

**Transport Committee  
05 June 2003  
Transcript**

**Lynne Featherstone (Chair):** I would very much like to welcome our witnesses: Chris Humphrey, Government and External Affairs Manager for Virgin, and Vanessa Tamms from the same place. We have Paul Ellis, who is the Head of Airport Policy and Planning from British Airways (BA), and Chris Essex, who is the Business Development Manager from easyJet.

Thank you very much. We have had copies of your proposed submissions to the Government. Back in November, when my colleague John was chairing, we held a meeting of the Assembly to discuss our response to the Government's consultation on airport development in the South East. From that we prepared an initial response, but there was then obviously a change with Gatwick being readmitted to the arena. Today we are very pleased to have the airlines, to hear what you think and to be able to question you.

**Paul Ellis, Head of Airport Policy & Planning, British Airways:** Thank you for inviting me to come here today. I have a summary of the BA response, which I can distribute after I have said a few words. The key thing for us is that the UK's air transport network is an irreplaceable national asset. We particularly see Heathrow being at the core of this national asset, in terms of providing the services that London needs – both now and into the future – to be able to be internationally competitive.

We are certainly seeing the challenge of Heathrow being eclipsed by Frankfurt, Paris, and Amsterdam both now and increasingly in the future. If we do not add another runway at Heathrow, we will see the number of destinations available from Heathrow continue to fall, probably to about 160, while the destinations served from those other airports climbs towards 300. We will be greatly out-competed, which will have a severe impact on investment into the South East of England, and obviously London in particular.

We do not believe developing a second hub is a viable proposition. It has never succeeded anywhere else in the world. We tried to do it at Gatwick after a number of airlines have tried down there. We see the need for a balanced package of development which includes a short runway at Heathrow which we believe will be environmentally sustainable. I can perhaps go on to explain that during the questioning.

We believe it should be accompanied by development at Gatwick at some stage, with a reservation for potential development at Stansted in the longer term. In that way we would be able to cope with both the hub traffic, which relies on the interconnection of services between long-haul and short-haul, and the traffic for the no-frills carriers, the charter carriers, and the freighters – which are operating in distinctive markets and should certainly get their place to expand as well. We are looking for a balance.

We believe the economic case is overwhelming in terms of Heathrow. The great benefits of aviation come from the network, particularly the long-haul services which connect London to the rest of the world. We have assessed these at a value of about £37 billion following the procedures recently outlined in the Treasury green book. Those are discounted values over 30 years. We have taken into account the costs of global warming in that calculation, as indicated by the Government's recent consultation document on the environmental impacts external to the aviation industry.

The reason for that is you need to look at both the benefits of the passengers and the aviation industry, but also at the much more benefits to the economy generally. We have taken away the negative effects of forcing airlines to go to another airport. We have taken into account the very high financial risk that will be run in seeking to develop a new hub more or less from scratch, wherever you choose to do that.

In terms of the environmental issues, we have given a number of specific commitments which have been outlined, but perhaps I can go through them in a bit more detail. First of all, the noise contours at Heathrow should not be allowed to be any greater in terms of area than those that were agreed in the recent terminal five decision. Second, the new short runway should only be used by smaller types of aircraft, like the 737, and we should back it on to the main runways with the bigger aircraft.

Third, the impact on air quality has been greatly overstated in the consultation document. We have done a lot of work, as have BAA, to show the reasons why that has been so, and why the technological improvements which will come along in the future will bring down very considerably the number of people who would otherwise be living in an area of infringement of EU regulations in 2010. Fourth, there should be no flights at night on the short runway. You do not need them and we have previously given a commitment that there would be no increase in night flights at Heathrow in the terminal five inquiry, and we stand by that. Fifth, the runway should be moved from the position which was outlined in the consultation document so that the historic core of Harmondsworth can be preserved.

Sixth, the rail infrastructure should be developed into a network. In particular, rail services should be instituted south from Heathrow through the entire southern region network and up to Waterloo, so that you double the rail capacity of Heathrow; thereby taking into account the increase in surface transport. Seventh, there should be fair compensation provided to those adversely affected. We must recognise there will be some wherever you conduct development. Finally, we would not need another runway at Heathrow at least until 2030, so within the whole of the policy period we are looking at we would expect there to be a planning agreement covering that.

**Lynne Featherstone (Chair):** Thank you very much. Chris, did you want to say a few words?

**Chris Essex, Business Development Manager, easyJet:** Yes, thank you. First of all, I would like to thank you for giving us the opportunity to speak to this group. Fundamentally, we believe the debate should go broader than just a focus on Heathrow. A hub, by definition, is connecting passengers i.e., passengers are taking two or more flights to go through that point. We believe there is plenty of opportunity, and a desire from customers, to go point-to-point and only take one flight.

Put another way, a hub is really a product of the current regulatory environment, where we have flag carriers competing with each other out of major capital cities in Europe. We think we ought to be looking at more of a future state, whereby a level of deregulation is introduced. The US is now supporting greater degrees of foreign ownership. We think that will lead to consolidation in the industry and will give opportunities for established carriers – such as BA – to offer more point-to-point transatlantic services, and by the same token for low-cost airlines to provide the short-haul point-to-point services. The actual need for a hub will remain, but to a much lesser degree. It is really fundamentally broadening the debate to look at the needs of the South East, rather than just focusing on Heathrow.

**Lynne Featherstone (Chair):** Thank you. I found your written submission very interesting. Would Chris or Vanessa like to comment?

**Chris Humphrey, Government & External Affairs Manager, Virgin Atlantic:** I think our views are very similar to the ones that Paul outlined from BA. I will quickly go through a few points. It is our view that the estimates the Government has come up with for the growth in demand for aviation

are probably robust. We take those figures as pointing to a need for more runway development in the South East; we think up to three runways. For Virgin Atlantic, the absolute priority must be an additional runway at Heathrow, for all the reasons Paul outlined. Heathrow is severely constrained and Virgin's growth potential has been severely constrained by problems at Heathrow. We would be a much bigger airline today if it was not for constraints at Heathrow.

We also think there is a need for another runway at Gatwick, to the south of the current runway. Our view is that there is probably a need for a third runway, but perhaps the decision on where that should be located – either Gatwick or Stansted – could be deferred for a few years, so we can see where demand is heading and future patterns in air transport. Finally, we do not think there is the critical mass or a need to try to create a second hub airport. As Paul said, it has not worked at Gatwick – there are no other examples in the world. It is our view is that the only way a Cliffe or mega-Stansted could work is by closing Heathrow.

**Lynne Featherstone (Chair):** Right, I think we got the message. We will start by looking at the case made for expanding airport capacity in the South East, in terms of projects and so forth.

**Roger Evans, AM:** You have all told us today about how essential expansion is, but all the news we have heard over the last couple of years has been about airlines going bust and a decline in demand. Are you sure that your projections are still on target? Are you expecting growth from the business market or from the leisure and holiday market?

**Paul Ellis, British Airways:** There have clearly been a number of factors having very serious adverse effects on the market. We are still seeing some of those impacts. The SARS impact in the global market at the moment, in terms of depressing demand to the Far East by about 24-30%. The other markets are coming back – in general terms – to where they were about this time last year, although that is still of course depressed. That is still a post- September 11<sup>th</sup> scenario. However, these are an accumulation of factors which we see working their way out of the system over the coming 12-18 months.

The long-term trend will be re-established. We would expect it to be established at probably about 4-5% per annum in the rest of this decade but declining as the markets continue to mature over a longer period of time. The Government's forecasts are in the range of 3.5-4% per annum. We are talking about taking the long-term view, as another runway is an asset we would not actually see built for another ten years from now. We are taking the long-term view that the forecasts remain robust.

We have had ups and downs in the past. In effect you could say that we had a bit of a spurt through the entry of the no-frills and low-cost carriers in the late 1990s, which was above trend. We have now clearly come below trend, but these things come out in the wash when you are thinking about long-term policy development.

**Roger Evans, AM:** Is that business or leisure growth?

**Paul Ellis, British Airways:** Both. We have looked at the mix the Government has forecast and we think it is a sound basis for taking forward the development of the industry, in terms of balance between leisure and business growth.

**Chris Essex, easyJet:** Thank you, Paul. I would certainly support Paul's notion. The industry is extremely vulnerable to external shocks, but it also has a very significant resilience in terms of bouncing back. The underlying growth is certainly there. Our concern about the forecasts are that they are very much at a macro level. They do not take into account the impact of price stimulation on the marketplace (i.e., the effect of the low-cost airlines in reducing fares). For the point-to-point market, that is fundamentally what is driving growth – easyJet is growing at some 25% per annum, similarly for RyanAir – whereas the forecasts seem to be based more on general wealth effects, which

take into account the growth for long-haul travel as well. We have some concern about the actual segmentation that has been applied, although we expect both business and leisure to grow strongly into the future.

**Chris Humphrey, Virgin Atlantic:** From our perspective, there has certainly been a short-term drop in the market. It was a series of shocks. Virgin Atlantic found that prior to the recent conflict in the Gulf, absolute passenger numbers on our network were back to pre- September 11<sup>th</sup> levels. We found the market had recovered very quickly. Now that it seems like the travel advisory for Hong Kong from the WHO has been lifted, we have found that passenger numbers are bouncing back strongly on those routes as well. We think these are short-term blips; the long-term trend is still for growth. Our view of that is emphasised by new aircraft orders we have out there for new, larger aircraft. The view within the company is also that there will be strong growth in economy cabins, but there will be growth in the business cabins in the future as well.

**Paul Ellis, British Airways:** Could I add another point? We often talk about growth in passenger numbers. Historically, we have been gradually increasing aircraft size across the South East of England. We actually have well above the average that is typical across Europe and North America. We have been pushing way off into the off-peak periods, in terms of using capacity and managing the demand. I think we are now at a stage where we must bite the bullet in terms of proving the additional runway capacity to provide for additional flights that are going to be needed. We are not just talking about passengers here; we are actually talking about more aircraft, more movement, and more runway capacity.

