

AIRPORT CAPACITY ISSUES CONFERENCE - 9 APRIL 2002

I am grateful for the opportunity to talk to you today. This is a serious gathering of the industry. It reflects the importance of the issue of airport capacity. I want to talk to you about how the Government plans to reach the decisions that will shape aviation for years to come.

Let's be frank – studies of airport capacity have a long tradition. The last generation was in the early nineties. The time has come to cut through the forest of technical reports and reach some conclusions – there is much less of a tradition for these! But it is not obvious and clear-cut what are the best solutions. So we need to have a serious open debate about what is the right policy for the UK. This conference will help get the process underway.

What the Government's air transport White Paper needs to address in respect of airports actually boils down to two very simple questions:

- How much more capacity do we need? and
- Where should we to put it?

To that you might add 'when?', as in "when will you ever get round to publishing your consultation proposals?"

I'll deal with all three.

Let me take what ought to be the easy one first - **when?** I know you've been waiting patiently for a long time. But I don't imagine that anyone who really understands what is at stake is surprised if Government takes the time to marshal the options.

The good news is that our plans to publish seven regional consultation documents in the Spring are pretty well on course, and so you should not have to wait too much longer.

Now to the questions of how much capacity and where to put it.

I can't tell you today exactly what will be in the consultation documents - although the press have been doing their best to guess. But I can take you through some of the key principles and arguments that are driving our thinking.

To answer the question **how much capacity**, first we need to understand what the underlying demand for air travel is going to be over the next 30 years. No-one would claim this is an exact science. If it was easy we'd all be setting up airlines. But the Department's forecasts actually have a pretty good track record.

Two years ago we published forecasts up to 2020. For our airport studies we rolled the end date forward to 2030. The numbers we forecast for 2030 will be well known to most of you, but they bear repeating: 500 million passengers nationally of which 300 million will be in the South East. These are very big numbers. I regard them as a huge economic opportunity, and also a real challenge.

Given the pressure our major airports are under already, and knowing how difficult it is and how long it takes to build big infrastructure, there can be no doubt that a long term policy is sorely needed. Past Governments haven't really grasped this nettle. Without being too critical of the performance of our predecessors when the spotlight was on *them* - this Government recognises the need to make decisions.

Some will ask whether we can really be certain about the future? Last September, we witnessed horrific events that no-one had foreseen.

Aviation is at the best of times a dynamic but, I am sure many would say, precarious industry. The last seven months have not been the best of times.

The attacks in America jolted the industry. Some observers began to soothsay a gloomy, if not terminal, future for aviation.

I accept that the immediate effects of September 11 have been painful and public. But air travel is an integral part of modern life both for pleasure and business. Already we are seeing evidence of recovery, and some low-cost airlines are doing better than ever – including several that did not even exist 10 years ago.

I would challenge anyone to predict with certainty what will happen in the aviation industry over the next 3 months, let alone 3 years. And our air transport White Paper will look 3 decades ahead. Therefore I think it is reasonable to look back over a similar period and see what the key factors are that have driven demand.

The evidence of the last 30-40 years has been of both trend and cyclical growth in air traffic. We can identify the trends and what drives them - things like fares, GDP, world trade and exchange rates. But nobody can say when the turning points in the global economic cycle will occur, just that they will. And when they do, demand for air travel will be affected. The Gulf War proved that. The subsequent strong recovery also demonstrated how much people want to fly.

So, yes, there are uncertainties, but I am convinced that we should plan on the basis of the long term growth in our forecasts.

This is more than just a theoretical debate about demand forecasts. There are a number of policy issues that will influence air transport: not least, in the case of airports, the Government's sustainable development strategy. We need to anticipate, as far as we can, likely developments – in environmental controls and (most esoterically) on slot allocation. So we need to establish a policy framework to promote a secure future for the industry. We started a broad debate on these wider issues in our *Future of Aviation* consultation. The

regional consultation documents on airports will take that debate on a stage further.

One example of these “other” issues is that aviation should meet its external costs – this is Government policy. We estimate that the effect on demand of meeting that objective might be to reduce it by up to 10% by 2030. The industry might find more cost effective ways of doing this. And you might also find other ways of reducing your cost-bases, so adding to the forecast level of demand.

Whatever you do, some of the environmental impacts of a growing airports sector might still be unacceptable. In a moment I will mention ways in which the industry may be called upon to do more and more quickly.

But first, I would like to return to the question of “how much capacity?”.

Some people are gearing themselves up to argue that the Department of Transport is up to its old tricks: “predict” the demand and “provide” the capacity to meet it. That would be simplistic and lazy thinking. Anyone who looks at the way we have tackled these issues in our various studies will see that we have been systematic in looking at costs and benefits. Compare and contrast our approach with, for example, the much cruder assessment in RUCATSE.

Simply because airports and air travel have negative impacts is no reason to ignore the huge economic and social benefits that they bring to the UK. Part of London’s role as a World City depends on its position as an aviation hub. The variety and size of its route network means travellers have connections both to established markets and to developing countries. This is good for UK businesses looking to enter those markets and helps attract new sources of inward investment. Furthermore, as the single market becomes a reality, we can expect more people to be travelling round Europe to promote business or in the course of their work.

