

## Strategies without evidence are dangerous

Sir David Rowlands, Chairman, Gatwick Airport  
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### Introduction

Good afternoon.

I guess that during the course of today you have been armed with statistics, analysis, forecasts and scenarios to highlight the prospects for UK aviation.

Governments may change but, however inconvenient, the data and the evidence don't. This matters because "strategies" without evidence are just empty rhetoric...and dangerous.

First, let me cover a few basic facts.

On the credit side aviation is a critical pillar of the UK economy. The sector directly generates almost £9 billion for our economy each year with around £2 billion from Gatwick alone. Ours remains one of the few sectors in which the UK enjoys a comparative advantage globally, but it is fast disappearing.

On the debit side our industry recognises its impact on the local environment and its contribution to global carbon emissions and climate change. Airlines, aircraft manufacturers and airports are making investments that will pave the way to decarbonising flying. At the same time we are being taxed significantly for environmental ends.

That's why Gatwick has set challenging targets to reduce its emissions by 50% by 2020. It's why the sector has welcomed its inclusion in the EU Emissions Trading Scheme. And why tens of millions of pounds are being invested every year to develop new low carbon technologies.

So far this Government seems to have majored on environmental issues and paid just lip service to aviation's contribution to the economy – when its job should be to look at the evidence, analyse what it all means and then balance the two considerations. I will come back to that balancing role later.

### No more runways in the South East

Why do I say lip service? Well look at the cancellation, within days of coming into office, of the third runway at Heathrow and opposition to a second runway at Stansted, and another at Gatwick for that matter.

What were the Coalition Government's arguments for this? Let me take them one by one.

First the Government said, and I quote, "we recognise that the local environmental impacts of ever increasing usage of the South East's key airports outweigh the potential benefits" (Philip Hammond's speech on Sustainable Transport, 10 September 2010).

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How? The Department for Transport calculated a net benefit of more than £15 billion from a third runway at Heathrow and a second runway at Stansted. It is one of those inconvenient facts. And note this was the “net” benefit. So what else did the Government put into the calculation that outweighs £15 billion? Votes?

Second the Government said, and again I quote, “we carefully considered the wider environmental impacts in the context of our – and our predecessors’ – clear commitments on climate change” (Philip Hammond’s speech to the Airport Operators Conference on 25 October 2010).

Has this Government considered the Committee on Climate Change’s advice to the last Government about aviation? The previous Government did which is why it felt able to support additional runway capacity in the South East.

I think it is worth reminding ourselves what that Committee said in its overall assessment.

“On future airport policy.... air transport movements should not increase by more than about 55% from 2005 to 2050 ...” and its main conclusion that “any future airport expansion stays within a limited increase of passenger demand of 60% by 2050”. It’s an awfully long way from these well-evidenced conclusions to an ill-conceived “no more runways”.

Surely, in July this year, when Government issues its response to the Climate Change Committee’s report, it has to recognise that aviation growth and tackling climate change can indeed coexist.

Third, and again I quote, “the development of a high speed rail network has been a key factor in our decision on additional runways at London’s airports” (Philip Hammond’s statement on High Speed Rail, 20 December 2010). That is the high speed network which goes nowhere near Gatwick or Stansted and which will not have a direct link to Heathrow for at least 20 years!

Just in case anyone thinks it might eventually make a difference, it won’t. I chaired High Speed Two when it produced the report which this Government has now endorsed. A link to Heathrow does little for the high speed network and the network doesn’t do much either for Heathrow. This isn’t simply just another of those inconvenient facts. What is a fact is that it is a total nonsense to suggest that building a high speed network means there is no need for more runway capacity in the South East.

And finally how did the Coalition go about deciding all this? One last quotation. “In taking that decision, we listened not just to business, but also to those who would be most affected by the local environmental impacts of proposals for expanding Heathrow, Gatwick and Stansted”, I don’t recall this consultation. Does anyone?

For the record, we have no current plans to develop a second runway at Gatwick.

We will continue to safeguard land in the eventuality that another runway is required. But Gatwick’s management team is busy enough investing £1 billion in our existing infrastructure to transform the experience for passengers.

And also for the record I believe this Government’s decision to oppose new runway capacity in the South East is possibly the worst strategic decision taken by any Government during all my time in transport.