**Roger Evans, AM:** What are the consequences of our not doing it? For you it obviously means you are unable to expand, but what would that mean to us in the South East? Why would that be a problem?

**Vanessa Tamms, Government & External Affairs Officer, Virgin Atlantic:** I think you probably would have the Oxford Economic Forecasting Report, which estimates the benefits – both direct and indirect – that aviation brings to the UK economy. Those benefits would be significantly curtailed. People also think that if Heathrow is not expanded, that Heathrow will continue to go on in its current form: it will not. Passengers will start using Frankfurt, Amsterdam, and Paris more because runways are provided at those airports. As a result, Heathrow would actually decline over time. For example, we will see businesses move out of the area around Heathrow and relocate to more attractive areas where capacity is provided at the airports. The result of not developing Heathrow will not be that Heathrow continues to kick along as it is; it will actually decline over time.

**Roger Evans, AM:** How sound is that prediction? In London we have been told for years that because we have a poor public transport system it will deter people from coming here; they will go to Paris, Frankfurt or wherever. But in practice, because we actually have the skills, services, and businesses here, people just lump it and continue to come here. How important is the airport compared to all the other factors that attract people to London and make it a market leader?

**Vanessa Tamms, Virgin Atlantic:** The airport is certainly very important, but as congestion grows and as flights to particular destinations start to be no longer provided from Heathrow, the range of destinations that would be operated from Heathrow would make the airport less attractive. It is one of those factors that start to make London a less attractive place to put a business.

**Paul Ellis, British Airways:** Aside from London, if you look at where the investment has been made in the South East there is very clearly a Heathrow factor at work, in terms attractiveness of investment in the west side of London and down the Thames Valley for international investment, for UK investment which would otherwise go abroad, or for the concentration of the high tech industries that each of the Regional Development Agencies always said they wanted to attract into this country. That is where they see the value-added investment taking place.

At the end of the day, this country must compete on value added. Heathrow has a particular influence on that. If Heathrow were capped, the danger would be that if you were sitting in the Far East and looking at the European market, you would not say, 'Because I cannot get into Heathrow, I am now going to go to Cliffe or to Stansted.' You say, 'What is my next best opportunity?' This is what is happening. The frequencies are being added into Paris and into Frankfurt, rather than into Heathrow. If you go to the bilateral negotiations, people say 'We want Heathrow and we do not want anything else, thank you very much.' The UK is not actually able to serve the new destinations, because outside of Europe a lot of this is still done on a country-to-country basis. We cannot actually expand the network out of this country, whereas these networks are being expanded elsewhere.

**Richard Barnes AM:** Could you not sacrifice some of your landing slots so that there is a proper bilateral agreement?

**Paul Ellis, Head of Airport Policy & Planning, British Airways:** That does not actually get over the issue of long-term growth that you are seeking to develop around a wider range of destinations and more frequencies, rather than trading one off against another. It does not tackle the underlying issue of accommodating the growth that is coming along in the future.

**Lynne Featherstone (Chair):** It is clear that Paris and Amsterdam are facing the same problems. I understand that yesterday Paris decided they would not build another runway. While you say your competitors are going to have the advantage, actually they made that decision because of local public opposition. Therefore, your competitors are all having to deal with the issues we are discussing today.

**Paul Ellis, British Airways:** Could I just pick that up? Actually, in Paris Charles de Gaulle (CDG) airport has opened two new runways in the last three years. The fact that they have cancelled what I would regard as a 'peculiar' political project to develop an airport 60-70 miles away does not surprise us in the least. I met a delegation of French MPs only last week who were asking us about the future development in this country. They are clearly getting the messages that are going around: not surprisingly, Paris is doing well now and I am sure they will be returning with additional runway development in Paris at some stage in the not too distant future.

Similarly, Amsterdam opened a runway in February this year. It has increased its capacity by 50% and that will see it through. We are looking at those airports, and indeed Frankfurt which is due to open another runway in 2006, all having 50% more capacity than Heathrow by the end of this decade. That is the challenge. We are taking it a bit for granted at the moment, because we have been resting on our laurels. We cannot carry on doing that.

**Valerie Shawcross, AM:** I wanted to ask a bit more about your attitudes to Gatwick. I represent the South London constituency, and obviously development at Gatwick would generally be viewed as really boosting the economic opportunities in the area. You all said you would see development at Gatwick as favourable, but three of you were very hostile to the notion of a second hub in London. What kind of development are you talking about at Gatwick? What nature of carriers would you see operating there? How would that be different from the development of a hub? I find it a little bit difficult to understand why carriers would be more interested in going to Frankfurt if Heathrow is congested, rather than going down to Gatwick if it was developing a wider range of destinations.

**Chris Essex, easyJet:** If I could just pick on that and go back to my opening remarks. We see a hub very much as a supply side solution. It is what suits airlines; it does not necessarily suit customers. We see a growing trend for customers who are demanding more point-to-point services, both short-haul and long-haul. One potential consequence of reduced development at Heathrow is that the slots which are there today are then used more productively for those long-haul point-to-point services and investment in other parts of the South East – Gatwick, Stansted, etc. – can be geared towards

short-haul point-to-point services. We are trying to focus on the interests of the consumer and the macroeconomic picture, rather than just talk about the airlines themselves and about hubs.

**Paul Ellis, Head of Airport Policy & Planning, British Airways:** We similarly focus on the interests of the consumer in this. People understand the concept of integrated transport development when you are talking about surface transport. The concept seems to get less recognition when you are talking about air transport and the way in which you can operate the broad network of long-haul services. I am not talking about the core network. You will always have a core network of 30-40 long-haul services, but if you want to have the full range you need to be drawing passengers from across a broad range of services.

If you look at many of our services going to Latin America, the Far East, and some of the points in the US, a very large proportion of those passengers are transfer passengers. Those services simply would not be there at all, unless you have the integrated operation of the short-haul and the long-haul networks.

There are two business models which we are describing here. There will be room for both of those and both need the opportunity to grow in the future. I certainly see at Gatwick that it has its own local catchment which one can expect to sustain quite a broad network of short-haul services, further development of charters, and I would expect a few long-haul services. I would not exaggerate that. I would see the demand for those being mainly sustained out of the other end of the route, where other carriers tend to have their hub, which is then feeding in the transfer passengers to make the service robust. That is how you get some long-haul services into an airport like Gatwick.

**Valerie Shawcross, AM:** How do you respond to Chris's proposition that if you took some of the package operators out of Heathrow and put them in Gatwick, you would have a more effective Heathrow flying to a variety of destinations - a more effective hub - and a more appropriate niche development for Gatwick?

**Chris Essex, easyJet:** Just for clarification, this is obviously a point of difference between our two businesses.

**Valerie Shawcross, AM:** I thought that might be the case.

**Roger Evans, AM:** You make money, do you not?

**Chris Essex, easyJet:** It helps. We are advocating that scarce resources be used more effectively. Rather than spending these resources on, as Paul describes, 'drawing in' passengers from other markets into your own long-haul service, you actually use those resources on long-haul services that you can support. That means you will get more long-haul services over time, which would be the focus for the main gateway: Heathrow. Development in other airports will lend itself towards point-to-point services.

**John Biggs (Vice Chair):** First, as a layperson I am trying to get my head around what is actually happening with the airline industry. You cannot fail to read the informed press and reach a conclusion that things are in some state of flux, if you look at the problem with American flag carriers. BA and Virgin are in relatively good health I guess, but European carriers are in some trouble as well. You look at the massive rise of budget carriers, and clearly something is going on. How do BA and Virgin understand the role of budget carriers? Are they purely a niche that is creating opportunities for new demand for lower price travel but does not fundamentally affect your business, or is there something more seismic going on in the aircraft industry? Clearly that dictates the way we shape our airports.

**Chris Humphrey, Virgin Atlantic:** I think the low-cost carriers have virtually created a new market. They have opened up air travel to a whole range of people who perhaps previously would not have

travelled as often by air. From Virgin's point of view, we are purely a long-haul carrier. Therefore, the impact of the low-cost carriers like easyJet and RyanAir is fairly small. For people like BMI British Midlands and BA for their short-haul networks, they might give you a slightly different story. There has obviously been some impact and is causing them to change pricing policies, for instance. With the growth they have got, you have to wonder how much more they can achieve in the current market. They offer service out of different airports at the same time and are doing different markets to what we are. They are often serving secondary airports; it is not true of easyJet, but other carriers service secondary airports.

**John Biggs (Vice Chair):** You would argue that there are two markets: the time critical, business, premium rate, long-haul – which is yourselves and to a considerable extent BA – and then alongside that a completely different market, which is the budget stuff. There must be some bleeding between the two of them but not alot.

**Chris Humphrey, Virgin Atlantic:** You get some read-across on short-haul routes, but you still need to have a viable short-haul network, serving airports like Heathrow, to feed your long-haul network, as Paul said. Without that sort of short-haul feed coming in, you will not have the range of destinations for your long-haul services. That is true for us and it is true for BA.

**Paul Ellis, British Airways:** I would just pick up the theme. We are seeing effectively two business models emerging. It would be too derogatory to say it is a niche; it is clearly more than a niche. If you put together the operations of RyanAir and easyJet on short-haul services in the South East of England, there are as many operations by those two airlines together as there are by BA. It is more than a niche in terms of the short-haul. Chris has eloquently made the point again about the need to connect together the short-haul services and long-haul to be able to generate the hub effect and to have that full range of long-haul services.

I think what we are seeing in Europe is a rapid evolution of the industry. I think we will see a concentration on fewer hubs. Traditionally, each country has had this interconnection of long-haul and short-haul services in its capital city. We have seen SwissAir go and Sabena go. I think there will be others who are trying to operate in that mid-range area of hub, but there will be room for a few truly global hubs, which each world city is going to need. We can see those emerging at Paris, Frankfurt, and probably at Amsterdam. One of the key issues here is whether or not the UK and London is going to have a successful, competitive global hub.

I am not in any way decrying the need for the development of other capacity in terms of a balanced way in the other airports in the South East; I have said that a couple of times already and I certainly support my colleague's view on the need for that growth as well. In effect we are seeing two distinct business models operating here, each of which has its place.

