects on passenger journeys, air fares and journey time savings;*

*Link 2: The aviation impacts in Link (1) need to be input as effects into our S-CGE model. In some cases this is straightforward, in others we rely on proxy effects or econometric estimation; and*

*Link 3; Once the effects in Link (2) have been inputted, the S-CGE model generates implied GDP and other economic changes through its model structure and parameters.*

*PWC are responsible for links (2) and (3) and the AC for link (1).*

*Section 5.1 continues on page 60 acknowledging that judgement calls are required by PWC for links 2 and 3, and that 'different modelling choices would yield different results.' However, the Report concludes that:*

*i) for link 2: 'we have no reason to believe that our judgements or our choice of effect implementation have had a material impact in either direction on the final results';*

*ii) for link 3; 'we have no reason to believe that the S-CGE modelling itself in step 3 has resulted in any exaggeration in the overall GDP impact calculated'; and*

*iii) as a result of those two conclusions; 'this implies that the scale of the GDP effects forecast are largely driven by the AC's forecasts of significantly increased aviation activity in step 1, combined with the positive relationship we have identified between air connectivity and economic growth'.*

These conclusions raise the following questions;

Q29 Re Link 1; have ranges of 'increased aviation activity' been tested for each of the five passenger forecast scenarios tested?

Q30 Re Link 2; what is the basis for the conclusion and have different judgements been tested?

Q31 Re Link 3; what is the basis for the conclusion that the S-CGE modelling has not resulted in an exaggeration in the overall GDP impact calculated?

Continued/

## PART B

### Questions that do not explicitly address any particular consultation report

The following set of questions is limited to the main issues determined to date. The issues apply to the HAL proposal for a northwest third runway (NWR). They would also apply, to a lesser extent, to Hub Limited's proposal for an extended runway (ENR).

**The Wider Economy**

Heathrow has claimed that its expansion proposals bring the following benefits:

- 120,000+ new jobs across the UK
- Economic benefits of £100bn plus
- Forty new long haul destinations

**Will these figures for new jobs have any influence on the Commission's recommendations, given that they are, at best, unclear?** Heathrow is in an area of low unemployment. Job creation in the local area would necessitate an influx from other areas, causing a drain on resources elsewhere. It is not clear whether this has been taken into account in the numbers put forward. The claim for 120,000+ new jobs includes 70,000 outside the Heathrow area. There is no certainty that such jobs would be generated in the UK. It is not possible to control how many of these jobs would actually be generated overseas, with little or no benefit to the UK economy.

**What further work will the Commission carry out in order to avoid relying on these unverified economic benefits?** The economic benefits reported by the Airports Commission have not been calibrated or validated. The figures are highly sensitive to changes in modelling assumptions such as interest rate and discount rate. It is not clear whether any account has been taken of negative economic benefit to the regional airports or other London airports through losing flights to Heathrow.
- These claimed benefits could easily be wiped out by negative impacts of Heathrow expansion on the regional airports, which are currently experiencing strong growth, and on the other London airports.
- These benefits come at a real economic cost of noise, air quality, congestion, security risk and accident risk.

**Will the Commission confirm that claims by Heathrow of 40 additional destinations do not make sense?** The claim of 40 new destinations is not Heathrow's to make. Gatwick Airport serves more destinations than Heathrow. Manchester airport serves more destinations than Heathrow. Heathrow, being larger that either Gatwick or Manchester, cannot therefore claim that the number of destinations it currently serves is somehow constrained by its size, or that increased capacity will increase the number of destinations. The airlines have been reducing the number of destinations served by Heathrow consistently, as Heathrow has expanded, over a number of years.

Furthermore, we have a number of questions regarding the Commission's failure to take into consideration a number of critical points.

**1 Can the Commission please explain its recommendation for an additional runway, increasing capacity by up to 260,000 flights, when there is current spare capacity of over 3,000,000 flights across the UK?**

Heathrow expansion could create additional capacity for around 260,000 flights, yet London's airports currently have a combined spare capacity of 241,000 flights. UK spare capacity is 3,258,000 flights. The total existing capacity of London's airports is 1,247,000 flights, the largest in Europe by far. Furthermore, the UK's regional airports have a spare capacity of 3,017,000 flights. Additional capacity

at Heathrow is not needed.

**2 Will the Commission be recommending any changes to the current Government subsidies to air travel, which create an unjustified cost to the taxpayer?**

The Government subsidises air travel way beyond any other form of transport. The cost to the nation of these subsidies (VAT and Fuel tax exemptions, APD exemptions) reduces the effective taxation level to approx. one quarter of that on other forms of transport. This is a cost borne by all taxpayers.

**3 How will the Commission incorporate the significant bias of Heathrow towards leisure and transfer flights in its recommendation?**

Business travel has a positive impact on the economy but represents only 24% (UK resident 13% and foreign resident 11%) of the 70.1 million passengers in 2011. Leisure travel is the largest sector of travel at Heathrow Airport representing 47%. Overseas leisure travel by UK residents (29%) has a negative impact on the UK economy on account of the overseas spend. International transfer passengers are a significant proportion of passengers at Heathrow (26% in 2011) and they take up double the capacity per passenger (arrival and departure) and are exempt from Air passenger Duty. Domestic business and leisure travel is a small 3% of the total passengers.

**4 What view does the Commission have on the anti-competitive nature of expansion of Heathrow?**

The Competition Commission ruled in 2009 that the owners of Heathrow had to dispose of Gatwick and Stansted in order to maintain a competitive environment at London's airports. Any additional runway capacity at Heathrow would create a three-runway airport competing with single runway alternatives. They would not be able to compete at the same level. Heathrow will no doubt attract flights from the other London airports, making London's other airports even less competitive. There is no suggestion by Heathrow or others that Heathrow expansion will reduce fares or maintain a competitive market.

**5 Does the Commission agree that expansion of Heathrow could create no additional airport capacity, operating within Carbon limits?**

The Commission's own figures show that the UK Aviation industry will exceed the 37.5 MtCO2 limit, even without any additional runway. The entire capacity increase at Heathrow from a third runway could therefore be wiped out by an equivalent restriction on regional airports, leaving UK total airport capacity unchanged by the additional runway, but tilting the London/Regions economic bias further towards London.

**6 Can the Commission explain why it has put forward a proposal to expand Heathrow that requires Government Financing, contrary to current regulations?**

Heathrow is the only proposal seeking Government support for the financing of its own capital costs of expansion. We have seen no satisfactory justification for public financing of this private project.

End