And for ordinary people, the costs of flying have been coming down, so the opportunity for air travel is being enhanced enormously.

The best outcome for the UK, in my view, will be to secure the largest benefits without incurring unacceptable environmental costs. That is a tricky balance to get right, but our commitment to sustainable development runs like a watermark through our work on airports.

So what can we learn from SERAS about these economic and social issues? Again I must apologise that I can't say very much in detail about what the study concluded. But a few headlines make the case quite well.

We have calculated the economic benefits of meeting different proportions of the unconstrained demand in the South East that I described a few moments ago. Meeting a high proportion of that demand could produce net benefits to the national economy with a present value of well over £15 billion, and perhaps as much as £20 billion, when we take account of the benefits from reducing airport delays and congestion.

Conversely, if we allow capacity to be limited to the existing infrastructure, our work shows that fares would rise sharply, by perhaps more than £100 per return journey. Constraining the South East could drive several tens of millions of passengers away from UK airports altogether. Some would use other European hubs like Amsterdam and Paris where more capacity is already being provided. Most would not fly at all. And that is the case even if we assume that regional airports grow large enough to meet all the demand for them.

Our consultation documents will set out proposals for how to meet demand for air travel. But they will also acknowledge that if any of the options we put forward are to receive popular support, there will need to be strong environmental controls.

So any gain for the industry from what we say in the White Paper about the future of airports will be not without pain. The quid pro quo for more capacity needs to be control of the adverse impacts, mitigation and, for some, generous compensation.

Airports need to be sensitive to their local communities. In many respects they already are. But if airports are to grow I believe the industry will need to do more: more to improve aircraft technology so as to reduce noise and emissions, much further and faster; more to help local residents suffering from noise; more to manage the way people travel to and from an airport. We will be giving plenty of notice of what is required, and I believe the incentives on offer should encourage creative minds to find good solutions.

An important objective for the forthcoming consultation is to test what people think is needed and where the limits of acceptability lie.

I mentioned earlier the difficulty of balancing environmental and economic issues in a way that will deliver a sustainable airports policy. From the glimpse I have given you of what our studies are telling us, I think the scale of the task is clear. The economic benefits are very large, even after costs are subtracted. But I am under no illusion about the concerns that many will have about the prospect of new runways, wherever in the country they are built. The industry must play its part in showing how those concerns can be dealt with.

Let me move on to the second key question - where to provide capacity?

You will have to wait to see what we are proposing. All I can say is that there aren't many options that we have not examined at some point in our studies.

There are many factors that we have considered in reaching our shortlist of proposals. Two in particular are worth reflecting on today.

The first is one I have alluded to already: the role of regional airports.

The 1998 Integrated Transport White Paper said that we would encourage the growth of regional airports to meet the local demand for air travel. But what is the best balance of airport capacity between the South East and other regions of the UK?

The work we have done shows that if you constrain airports in the South East and provide capacity elsewhere, regional airports will handle more passengers, and some people from the South East – particularly in the leisure market – would travel overland to use regional airports. That sounds like common sense to me.

But compare that situation to one in which the regional airports grow and more capacity is provided in the South East. Our forecasts show that overall more of the national demand is met. Again, I don't find that surprising. People who live in London and the South East have – in the jargon – a higher propensity to fly, and so given the opportunity to fly, they will. And there are a lot of them.

Interestingly, under the same scenario, the total number of air travellers from the regions increases slightly, even if not all of them are using their local airports. One explanation of this is that even by 2030, the range of services that would be viable at all but the biggest regional airports will be limited compared with the number of destinations and frequency of services offered by the principal London airports. For many, access to those route networks will be the key to their choice of airport.

All of this may sound unattractive to some operators of regional airports, but it is good news for travellers in the regions and for the wider regional economies.

The second point I wanted to touch on requires more use of the crystal ball. What do we think is the future for hub airports?

The possible options for new airport capacity in the South East include some that disperse capacity around the South East and others that concentrate all or most of it at one site. The choice between the two approaches will depend - to some extent at least - on the answer to my question.

There is clearly enough demand in the South East to support at least one hub. So should we aim in our airports policy to ensure that we have one really good hub in the South East? Or two hubs? Or is the structure of the industry changing in a way that calls into question the role of hubs? I mentioned earlier, for example, the rapid rise of the “no frills” airlines over the last decade.

I am sure there will be many different answers to these questions. That underlines the importance of consultation. I want to generate a good exchange of views and opinions on these issues to help my colleagues and I to identify the best airports policy for the country. For all the work we have done, the Government does not claim a monopoly of wisdom. The part you play, at conferences like this one and in the consultation exercise to come, will be vital.

Before I close let me stress that aviation is a great British success story. Would that some of our other industries were the same world leaders. In airport management and security and aviation companies we have shown the way to the benefit of the British economy, British jobs and the travelling public. The White Paper will build on that to an even more successful future.

I trust that the rest of the day will be interesting and thought-provoking. Thank you.