**John Biggs (Vice Chair):** Mr Essex, your argument is presumably that these people – as nice as they are – are essentially dinosaurs and on the way out, and your type of operation shapes the future. Would you dictate a different approach to airports?

**Chris Essex, easyJet:** I would certainly not expect these guys to die out, certainly not in the foreseeable future. I think it is important to realise that easyJet and the budget carriers are solely a product of deregulating the market. For easyJet, to expand into Europe 10-15 years ago would have had to go through a bilateral process with government consultation; it would have taken forever, they would have set fares, and so forth. We are a product of that deregulation and we see more on the horizon.

That creates an opportunity for us, and I think it creates a significant opportunity for the incumbents. Their challenge is to adapt their model. I think they have a stark choice. One option is to specialise in an area where they can make money. We can see that BA certainly make fantastic profits on

transatlantic and are very competitive in that area, and similarly for Virgin. Fundamentally, on the short-haul they cannot be everything to everyone. That is where the budget carriers have been successful. They have focused very deliberately there. We are not trying to be everything to everyone. We are driving prices down because we have lower costs. Customers understand that and have responded.

**Sally Hamwee, AM:** A small point perhaps, but in the context of your comments – quite rightly – that customers' interests are paramount, could I ask whether the experience of different airports carries any weight at all with customers when they are choosing journeys? If I characterise it rather in the extreme, Heathrow is a difficult place to negotiate, you have to walk miles, and all the rest. With smaller airports, 'Gosh, do you know I left home at such a time and I was on the plane by such a time.' Does that figure at all?

**Chris Essex, easyJet:** I think it does. For a short flight, if you are spending most of your time getting to the airport and negotiating the airport, that is clearly going to characterise which service you take. London is made up of many different catchment areas.

**Sally Hamwee, AM:** Are there different considerations by the leisure and business markets?

**Chris Essex, easyJet:** Certainly, to a degree. However, that is probably down to the efforts of the established carriers as well. If they are offering frequent flyer programmes and so on, then perhaps businessmen will make an extra effort to take their services than a leisure passenger who is solely interested in price.

**Paul Ellis, Head of Airport Policy & Planning, British Airways:** The prime consideration for passengers is 'Can I fly where I want to go?' The prime driver is the range of destinations and the frequency of services. Price is extremely important as well. Access to the airport in terms of journey time and reliability is also important. Then the quality of the experience becomes a second order distinguisher in terms of passenger preferences. It is a factor, but it is number three or four on the hierarchy.

**Samantha Heath, AM:** From what Chris Humphrey was saying about opening up of the market with the low-cost carriers, I do not quite understand how that reconciles with the growth predictions we heard from Paul Ellis, that they were relatively robust. If you have opened up a new market, then there will be a point of saturation at some point. It would not just be a straight line that goes on forever, which is what figure three of the SERAS study looks like to me. Since regulation is required here and there are many issues to consider if we are going to put in new airports, we need to have proper conversation between low-cost and established carriers to discuss these growth predictions. I think the straight-line graph that goes up into 2030 is probably not there. There must be an element of saturation. If the demand was there, why do you spend so much on advertising?

The real question I have is that the overcapacity that everybody talks about post- September 11<sup>th</sup> was actually there pre- September 11<sup>th</sup>, as far as I understand it. From what you have said, I am still not convinced that figure three is actually robust.

**Vanessa Tamms, Virgin Atlantic:** I think it is important to look at the overall picture at the airport, and indeed at the three London airports, and not just single out what is happening to any particular airline. Immediately after September 11<sup>th</sup>, if you look at the air traffic forecasts for Heathrow, Gatwick and Stansted, the traffic levels fell by something like 5%. September 11<sup>th</sup> was not just a downturn in an economic cycle; it was an exogenous shock, yet it only had that effect on demand. Yes, we have had some very trying times recently, but they are simply blips.

**Samantha Heath, AM:** If I may interrupt, pre- September 11<sup>th</sup> overcapacity in the South East was about 30%. That is what I thought from the House of Commons Select Committee in December:

there was overcapacity before September 11<sup>th</sup>. If we have got overcapacity, and you have just talked about the fact there was a new market open, how can we be clear that it is a straight line? I think more conversations probably need to happen.

**Vanessa Tamms, Virgin Atlantic:** Can I just clarify? Are you saying airlines were providing too much capacity?

**Samantha Heath, AM:** Yes.

**Vanessa Tamms, Virgin Atlantic:** That is certainly not the case for Virgin Atlantic. As you well know, Heathrow is effectively full at all times of the day. It inhibited our growth for years and years, so that is certainly not the case for Virgin Atlantic.

**Chris Humphrey, Virgin Atlantic:** Pre- September 11<sup>th</sup> we ran at load factors that were close to 90% across the year, which means there are times of the year when we are turning passengers away.

**Samantha Heath, AM:** The main point of my question is: given there is a new market, how can you say so thoroughly today that the graph is going to go straight-line? With the new market that has opened, there needs to be some form of compensation. You cannot just expect more people to travel every day of the week. It will not keep going up, will it?

**Vanessa Tamms, Virgin Atlantic:** As we said, the low-cost carriers certainly provide for a certain type of customer, a certain proportion of passenger demand, but that is not the only demand out there. Passengers want different things. Some passengers are more price sensitive, and particularly price sensitive passengers are the ones to which low-cost carriers provide services.

Virgin Atlantic also carries a lot of very price sensitive passengers. We have economy class and they are the majority of our customers, but there are also passengers out there travelling for business purposes, who are more time sensitive and are looking for things like schedule convenience, convenience of service, and so on. That is not the only market out there and those markets will continue to grow.

**Samantha Heath, AM:** Yes, 'continue' is my question.

**Chris Humphrey, Virgin Atlantic:** As national wealth increases, the propensity to travel will increase. People will want to travel more frequently for longer distances and have more holidays. As business develops, people will travel more and more on business as well.

**Sally Hamwee, AM:** We know that you want the expansion at Heathrow. If the expansion took place elsewhere, what would each of you do? Would you be relocating, expanding elsewhere: what would the scenario be?

**Vanessa Tamms, Virgin Atlantic:** I think it is fair to say we would probably stagnate, because passenger in the first instance – particularly time sensitive passengers – want to fly from Heathrow. Gatwick is not an effective substitute for Heathrow and competition authorities have made that quite clear in their various assessments, including the BA/American Airlines alliance. People want to fly from Heathrow because it provides services to a lot of destinations, convenient timing...

**Sally Hamwee, AM:** You have said that. I am looking at the scenario in which the Government takes a decision against a third runway at Heathrow. Do you shrug your shoulders now and say, 'We would not want to expand elsewhere'?

**Vanessa Tamms, Virgin Atlantic:** We would clearly try to develop our business at Gatwick, but it must be recognised that Heathrow would decline and businesses would start moving away.

**Paul Ellis, British Airways:** The answer depends on the broader context. If it is about no expansion at Heathrow and no expansion anywhere, that is one question. I suspect the question would be no expansion at Heathrow, but an attempt to develop a hub somewhere else in the South East of England. We think that would be a disaster. Without another Heathrow runway, we think the Mayor's entire strategy for London would be under threat. The Mayor is seeking new investment and hundreds of thousands of new jobs into London. It would be an act of policy which would materially weaken the Mayor's strategy. Why do I say that?

**Valerie Shawcross, AM:** I thought he was going east.

**Paul Ellis, British Airways:** The first thing is that none of Paris (CDG), Frankfurt, or Amsterdam is further away from the city centre than Heathrow is. You would be trying to develop a remote hub with that intrinsic advantage from scratch. Doing something from scratch to get to the size required to be competitive as a global hub would require huge amounts of investment, not only in the transport but also the other aspects: social infrastructure, housing, and so on. That would clearly need to be concentrated around the airport that you were seeking to develop.

The way in which you would get the airport to be used would not be by airlines voluntarily moving there. You could certainly not expect BA or the OneWorld alliance to leave Star – the other major alliance – behind, or indeed Virgin, nor would they welcome the opposite case. The Government sort of tiptoed towards this and talked about 'seeding' in their document. That is actually forcing airlines to go somewhere else. You cannot make one go without the others going, so you are talking about the whole of the long-haul network being forced away from Heathrow to try to make some other scenario work.

The reaction of the airlines under those circumstances would not necessarily be to go where the Government would like them to go to. You can be told where you cannot operate, but you cannot be told where you will operate. Airlines would then make their individual choices. I would expect the network to shrink as a consequence, as a number of airlines took the decision that it would be better to go to a tried-and-tested hub on the continent rather than to an experimental place which is 35-40 miles away from London.

The direct impact at Heathrow itself would be very severe indeed. There would be some tumbling around the system, as Heathrow would then become the second-best place. You would expect the Heathrow people to move up to Gatwick and backfill. The employment impact at Heathrow would be to go down perhaps 25,000 on the airport. The remaining jobs would be at lower wages, because the head office functions would move away. The hotels would be largely redundant and the freight industry would collapse because it is dependent on the long-haul.

**Sally Hamwee, AM:** It sounds like the end of the world.

**Paul Ellis, British Airways:** People tend to underestimate what we actually have at Heathrow. It is the jewel in the crown in terms of civil aviation in this country. A huge amount of investment has flowed into London and the Thames Valley on the back of that. We would be putting that at risk, so that is the sort of scenario that we have to be thinking about. I do not believe that is the sort of risk that should be taken by policymakers.

There is actually a balance scenario which involves adding a short runway at Heathrow, which I have described, and adding runways elsewhere at a rate at which they can also take advantage of it and reap the benefits, without seeking to impose something very large where it is not wanted and taking away an important part of the London economy.

**Lynne Featherstone (Chair):** I just want to ask Chris Essex what he thinks of that argument.

**Chris Essex, easyJet:** It is certainly a worst-case scenario by anybody's measure.

**Lynne Featherstone (Chair):** But is it true?

**Chris Essex, easyJet:** Who knows what will happen *per se*, but I would suggest other factors might come into play. Without the short runway at Heathrow people would be disinclined to feed their hubs. Congestion would actually reduce, not increase. You would perhaps see commercial forces come into play. Virgin might follow through and take over British Midlands, acquiring their slots. BA might decide to launch a bid for Virgin Atlantic, as they talked about in the press a couple of weeks ago. I do not think these commercial entities would sit and wait for everything to collapse; they would adapt. We are advocating a more balanced approach. I do not think it is an all or nothing scenario.