Not because it is necessarily wrong. I happen to believe it is but others could quite legitimately disagree. But because a decision of quite breathtaking importance for both the future of UK

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aviation and for the economic well being of this country was taken, whatever all that “listening” involved, within days of coming into office and with scant regard for the evidence, with wanton disregard of expert analysis and with no attempt to properly balance what I admit are difficult considerations.

I said I would return to the question of “balance”.

It is not the job of Government to represent local interests - that is for MPs. It is not the job of Government to take decisions based on local interests – that is for local government.

Government’s job is to balance local, national and international considerations, both economic and environmental, before arriving at a well-evidenced strategy and a progressive set of policies.

I am afraid that rhetoric alone simply will not do. Nor will random suggestions like higher Air Passenger Duty at South East airports in the absence of a coherent overall strategy for all Britain’s airports.

### Towards a new strategy for UK aviation

So how should Government go about putting in place a new strategy for aviation?

Frankly rather more speedily than presently planned. It is ludicrous to put a stop to airport expansion in days and then spend years deciding what it all means.

You will not be surprised if I say any strategy must start with the evidence. And for aviation that must begin with air traffic forecasts and how they do or do not correlate with airport capacity.

The last Government’s demand forecasts back in 2009 saw passenger numbers in the UK growing to about 455 million passengers a year by 2030. 250 million of them would be using South East airports. The present Government’s block on new runways means that there will be capacity for only about 180 million. So from this I think we can draw two conclusions.

First as matters stand, there will inevitably be substantial suppressed demand for runway capacity in the South East. By 2030 70 million passengers will be looking for a new home.

Second, regional airports will never be able to meet the shortfall. They are likely to grow faster in any event than the South East airports. With the 2009 forecasts suggesting that airports outside London will see an extra 110 million passengers in the 25 years to 2030 they will have their hands full just dealing with their own regional demand. And frankly, in any case international passengers wanting to visit London aren’t going to fly to Manchester or Birmingham and then take a train. They just won’t come.

If Government wants to claim that is it no longer in the business of “predict and provide” and opts not to provide for demand growth in the South East, then it must have a thorough understanding of the consequences and it must set them out together with the possible policy responses, such as options for pricing scarce slots and the knock-on effect for thin routes.

It must have a detailed understanding of the consequences for Heathrow as a competitive global hub. As an island nation, global connectivity is absolutely vital to the future prosperity of the UK. Heathrow is our only hub airport. It is unique and it is infantile to pretend that other airports could play that role. Not Gatwick nor Manchester nor any other UK airport.

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If Government is serious about maintaining a successful global hub then its aviation strategy must set out how this will be achieved – underpinned by rigorous analysis. Bold statements of sentiment mean nothing when competitor airports like Charles de Gaulle has 4 runways, Schipol 5, Madrid 4 and so on.

It must evaluate the impact on the UK economy and on specific sectors such as the City of London or inbound tourism. It must count the cost – both financial and reputational – of severe capacity constraints and failure to serve particular destinations.

A successful and efficient hub at Heathrow is only one facet of our island's need for connectivity. Airports that focus on point to point connectivity are equally vital to the continuing development of a growing and globally competitive aviation sector in this country. It would be wrong and misguided for Government to have only a Heathrow-centric approach to aviation strategy.

On slots Government must decide whether to leave it to the market to price for scarcity. And if it does, then it must recognise that the long run consequence at airports like Gatwick will be the exit of carriers operating smaller aircraft.

Government's analysis of economic impacts must also set out, by region, how much of suppressed demand – inbound and outbound – is likely to be business travel and how much is leisure traffic. Vague references to regional airports and high speed trains simply will not do.

I firmly believe – indeed I know because the work was done for the 2003 White Paper – that any serious analysis will show an overwhelming case for more runway capacity in the South East.

That is why I welcome the Mayor of London's calls for the Government to get serious about airport capacity for London and the South East. What I don't agree with is that the solution is a new airport in the Thames Estuary. Even if – and it's a big if – Government entertain the idea of new hub airport for London and someone – heaven knows who – could be found to pay for it, it would be 30 years in development. So what is the medium term strategy? Or do we simply sit on our hands until then?

I think there is a real danger that continued talk of floating runways will allow too many people to avoid confronting the real issues.

### Serving the passenger

The passenger experience is something we hear a lot about and rightly so. Investing to improve the service we deliver to passengers and airlines has been our main goal at Gatwick during our first year of independent ownership.