**Richard Barnes, AM:** I think we are all talking about a balanced approach.

**John Biggs (Vice Chair):** What confuses me about this is there are examples of world cities, or aspiring world cities, which have moved their hub from one place or another: Charles De Gaul from Orly, Schiphol, and the one in Hong Kong. In each of those cases there was a massive amount of public money put into relocating it. Is there an answer to the question of whether there is a viable alternative of relocating a hub from Heathrow? The two big carriers are saying it would have enormous economic impacts, but it could only be achieved if there was an enormous injection of taxpayers' money to provide the infrastructure. It could not be funded purely through the market operation of landing slot fees.

**Vanessa Tamms, Virgin Atlantic:** That is absolutely right. In the case of Hong Kong, Kai Tak airport was actually closed simultaneously as Chek Lap Kok was reopened.

**Paul Ellis, British Airways:** CDG took place – broadly speaking – before airlines were deregulated, so there was a large degree of protection. Even so, Air France was subsidised regularly and substantially throughout 25 years to enable that to take place. And all the transport investment actually comes out of the public purse, which is not the case at Heathrow.

**John Biggs (Vice Chair):** If we are being good and honest, I am a Labour member but this does not necessarily help the Labour cause. We could resolve everyone's problems by putting an awful lot of public money into it. Part of the challenge we have is that the Government seems to be saying they would not mind rearranging London's airport capacity at no cost to the public purse.

**Paul Ellis, British Airways:** They certainly seem to be saying that.

**Richard Barnes, AM:** Mr Ellis painted a doomsday scenario about the economy in London and the South East if the third runway does not happen. What is his scenario if it does happen? How many jobs do you think you will create?

**Paul Ellis, British Airways:** The jobs are indicated in the consultation document. I think Heathrow will get up to about 80,000 jobs at the airport, compared to about 55,000-60,000 now. That is the on-airport jobs. There is clearly a great spin-off benefit. I think we need to get much cleverer about how those benefits are secured across the South East, particularly back into London. We have seen an example of what the Heathrow Express has been able to do at Paddington. That is actually an important regeneration area; I think it is second only to Canary Wharf in terms of the improvements that have taken place, and the improvement is now being realised there.

We are supporters of additional rail services through and into London – the Airtrack scheme and Crossrail, if it could be made to work – so we can see jobs at Heathrow with people coming to work

there, but you will also be able to tell people in the area around Waterloo or deeper into London that they are now within 30 minutes of Heathrow. If they jump on a train they can be at Heathrow and have the global network available to them. There are great benefits to be derived. Even on our doorstep, we have the Heathrow City initiative which has been promoted by the LDA. We note that the Mayor is trying to generate 45,000 jobs around Heathrow, so there is a great potential to absorb all of the additional economic activity.

**Richard Barnes, AM:** How would you describe the economy which exists there now? The 45,000 jobs actually comes from the Government figures. Is the economy in West London sluggish? Is it high unemployment?

**Paul Ellis, British Airways:** I think it is broadly speaking quite buoyant, but there are areas which would clearly benefit from additional inward investment. I was at a seminar earlier this week which was talking about the comparatively low activity rates, even in fairly large areas of West London, compared with outside of London. We want to see those activity rates being raised.

**Richard Barnes, AM:** I do not know what you mean by 'activity rates'.

**Paul Ellis, British Airways:** 'Activity rates' in terms of the proportion of the population you would normally expect to be in work who are actually in work. It is about 70% in West London, compared to about 80% if you go further out.

**Richard Barnes, AM:** So you are expanding the employment market.

**Paul Ellis, British Airways:** You are expanding the employment market.

**Richard Barnes, AM:** What does unemployment run at in West London at the moment, on average?

**Paul Ellis, British Airways:** It varies from place to place.

**Richard Barnes, AM:** I know it does. What is the average?

**Paul Ellis, British Airways:** I should think it is about 2-3%.

**Richard Barnes, AM:** 2-3%: that is less than the Beveridge average that was forecast in 1945. Who is going to fulfil these 45,000 jobs? Is it commuters coming down from Northampton and Banbury, as they do at the moment to work for yourselves? Who is it?

**Paul Ellis, British Airways:** As I say, there is a very large area of low activity.

**Richard Barnes, AM:** Where is that?

**Paul Ellis, British Airways:** Throughout areas of Ealing, for example, and if you look at Southall, Hays, Heston, Yiewsley; these areas would all benefit from the additional inward investment.

**Richard Barnes, AM:** Average unemployment in Hillingdon is 2.1%, which is less than the figure you put. Average unemployment in Ealing is 2.6%. Do you not think that the real effect of 45,000 extra jobs in West London will actually overheat the economy? By feeding yourselves and others, you will begin to price other companies out and we will have – as we have at the moment – high price rises, high job costs, and indeed additional congestion in the area. That will force people away from West London.

**Paul Ellis, British Airways:** No, far from it. In fact, the Mayor's strategy does have...

**Richard Barnes, AM:** I am talking about the reality that is now.

**Paul Ellis, British Airways:** That is also the reality. I was with the people who are responsible for the Heathrow City initiative in the areas I was just outlining, who are looking forward to the opportunities that will come.

**Richard Barnes, AM:** Heathrow City is only seven wards out of 40.

**Paul Ellis, British Airways:** I think it is ten.

**Richard Barnes, AM:** I assure you it is seven. It is my constituency.

**Paul Ellis, British Airways:** Also, the areas to the south of the airport – for example, Feltham and so on – are also looking to make sure that their employment base is underpinned. And I do want to stress that we are looking at having this as a broader impact. I mentioned the development now going on in the Paddington area. That has been brought within 15 minutes of Heathrow.

**Richard Barnes, AM:** It is not a consequence of the Heathrow Express.

**Paul Ellis, British Airways:** I think it is. The Heathrow Express was actually the catalyst for bringing that forward.

**Richard Barnes, AM:** Your former chief executive was more farsighted than people gave him credit for.

**Paul Ellis, British Airways:** I think I should not comment on that.

**Richard Barnes, AM:** Let us get back to Heathrow. There are businesses which are being forced out of there at the moment because of the reconfiguration of the airport. Where do you service your airplanes?

**Paul Ellis, British Airways:** We do the casualty maintenance, which is the short-term maintenance, at Heathrow. We do the major maintenance for the big aircraft, which is when you have to leave the aircraft on the ground for a long time, at Cardiff.

**Richard Barnes, AM:** Is it true that the engineering companies within Heathrow have now been forced out of Heathrow because of reconfiguration of terminals 1, 2, and 3 and the expansion of the runways?

**Paul Ellis, British Airways:** I think it is a mixture of reasons really. The development of a Cardiff base is part of a picture that goes on around the world, in terms of airlines looking at where to best undertake the maintenance.

**Richard Barnes, AM:** I sit on the planning committees that get advised of these changes. We all talked about a third runway. Planes have to get to the runway and have to leave the runway. What are the approach routes? Are they going to use the existing ones? Are you going to build new approach routes and new departure routes?

**Paul Ellis, British Airways:** Clearly if you are approaching a runway which is 1,500 metres, for example, away from the existing ones then you have an approach valve which aligns with that.

**Richard Barnes, AM:** So there will be two main approach routes across London as against the current one.

**Paul Ellis, British Airways:** There will be three. You have the north and the south runways at the moment, and you would add another one parallel to that for the small aircraft. That is obviously one of the reasons for keeping the amount of noise that comes from that to a minimum. The noise contours which you can see in the consultation document are broadly speaking over a greener zone coming over the M4 corridor.

**Richard Barnes, AM:** And departures?

**Paul Ellis, British Airways:** Departures will go out to the west.

**Richard Barnes, AM:** You do not need to be an aviation genius to work that out.

**Paul Ellis British Airways:** You asked me the question.

**Richard Barnes, AM:** Are they going to curl over Windsor Castle or are they going to come over Rickmansworth Airfield in Watford?

**Paul Ellis, British Airways:** You would have to ask NATS about the detail of that.

**Richard Barnes, AM:** You also said we would not need another parallel runway until 2030. Have you forecasted where you are likely to put that, or where you recommend putting it?

**Paul Ellis, British Airways:** We have taken no view on that. We are looking at it within the policy period, which is 30 years, and we do not see a need for any further runway development at Heathrow.

**Richard Barnes, AM:** Is that not the type of evidence that was given to the four-and-a-half year inquiry into terminal 5?

**Paul Ellis, British Airways:** Could you be more specific?

**Richard Barnes, AM:** There are people who, in their evidence over the four-and-a-half year public inquiry, said a third runway was not needed. Neither would be a sixth terminal, which in your submission you have said you would need. At the time people said Waterside was going to be the sixth terminal, but it was eloquently denied by BA.

**Paul Ellis, British Airways:** Absolutely. It will not be the sixth terminal. If you look at the location, it is between Sipson and Harmondsworth. Our evidence to the public inquiry of terminal 5 was that there would be a need for additional runway capacity in the South East of England from 2010 onwards and each option should be considered on its merits.

**Richard Barnes, AM:** And you took the Heathrow option. Can I ask Virgin Airways: what are the constraints that you face at Heathrow?

**Chris Humphrey, Virgin Atlantic:** It is clearly a lack of slots for us. We only have 2% of the slots. Heathrow slot uptake is 100% most of the time. The only time slots are available are right at the margins of the day, at times which are not commercially viable for most of the services we want to offer in the future.

**Richard Barnes, AM:** By '100% full', you mean all of the slots are owned by an airline or another?

**Chris Humphrey, Virgin Atlantic:** All of the slots are taken up by airlines. There is actually unsatisfied demand for slots at Heathrow. Paul mentioned earlier about the problems we face in bilateral negotiations. UK carriers want to do more flights to India. The Indians say, 'We cannot do more flights because Air India cannot get slots at Heathrow.' We have the same problem in South

Africa and the same problem in other markets around the world as well. Carriers cannot get the slots they want at Heathrow.

**Richard Barnes, AM:** Do you think it is justified to knock down 2,500 houses to guarantee your bottom line?

**Vanessa Tamms, Virgin Atlantic:** Yes.

**Chris Humphrey, Virgin Atlantic:** There is no need to knock down 2,500 houses.

**Richard Barnes, AM:** How many do go then?

**Paul Ellis, British Airways:** The Government figure is about 260 and we think it could be rather less than that, which is fairly comparable to the effects in terms of house demolitions in the other proposals.

**Richard Barnes, AM:** Is it justified?

**Paul Ellis, British Airways:** These decisions are difficult. There is no way of doing it without some property being demolished; let us be frank about that. These are difficult decisions which Government ultimately has to take. Yes, it has to be justified. It also has to be justified in terms of the broader benefits that flow to the community, both the economic and social benefits of being able to travel – and the benefits to the people who live around Heathrow and those who work there whose livelihoods depend on it. These are difficult decisions and there are pros and cons. Yes, we think it must be justified. It has to be justified to take the decision.

**Richard Barnes, AM:** One of the figures was that 35,000 houses would be impacted by poorer air quality. I recognise that you say wands are being waved and this will improve, but that is over a period of 20-30 years. It is not going to be an instant change, is it? I have also followed the air contour patterns, which have not improved particularly well. I am aware that the Prime Minister's plane is the noisiest that lands there, but that is beside the point. Are we being offered jam tomorrow, when the real issue is that you could have a devastating effect on the economy of West London if the runway is build?

**Vanessa Tamms, Virgin Atlantic:** I was just going to say a bit about air quality. The 35,000 people affected is the figure that the Government have put in their consultation document. The Government has said elsewhere, and I believe it is in the November 2000 report, that around Heathrow the majority of the air quality problems are actually due to road transport.

The best way is to measure air quality around the airport. I believe BA, BAA, and a number of local councils have measured levels of nitrogen dioxide around the airport and found it consistent with what the Government did say in its November 2000 statement. Firstly, based on the data which has been collected it is extremely likely that, even with the third runway, EU limits – when they come into effect in 2010 – will be met. Secondly, the majority of the air quality problems are due to the road transport: the A4 and the M4.

**Richard Barnes, AM:** British Airways you also said you would move runway three from where it is located in the current proposal. Where would you move it to?

**Paul Ellis, British Airways:** About 200 metres to the east.

**Richard Barnes, AM:** If you live in Sipson and Harmondsworth and it has moved 200 metres, then your life has been transformed.

**Paul Ellis, British Airways:** I do not think so. In that position the runway would not affect any additional property. It would reduce the property impact on Harmondsworth.

**Richard Barnes, AM:** Would you live there?

**Paul Ellis, British Airways:** Where?

**Richard Barnes, AM:** Harmondsworth, after it was built.

**Paul Ellis, British Airways:** I would not move into Harmondsworth now or into the future.

**Richard Barnes, AM:** Thank you.

**Sally Hamwee, AM:** Can I come back to the terminal capacity? Richard mentioned the issue of terminal 6, but can I ask what extra capacity would be needed if there were to be another runway?

**Paul Ellis, British Airways:** The runway itself would increase the capacity from just under 500,000 air transport movements a year to about 700,000 or something along those lines. You would hope not to go right up to the full capacity, so that we can actually improve the punctuality performance and have less holding, for example.

**Sally Hamwee, AM:** Is that consistent with what has happened? Every estimate of the number of passenger movements has been exceeded almost before the time period for which it applies has started.

**Paul Ellis, British Airways:** I agree with that. That is certainly true. I think we have come to the end of the road on that, because people are always saying that passengers will not fly at a certain time of the day, so we can discount that as being useful capacity. In fact, we are squeezed right out into the early morning and into the fairly late evening. I do not think there is much more to come in terms of squeezing out extra capacity in that way.

The additional capacity to go with another runway would be either a satellite or a terminal, which has been described as terminal 6. It would need to be linked to the existing airport, because you would be using the new short runway for the smaller aircraft – principally on the domestic services.

One of the things we want to do, and we think it is the right thing to do as an act of national policy, is to allow regional services which cannot be accommodated at Heathrow to come back in places like Plymouth, Newquay, Inverness, and so on – which have been squeezed out because of the shortage of slots at Heathrow. We think it is important that those can get back in. In our submission to the Government we said they should reserve 5-10% of the slots so that you can get those services back into Heathrow. The total terminal capacity would be about 120 million to 125 million at Heathrow, compared with about 90 million which people say Heathrow could accommodate without adding another runway.

**Sally Hamwee, AM:** Do you agree with that?

**Chris Humphrey, Virgin Atlantic:** If you wanted to get the full economic benefits from constructing a third runway at Heathrow, you have to provide additional passenger handling facilities to go with that runway. Whether that is an airside satellite connected to the existing terminals or a freestanding terminal in its own right really depends on the layout of the airport at the time. If you do not have that, you have the effects of aircraft landing on the new runway and the only way it can get to the existing terminals is crossing over the northern runway, which reduces the number of air traffic movements available on that runway.

**Sally Hamwee, AM:** Absolutely. There are two runways at the moment. If there is a third and you are going to use that runway to its maximum capacity, why does that terminal capacity not have to increase by 50%? Is that far too simplistic?

**Chris Humphrey, Virgin Atlantic:** We are talking a short runway with small size aircraft, not Jumbo Jets, A380s, or 777s. We are talking 737s and small Airbuses – aircraft with no more than 20 seats, and probably at lot less than that.

**Sally Hamwee, AM:** Chair, I wanted to ask about the short runway and the different sizes of aircraft. The argument that one has heard for so long is that bigger aircraft = less movement = less noise. Now it seems to be going in a different direction. Suddenly smaller aircraft are the favourite. Could you just fill me in a bit on that?

**Paul Ellis, British Airways:** You are quite right: if you look at the statistics, the average aircraft size has been going up. It has been 1-2% per annum at Heathrow; a little less if you average it out across the South East of England. We would expect that trend to continue for some time, as these short-haul aircraft are likely to diminish at Heathrow, to use some of those slots for the bigger long-haul aircraft.

There comes a point at which that gets unbalanced and I think we could be approaching that in the coming years. What we are looking at now is how we can restore the balance by putting in the additional runway capacity to increase the short-haul aircraft flights, and also to release some of those from the main runways and put bigger aircraft on to the main runways. That is the sort of pattern we would expect to see.

Historically, in the UK we have gotten out of line compared with Paris, Amsterdam, and Frankfurt – and indeed the US – in terms of the average aircraft size. We are pushing it up to a higher level. That was fine when we had enough runway capacity to be able to compete with those operations. If you have the frequency you can get the passengers to use the aircraft, but when you have fallen behind in terms of frequency these two things go together. You cannot draw in the extra passengers to fill up the bigger aircraft.

**Sally Hamwee, AM:** There are a lot of chickens and eggs in this.

**Paul Ellis, British Airways:** There are. You are absolutely right.

**Lynne Featherstone (Chair):** I just wanted to ask a question about modelling. You two certainly seem to have a Heathrow-or-bust attitude: ‘if you do not give us what we want, then we will look to Europe for our own needs.’ I just wondered how extensive your modelling had been of the different options. How far have you gone in trying to find an alternative to Heathrow, where you know there is opposition? Would you care to comment?

**Chris Humphrey, Virgin Atlantic:** In terms of our development plans, we constantly look at how we can develop more services out of Gatwick. However, as Vanessa said earlier, the truth is Gatwick is not as attractive an airport as Heathrow. Therefore, passengers are not prepared to pay as much as they are to fly out of Heathrow. This means a lot of the routes we want to operate in the future are not viable out of Gatwick. As a company we have done extensive work looking at operating services from the continent to places around the world, as a means of expanding in the future. As regulatory regimes change we will look increasingly at doing so, if we cannot expand in our home market.

**Vanessa Tamms, Virgin Atlantic:** We have also learned a few lessons from history as well. We have seen time and again where people have tried to develop services out of different airports and failed. For example, think of BKL/Danair out of Gatwick which tried to provide a substitute for services provided from Heathrow.

**Lynne Featherstone (Chair):** Ultimately, the business model for you is just Heathrow.

**Chris Humphrey, Virgin Atlantic:** Not entirely. We have routes out of Gatwick which are very successful but they are routes in particular types of markets, namely leisure routes.

**Lynne Featherstone (Chair):** It would be very interesting to see all your figures on the different models. Is that a possibility?

**Paul Ellis, British Airways:** We do not need a model because we have a laboratory. We have done it at Gatwick and we know the impact of trying to split up the operation.

**Lynne Featherstone (Chair):** No-one mentions Stansted at all.

**Paul Ellis, British Airways:** There have been airlines popping in and out of there. I know American tried it, but it did not work for them. That is coming out of their powerful hubs on the other side of the Atlantic. Even then they could not make that work. In our own experiences, at its worst it was costing us about £500 million a year to try to develop a two-hub operation split between Heathrow and Gatwick. That was just unsustainable. We are now focusing on Heathrow for the critical hub-type operations, where you bring together the short-haul and the long-haul, but also at Gatwick we have an operation which serves denser European routes. There is a local market of sufficient size there to be able to sustain that network, but you have to regard it as a different type of operation.

**Lynne Featherstone (Chair):** You are actually saying that if the Government decided not to have a third runway at Heathrow, but they offered you a subsidy which equated to your loss or your costs, you would still look to Europe because it would not be any good for the passengers. It would not be good for the markets you want, even if there was an offer on the table.

**Chris Humphrey, Virgin Atlantic:** I cannot see the UK Government offering us anything.

**Lynne Featherstone (Chair):** I cannot see them offering it, but I am just trying to test your willingness and resolve to look at other options.