In fact building on the service improvements made during our first year in new ownership, we have just published our Gatwick Passenger Commitments – conceived and agreed with our airlines and business partners and summed up in three simple statements:

1. We'll treat you as our guest
2. We hate queues
3. We love to be on time

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It follows, therefore, that we are happy to be part of the South East Airports Taskforce and happy to support the Government's goal of improving service and efficiency at airports. But "Better not Bigger" is not a substitute for a proper long-term strategy.

I guess I know a lot about Government involvement in transport services and it is not a pretty picture. Remember the routes taken from British Airways at privatisation and given to British Caledonian only for it to end up in a heap. Remember the rolling stock built for Eurostar services which never ran. The international station at Stratford which has never opened for services... Railtrack... PPPs. I could go on.

And the successes in an area like aviation? Well, the CAA never wanted to give a licence to Virgin Atlantic. And could any Government with public sector ideas of what constitutes good service have ever have invented Ryanair?

The proper role for Government is to set a framework for a competitive market place, then get out of the way and only intervene if there is a market failure sufficiently serious to warrant it doing so. If we look back into history at real policy successes for government, first there was putting an end to BA's monopoly role as our international flag carrier and second, together with the Commission, opening up the EU internal aviation market. Government changed the framework and then got out of the way.

So the right approach for any strategy is to consider how best to foster a competitive aviation market and only to consider regulation where it is simply not possible. You do not start by thinking of things you would like to regulate, or set standards for, in order to improve the passenger's experience. That is the role of the private sector not Government.

I am too old, or perhaps too cynical, to believe that regulation will disappear anytime soon. Even so after last month's snow, you can't imagine how disappointed I was to hear ministers suggest they would explore how to use pending legislation – the Airports Economic Regulation Bill - to control airport performance during snowfall.

To the public that may have sounded like firm action or at least until they find out it may be 2012 before we see legislation. To many in the industry it was yet another potential burden to be imposed on us by politicians ever-too-ready to regulate, but slow to support the industry.

We could discuss the pre-Christmas snow disruption at length. But I think the comments of the Business Editor of the *Daily Mirror* on 22<sup>nd</sup> December are particularly telling.....

*"The fact – he said - that Gatwick's new owners invested £8million in kit to stay open.....proves that ending the stranglehold on UK airports was right"*

The inference is clear. Poor performance by airports during snow is not improved by more regulation but through enhanced competition.

And I can testify that competition is working. The freedom to make our own choices and the flexibility to take our own decisions has driven the 'New Gatwick' ever since the sale in December 2009.

The aim of breaking-up the BAA monopoly was ultimately to improve service for passengers. This has been happening with travellers to, through and from Gatwick, whether departing through reduced check-in and security queues or arriving through swifter immigration and baggage reclaim

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processes. Passengers are welcoming the changes. Complaints are down substantially and compliments have doubled.

Our ability to invest and innovate has brought significant enhancements to passengers' journeys. I believe the sale of Stansted will be equally beneficial to passengers. It will inject an additional dynamic into the UK airports sector.

However the sale of Gatwick and the potential sale of Stansted mean that there is a pressing need to review the regulation of major airports.

The current regulatory regime has its basis in the 1986 Act. It is not appropriate or proportionate to apply a framework that is 25 years old. The case for change is overwhelming. Not just because airports and aviation have changed, but because the overall economic and business climate and circumstances have changed so much since the mid 1980s.

Understandably Gatwick is keen to engage with the CAA on whether there is a case continuing with the current economic regulatory regime at our airport. Every regulated asset will always have those discussions with their regulator.

There is a need to look at whether Heathrow should be regulated differently to Gatwick. I will make no secret of the fact that I believe that a move to a much more flexible regulatory oversight of Gatwick should be an outcome of any review of the present arrangements.

And this is because it is the market, and not any regulator, that should drive service standards and decide the future success of Britain's airports.

So, turning to my conclusion, if the Government must take years to produce a new aviation strategy then at least it has the luxury of time in which to get it right.

Getting it right means sifting through all the available evidence no matter how inconvenient some of it may be and commissioning new work where appropriate.

It means proper analysis. It means fully consulting all those who have an interest in aviation and airports both supporters and opponents.

It means setting out strategic objectives, justifying them and showing how they can best be achieved.

Above all it means balancing a host of difficult considerations before reaching a considered view.

It does not mean siding with one side or another. And it most certainly does not mean announcing policy piecemeal, without evidence and in ways that then constrain strategic choices. For that is dangerous.

And that I fear is exactly what the Coalition Government has done with runway capacity in the South East.

Thank you.