**Vanessa Tamms, Virgin Atlantic:** You can control your own actions and take decisions about your airline, but you cannot take actions about what other airlines are going to do. A critical mass has built up at Heathrow and that is one of the reasons why Heathrow works. For example, even though we are primarily a long-haul point-to-point operator, on the more marginal routes we rely on connecting traffic provided by other airlines. That is provided at Heathrow. You would have to shift all carriers around to make other airports work.

**Lynne Featherstone (Chair):** I understand the commercial imperative. I just think everybody else will be looking at things outside solely the commercial imperative.

**Paul Ellis, British Airways:** You would be asking a company to bet its future over 25 years on consistent government subsidy, which just does not feel realistic. One could not go to one's Board and say, 'this is really the great future.' It is not going to be in your control.

**Lynne Featherstone (Chair):** We will now move on to the potential for managing the demand for aviation services.

**John Biggs (Vice Chair):** The first question is about slot auctioning or allocation. Very logically, if we are increasing the capacity in the South East of England, the question follows of how those extra slots should be allocated. Mr Ellis has gone some way to answering this with regard to the third

runway at Heathrow, where regional feeder flights into Heathrow – which I have certainly been lobbied on – could take some of those slots.

As different operators, what do you have as your working hypotheses or magic wand answers to this question? Who should get the extra slots? Should they be auctioned openly so that Virgin can get a bigger share at Heathrow? Should easyJet be able to muscle in there? Or should we not disturb this ‘gentlemen’s allocation’ we have had historically?

**Richard Barnes, AM:** I do not think many gentlemen were involved.

**Vanessa Tamms, Virgin Atlantic:** As you know, we have been a strong advocate of the auctioning of slots, or indeed phasing that in over time, simply because we believe the current system – by which you essentially have the right to operate a slot at a particular time in a particular season if you operated it in the last season – is unfair. In a severely congested airport such as Heathrow it allows historical users of slots to effectively use their slots in perpetuity. It does not put all carriers on to a level playing field, as late entrants into the market like Virgin Atlantic, for example, are shut out of a significant proportion of the slots at Heathrow.

In supporting that proposal, the IPPR is trying to manage demand. We have seen time and again that this is usually unsuccessful. For example, imposing greater taxes on petrol has not been particularly successful in diminishing the use of roads. What I am trying to say is that to try to use it to manage demand would be unsuccessful. It would not dampen demand to the extent predicted by IPPR; therefore, you would still need additional runway capacity in the South East.

**John Biggs (Vice Chair):** It follows from your argument that even with expansion the effect of slot auctioning at Heathrow would simply be to consolidate the most profitable long-haul premium rate operators there, and squeeze everyone else elsewhere.

**Vanessa Tamms, Virgin Atlantic:** These things are always hard to predict, but I guess services to the region are already being squeezed out at Heathrow. Newquay, Plymouth, and so on have been dropped by BA simply because if you only have limited airport capacity, you try to make the most out of your services there. You are obviously going to make more by putting a big aircraft on to a long-haul route than you are putting a small aircraft on to a short-haul route.

**John Biggs (Vice Chair):** It sort of follows from what you are saying that even with the deregulation of slot allocation, you would need to reserve allocation for feeder routes.

**Chris Humphrey, Virgin Atlantic:** I think everybody expects the Government to reach that decision anyway. I think they will want to ring-fence some slots for regional services.

**Vanessa Tamms, Virgin Atlantic:** Various regions in the UK have been quite strong advocates of an additional runway at Heathrow, because they have been losing their services. They are saying, ‘We need strong links into Heathrow.’

**John Biggs (Vice Chair):** What can Mr Ellis add to this?

**Paul Ellis, British Airways:** I agree that it should not be used as some sort of mechanism for managing demand. I think I have said something about that already, as to how extreme that has already got in the South East. Slot auctioning would be very difficult to implement unilaterally in the UK. Without international agreement it would lead to retaliation. We get retaliation from the US at the drop of a hat on some fairly minor issues compared to a slot auctioning process.

Our view is that the policy should be determined on the basis of where you provide capacity. It should be determined on the basis of the balance between economic, environmental, and social

issues. We think that is the Government's policy as well. You do not stop that when you come to the position of: 'how do we then use the capacity?' Clearly you have some objectives in mind and you want to then have a way of using the additional capacity, which means you get a balance of achieving the objectives.

Without going into detail, that means you must take into account environmental issues and the social issues we have indicated through the regional aspect. On environmental issues, we will have to manage within a noise limit at Heathrow. I refer to the limit imposed by the T5 inquiry, which we stand by. That will place a constraint, and we think some way will have to be found to effectively reward the carriers with capacity that do best in terms of managing their noise. There could be a similar issue with respect to air quality as well. You cannot ignore the social and the environmental when you move on from determining the policy. We need to take that into account as well when we look at how to use the capacity.

**John Biggs (Vice Chair):** In a world where the boundaries of regulation are moving towards less regulation in most areas, what you are saying is somewhat at odds with that. What is Mr Essex's take on this?

**Chris Essex, easyJet:** We take a slightly different view. Slots are also an issue at Gatwick and to a certain extent are emerging at Stansted as well. In other words, you have demand outstripping supply. We would certainly welcome moves to introduce pricing mechanisms, so that users are then using that scarce resource in the most effective way. You clearly cannot introduce a big bang as you say, you will get retaliation. You cannot turn that on overnight, but there clearly needs to be a transition to some kind of pricing recognition for the use of those scarce resources/slots.

**John Biggs (Vice Chair):** Everything we are saying in this debate seems to be saying that the pricing mechanism of the market needs to be qualified by putting in regulation for environmental, sustainability, accessibility, and all sorts of other reasons as well.

**Chris Essex, Business Development Manager, easyJet:** And the interests of the consumer; absolutely right. One of the issues with the existing slot allocation process is that it is really a logistics exercise. It does not take into account a number of these other dimensions.

**John Biggs (Vice Chair):** From an environmental point of view it should be cheaper to land a quieter and less polluting plane, it should probably be cheaper to land it at Stansted rather than at Heathrow, and again cheaper in the middle of the day than in the middle of the night.

**Chris Essex, easyJet:** Yes, price will send the right signal and lead to the right decisions.

**John Biggs (Vice Chair):** Some of those things are counter to the way the market would work.

**Chris Essex, easyJet:** In what respect?

**John Biggs (Vice Chair):** For example, it would tend to be more expensive in a busy time in the middle of the day.

**Chris Essex, easyJet:** What is wrong with that? If people want to fly in the middle of the day and will pay more to do it, then that is their choice.

**Lynne Featherstone (Chair):** While we are on pricing, would pricing non-business flights out of Heathrow ease future congestion?

**Paul Ellis, British Airways:** Each flight has a mix of business and non-business, which will change by destination and time of day. You may fly a lot of business passengers out and bring a lot of leisure

passengers back on the return flight. It is not possible to separate out the business and leisure; they are both an important part of the mix you are dealing with. I think that applies at any airport.

**John Biggs (Vice Chair):** Can I ask one other question which has interested me for years, being a sad sort of person? I do not understand Glasgow very well, but as I recall when I was many years younger the Government put piles of money into expanding Prestwick, and then Glasgow Airport popped up from nowhere and effectively cleaned up the market. An obvious question in the South East of England, which you might feel a bit uncomfortable answering but nevertheless is worth asking, is whether it is healthy to have a single operator running the three key airports for the South East, and how that might affect the scenario we are discussing.

**Chris Essex, Business Development Manager, easyJet:** You really do want to get us into trouble. We would encourage a single operator, or even multiple operators, to make future investment in their infrastructure reflect the needs of their users and to price that appropriately. In your question you have sort of loaded the implication that a single operator would set the same price right across all of its infrastructure for the same service. We would reject that and encourage them to look in much more detail at the needs of their individual customers.

**Vanessa Tamms, Government & External Affairs Officer, Virgin Atlantic:** I would like to say a couple of things. One is that good government policy involves balancing a number of things, as Paul indicated. If the Government also wants to maintain a competitive economy – I believe Gordon Brown has made some speeches indicating that is one of his objectives – then it needs to implement policy in a way that not only meets environmental objectives, but does so at least cost. Taxes and charges really do those two things. They really actually meet the environmental objectives and really do so at minimum costs.

We are asking for policies which do not necessarily say that taxes and charges are the immediate answer, but there are other ways of achieving the same objectives at lower cost and therefore in a way that boosts the competitiveness of the UK economy. The second thing about charges is that charges really do differ between airports, based on different types of aircraft. For example, [inaudible] aircraft are charged more at Heathrow, Gatwick, and Stansted.

The third question was whether it is good to have Heathrow, Gatwick, and Stansted owned and operated by the same company. I think the answer has to be unequivocally 'no'. We would certainly support the promotion of competition within the provision of airport services.

**John Biggs (Vice Chair):** You just lost your slots.

**Vanessa Tamms, Virgin Atlantic:** Can you imagine if Heathrow, Gatwick, and Stansted were individually owned that the owners would stay silent as to where they believe new runways should go? It does not matter to BAA where the runway is built, they still gets to own and operate it. I cannot imagine that being the case if the three airports were separately owned and operated. They would all be crying out for more capacity.

**Valerie Shawcross, AM:** I have a small capacity question. Biggin Hill Airport has a runway which is badly under-used, as far as I can see. I am told the local council, using their planning powers, have prevented fare paying passengers from using Biggin Hill. Without imagining that Biggin Hill is ever going to become a hub, do you think there is some market potential for a no-frills operator to operate out of Biggin Hill?

**Chris Essex, easyJet:** I do not think we would see Biggin Hill as a hub.

**Valerie Shawcross, AM:** It is a piece of infrastructure that is there and is under-used in an important South London market.

**Chris Essex, easyJet:** In truth, the reach of Gatwick is very extensive in terms of their catchment. We do not currently see a gap in terms of the access points we can provide to customers. If it becomes more restrictive in the future, we clearly have to look at other opportunities. In that part of the world you have Biggin Hill. Red Hill also has some available capacity. Farther out of course you have Rochester and Lydd. From our point of view, these things are being looked at. In truth, it is further down the list of priorities, but we certainly do recognise the potential of under-used airport capacity.

**Valerie Shawcross, AM:** Do you think the decision about the use of Biggin Hill should be taken by one local council, when we are talking about a regional and a national market?

**Chris Essex, easyJet:** We would advocate moving away from monopolies or duopolies, seeing such assets move into the public domain so that people respond to the opportunity, step forward with investment plans, and attract users. I am not sure on what basis they made those decisions, but we would certainly welcome broader ownership of such assets so that we could have a more productive commercial discussion.

**Lynne Featherstone (Chair):** Before we move on to the implications of expansion for environmental sustainability, I want to get back to my question on pricing non-business flights out of Heathrow. Thinking about your answer, it seems there is no consideration of restructuring flights to take all business or all leisure. It is just: 'we are not prepared to consider this.' I know you have mixed flights, but does it always have to be that way?

**Chris Humphrey, Virgin Atlantic:** I can only think of one example where a full-service airline was operating a single class of flight: Lufthansa, on one very thin route from Düsseldorf to New York. They have a single business class of 48 seats. We tend to want to operate mixed class flights because different markets operate in different patterns. In summer months you will see a lot of leisure travel going on. That travel may all fall off later in the year, but business travellers still go. You are getting a better mix of traffic on the aircraft, which helps our profitability and also helps maintain services on routes which otherwise might not operate.

**Lynne Featherstone (Chair):** I am just looking at pricing mechanisms for controlling or distributing demand.

**Chris Essex, easyJet:** Our view would be slightly different. I think that certainly applies to the long-haul business model. For the short-haul we have a single class product across all of our 275 flights a day and we do not discriminate against a passenger. We do not price for the business passenger and we do not price for the leisure customer. We have one single rule: the earlier you purchase, the lower the fare – that's it. When we then come to evaluate new opportunities, we will take a view on the segmentation but we will take a view on the overall profitability in whether to launch that service. If the price of a slot comes into that equation, you will make the decision based on those criteria.

**Lynne Featherstone (Chair):** Thank you; that was a personal bug bear. We will now move on to the implications for environmental stability.

**Samantha Heath, AM:** I want to start with a bit of ticking off for Virgin and easyJet. I had to look on your websites for your environmental 'whatsit' and I have to say it is pants; it really is. I think Virgin had a page of Q&A and nothing on it talks about aviation, CO<sub>2</sub>, or NO<sub>2</sub>. I am taking it from your website, because I think that is what I am expected to look at. That is on page five of seven for Virgin. I looked at easyJet and I think they are the same thing really. I think it was half a page for easyJet.

You can say 'well done' to BA to a certain extent, except I am coming in from a very straightforward [inaudible]. Paul Ellis's worst-case scenario was very interesting. Have you been down to the Thames Barrier lately?

**Paul Ellis, British Airways:** A year ago.

**Samantha Heath, AM:** Do you know how many times it closed in January?

**Paul Ellis, British Airways:** No.

**Samantha Heath, AM:** Do you know how many times it was designed to close?

**Paul Ellis, British Airways:** No, I do not know that either.

**Samantha Heath, AM:** It was designed to close two-to-three times a year. In January it closed 19 times. That is where we are. Your worst-case scenario is very interesting, but the Environment Agency are pretty confident about their predictions that London will be underwater in 40 years' time. It is kind of irrelevant: we are moving the deckchairs on the Titanic a little bit.

Your worst-case scenario is very interesting, but there is a big question in it. This is to BA, because I do have page 15 of your environmental whatsit. It says, 'we – the British Air Transport Association (BATA) – approached the Government with a paper on voluntary approaches to controlling emissions of greenhouse gases.' That is very important. The reason why greenhouse gases are so important is that we – this Assembly and the Authority – are sweating to get a 20% reduction, inline with the Kyoto commitment. The Assembly has got 23% by 2016 because we modelled that.

Our entire national savings do not even equal the growth of CO<sub>2</sub> that you are predicting. Quite honestly, there is a very rude expression I could use, we are still not to a point where you have gotten yourselves together as an aviation industry and done anything to get yourselves into Kyoto. I did search the website and I have all the reports – the climate change and the report you did to BATA – and it still does not tell me how you think we can reduce the CO<sub>2</sub> in aviation. You have your efficiencies, and I really understand that, but we do need to go for reduction; not reduction in growth.

We have taken evidence that aviation is going to improve by 2020. We took evidence from BAA and they are saying there will no drastic improvement by 2020 for aviation. That is the evidence we have got. There are new aircraft that actually deliver on these efficiency savings that we are talking about, but they are not coming forward because the demand is not there.

**Paul Ellis, British Airways:** Thank you for the recognition. There is fuel efficiency coming along. We set ourselves a target to get an improvement of 30% between 1990 and 2010. We think we are about two-thirds of the way to delivering that, so that is one thing. Over the last two years we have actually reduced our CO<sub>2</sub> emissions by more than 500,000 tonnes through our investment in a modern fuel efficient fleet.

We are actually signed up voluntarily to the UK Emissions Trading Scheme and we have come in 'under budget' on that, so we are taking some positive steps. We do support the inclusion of aviation in the revised Kyoto process. That is our position. We think the way to deal with this is through an open emissions trading system, which will be the best way of getting efficient use of what the world is allowed to generate in terms of global warming emissions, and getting the best economic benefits out of that. Of course that is still some years away, as the revision of Kyoto is 2010 or thereabouts. These things take a lot of time and we will soon be in the foothills of that process.

Along the way, we think that the UK scheme for emissions trading could be extended to a Europe-wide scheme. We will be supporting that in our response to the Government's consultation document

on absorbing the external costs. Those are some of the positive things we are doing. We are trying to put a push the agenda forward. We are active participants in the ICAO process, which is what was set up following Kyoto to look at how you get aviation into this whole arena. It does not actually matter where you build airports, whether it is Heathrow, Gatwick, or Stansted the biggest issue is how much of the demand you are setting out to meet and whether you are managing that in an environmentally reasonable way.

**Samantha Heath, AM:** I get that CO<sub>2</sub> does not really look at boundaries, but I have very little confidence in ICAO given the issues we had around aircraft improvements for noise and air quality. The improvements is it chapter four or five?

**Paul Ellis, British Airways:** Four will be next year.

**Samantha Heath, AM:** What was agreed was rather pathetic, was it not?

**Paul Ellis, British Airways:** Are you talking about the noise?

**Samantha Heath, AM:** Yes.

**Paul Ellis, British Airways:** It did move it forward. You say it is pathetic, but we are at the leading edge in the UK. We already have the quietest aircraft and we are always trying to bring the others along with us, to get the Americans onboard. We always press as hard as we can down that route, but we would like to be able to move it along more quickly. In terms of local air quality, I think we will be making much more rapid progress in years to come. As noise has been looked at for 25-30 years now, we have been through two or three cycles of improvement in noise. The focus is very much turning on to air quality, particularly NO<sub>2</sub> emissions. The programmes which are now being put in place on that are looking at reductions of about 45% by 2010, and up to 80% by 2020 these are the Rolls Royce....

**Samantha Heath, AM:** 45% by 2010 and 80% by when?

**Paul Ellis, British Airways:** By 2020. It is under the ACARE programme.

**Samantha Heath, AM:** That is when aircraft will be available?

**Paul Ellis, British Airways:** That is when the research would be embodying them into aircraft. You are at the start of embodying that type of improvement.

**Samantha Heath, AM:** And your average fleet age is about eight years or so?

**Paul Ellis, British Airways:** The average is about eight or nine years.

**Samantha Heath, AM:** We are beginning to embed 80% by 2020, so it is about 2030 before we actually get that?

**Paul Ellis, British Airways:** To get to that sort of level, the work we have been doing in looking at improvements in air quality in the timeframe when you might expect another runway to come along – expected within ten years from now, and building up after that. These improvements of about 40% will be sufficient to make aviation's contribution to coming within the UK local air quality limits.

**Samantha Heath, AM:** What sort of percentage growth of aircraft coming into the South East we were talking about?

**Paul Ellis, British Airways:** Over 30 years you are probably looking at approximately doubling the number of aircraft movements and probably two-and-a-half the number of passengers. You are getting a gradual increase in the average aircraft size.

**Samantha Heath, AM:** You are doubling, but you are only improving the air quality by 80%, so we are still not going for reduction in growth.

**Paul Ellis, British Airways:** No, an 80% improvement against the doubling is actually less in terms of NO<sub>2</sub> emissions.

**Samantha Heath, AM:** We are still not better off than we are today.

**Paul Ellis, British Airways:** We will be much better off.

**Samantha Heath, AM:** Not with a 100% increase.

**Paul Ellis, British Airways:** If you start from 100 and double it, you get 200. If you take off 80% of 200, you are well under 100.

**Samantha Heath, AM:** The next question I have is around your CO<sub>2</sub> and your desire to trade, etc. CO<sub>2</sub> actually requires a reduction here. Your 80% means you will have a reduction of how much?

**Paul Ellis, British Airways:** That is an entirely separate issue in terms of these numbers, so put that to one side. There will be an increase in CO<sub>2</sub> emissions as aviation continues to grow. I think the efficiency rate, which you refer to, is about 2% per annum. If you are looking at traffic increasing 3.5-4% per annum, clearly there is an increase. That is why we talk about an 'open' emissions trading system. In other words, the efficiency improvements that come from other industries and other sources could be traded off against an allowance for an increase in the emissions from aviation, on the basis that it produces the best overall economic outturn globally.

**Samantha Heath, AM:** Obviously I do not think that is particularly acceptable, but that is a position I can take.

**Jenny Jones, AM:** I am being completely blinded by figures here, which I find extremely uncomfortable. At the moment there is a growth in greenhouse gases.

**Paul Ellis, British Airways:** Yes, there is.

**Jenny Jones, AM:** What size is that growth?

**Paul Ellis, British Airways:** I reckon it is probably about 2% per annum.

**Jenny Jones, AM:** Do you think there is potential for a sustainable growth figure in greenhouse gases?

**Paul Ellis, British Airways:** This is why we are very keen that there should be an open emissions trading system. Aviation accounts for about 3% of the greenhouse gases, so it is a small but growing proportion of greenhouse gases. What we are suggesting through the ICAO process – and therefore hopefully back to the Kyoto process – is that you have an open global emissions trading system for what is allowed in terms of volume of CO<sub>2</sub>. Because aviation is a big producer of benefits, aviation can grow its CO<sub>2</sub> emissions provided it trades for emissions coming from other sectors which may be declining or are more able to reduce their contributions to CO<sub>2</sub> in years to come. It is about closing inefficient power stations and then trading some of that improvement to allow aviation to grow.

**Samantha Heath, AM:** Do you know how hard that is? We are looking for 20% in London, and we are scratching and scratching. To cover yours as well, with all respect, is pretty tough.

**Chris Essex, easyJet:** I think you have got to go further. You have to look at structural changes as well. We are certainly pushing as hard as we can to see structural changes in terms of how air transport is managed across Europe. We cannot just look at the UK in isolation; it has to be more efficient across Europe. We certainly welcome the speeding up of the retirement of older aircraft. We believe further liberalisation and deregulation will mean airlines that are not so successful, who are just using older technology, will go bankrupt and will be replaced by more efficient airlines. We come back to the whole issue of 'hubbing'. You are taking the passenger on two flights rather than one, if you are going point-to-point. There has to be some scope for improvement in that area as well.

**Samantha Heath, AM:** That is very welcome. The point of the matter is: I do not think we even have a foot on the ladder to discussing how we are going to manage our environmental improvements, yet we are still talking about new runways. The issue I have is: come to the table with something far more thought through, far more successful, and I might even begin to listen to your arguments about how you need them and what a shame it is we are reducing. Quite honestly, the aviation industry has not addressed this agenda as far as I can see.

Looking at your web pages, go back to your websites and sort them out. This is where I get my information from and this is the research we have done. In the discussions we have had with BA, I quite understand the point but just to take refuge behind: 'Yes, we want to come into Kyoto,' without seriously coming to the negotiating table and seeing how hard it is, quite frankly is not good enough.

**Paul Ellis, British Airways:** I did say that we have actually cut our CO<sub>2</sub> emissions and we are in the UK emissions trading system. We are suggesting that is applied Europe-wide.

**Samantha Heath, AM:** I think that is very important.

**Paul Ellis, British Airways:** That is something that is working. We are building up in a sense from the UK to the European level. If we can demonstrate that model, I think it will be a very powerful way of influencing the process through ICAO.

**Samantha Heath, AM:** I would really like to see your [inaudible] consultation with where we should go with CO<sub>2</sub> and aviation. I would like to see, if possible, your contributions to that. That would be very interesting for us. Vanessa, quite frankly you need to read the Air Quality Strategy. With low emission zones in London and our transport policies in London, it is now looking at 50/50 and 60/40 the other way for aviation. Because of the improvements of Euro 2, Euro 3, and our work on low emission zones in London that we will not make the 2010 air quality targets; we know we will not in London. We are attempting to do it, but it is far more 60/40 the other way. That is my personal projection, or 50/50, which is getting to be slightly more where the Air Quality Strategy is at the moment.

**Vanessa Tamms, Virgin Atlantic:** Firstly, thank you for the constructive criticism on our website. I will take 'pants' back to my boss. Please understand that we certainly recognise that we have not been good at promoting what we are doing within the company in terms of our environmental strategy, as it were. We would find it somewhat ironic to produce a big glossy mag talking about how good we were in terms of the environment, but nevertheless we are certainly working on beefing up that section of our website, which says what we believe the Government's environmental targets should be – and indeed what we are doing to address those.

We certainly support an open cut-and-trade approach, as suggested by BA. I just want to highlight again that this type of approach puts an overall cap on emissions, so overall emissions do reduce over

time. It is just that you can trade between sectors, which allows maximum flexibility for all those involved.

We are certainly aware of the energy white paper and the targets set out in that: 60% reduction by 2050 is quite a challenging target. We are also aware of the Local Air Quality Strategy in addition to the EU limits. Indeed, we are pushing to do as much as we can as an airline operating in the aviation industry, doing our part to meet those objectives. Of course, some of those targets are raw targets which pertain to not just aviation but to other industries. There needs to be some sort of joint, managed approach towards that.

**Jenny Jones, AM:** On the issue of emissions trading, has this started? How many airlines are involved? What are the future plans on this?

**Paul Ellis, British Airways:** BA is involved in emissions trading in the UK. I do not believe that any other UK airline has yet joined the scheme.

**Jenny Jones, AM:** You are trading now?

**Paul Ellis, British Airways:** Yes.

**Jenny Jones, AM:** Could you tell me a little bit about that?

**Paul Ellis, British Airways:** It is a voluntary scheme set up by the Government about two years ago. We and a number of the oil companies and some others are involved in that. Basically, you trade in emissions so that you bring about a reduction.

**Jenny Jones, AM:** I understand the principle. Do you know who you are buying from?

**Paul Ellis, Head of Airport Policy & Planning, British Airways:** I am not personally involved in that, but if you would like me to send you some details I think that is the best and most honest way that I can deal with your question.

**Jenny Jones, AM:** Are any other airlines planning to go for this now?

**Vanessa Tamms, Virgin Atlantic:** As a company, we cannot participate in the scheme because it pertains to UK emissions. We only operate long-haul, primarily point-to-point, international services. That largely excludes us from entering into the UK emissions trading scheme.

**Richard Barnes, AM:** So you do not generate CO<sub>2</sub> when you are in UK airspace? Is that how it works?

**Chris Humphrey, Virgin Atlantic:** The scheme is not open to us because we do not operate UK domestic services.

**Lynne Featherstone (Chair):** I would like to move on to the implications of expansion for air safety. Current constraints are meaning more stacking. When we took evidence about the growth, I was worried – speaking as a human being who does not like being stuck in a stack any longer than necessary – if you had more movements, more passengers, and more flights then I would be in danger. It was explained to me very simply that there was no problem whatsoever with the traffic signals: the witnesses would be able to cope with as many movements as necessary. They just needed a really good signalling or air traffic control system, but it would ultimately mean more stacking if there were more planes coming into Heathrow. Is that a safe state of affairs, as stacking goes on? Can the system cope with growth?

**Chris Humphrey, Virgin Atlantic:** I think that is a question you really need to direct towards NATS, rather than us. We would not operate services if we felt it was unsafe to do so.

**Lynne Featherstone (Chair):** Surely with your aim and desire to get more movements into Heathrow, you have thought about such issues and you have discussed safety with NATS.

**Chris Essex, easyJet:** All three airlines are indirect shareholders in NATS.

**Lynne Featherstone (Chair):** You cannot just say, 'Just talk to NATS.' You have to tell me what you think.

**Vanessa Tamms, Virgin Atlantic:** Safety is obviously of paramount importance. On all the services we operate we also have very effective safety regulations in the UK. Indeed, we have a regulator for safety. In terms of NATS, in order to play our part in improving the situation – to minimise delays, minimise stacking times, and therefore aircraft emission into the atmosphere – we have jointly taken a stake in NATS with a number of airlines through The Airline Group. We are getting our hands dirty every day in helping NATS to reduce delays. In addition, the CAA regulation group has recently consulted on increasing the stringency of the delay term that applies to NATS, in order to try to incentivise NATS to improve its performance on delays, to reduce the stacking time in the air.

**Richard Barnes, AM:** Stacking also occurs when you arrive early. You come across the Atlantic with a fair wind and arrive before you are supposed to land, because night time has not finished. You get stacked up.

**Vanessa Tamms, Virgin Atlantic:** You are absolutely right.

**Richard Barnes, AM:** I know. I often wonder what 'night' is as far as the airlines are concerned. That is stacking. The question the Chair is asking is: 'with the increased number of flights and the additional runway, are more planes going to be circling around London – and maybe even out across the Channel and the North Sea? Is there an increased danger?' That is what she is asking.

**Vanessa Tamms, Virgin Atlantic:** Conversely, some of those aircraft that are currently stacking are stacking because there is insufficient runway capacity. They will actually be able to land those services.

**Richard Barnes, AM:** Some are big and would not land on it.

**Lynne Featherstone (Chair):** The airport capacity that you want increased at Heathrow is for additional flights; it is not simply for relieving congestion. There is not going to be relaxation.

**Paul Ellis, British Airways:** You are right, but it is partly to reduce congestion. Because of the lack of capacity, we have operated very close to the capacity limit whilst maintaining safety. We want to come back from that so we can reduce...

**Lynne Featherstone (Chair):** But then it will grow again.

**Paul Ellis, British Airways:** That has to be controlled. I think that is very important. Our discussions with NATS have suggested that adding capacity to existing airports is an easier and a safer proposition than trying to develop new airports. Richard Everett, who runs NATS, has particularly said that Cliffe airport would be a very difficult proposition indeed because of its interference with London City and with Heathrow. Also, the closer you get to foreign airspace the greater the difficulty you have in dealing with incoming flights. They just suddenly pop across into your airspace and you have not got the time and ability to manage those traffic flows before they come into land. Those are some of the issues we have taken into account in looking at the options.

**Lynne Featherstone (Chair):** Going back to Heathrow, where we have more planes coming in because we have got a third runway, what will have to happen technologically to make that a viable and safe option?

**Paul Ellis, British Airways:** The technology exists. It is a standard type of procedure, but there is clearly a need for a redesign of airspace.

**Lynne Featherstone (Chair):** That is where I am going.

**Paul Ellis, British Airways:** That would happen with each of the runway developments. Depending on which took place, you would design your airspace differently. Across the South East of England there is an interaction between all of the pieces of airspaces. It is difficult to be definitive until you have actually got the policy for all of the pieces in place, to see in detail how the airspace would be designed.

**Lynne Featherstone (Chair):** I have been trying to understand a bit about air safety, and it is quite complicated, but I understand that in order to get more planes into Heathrow – or to create more space for aircraft that are waiting to land – there is a thrust to replace something called ‘air pressure’ with something called ‘microwave’. You will know what I am talking about; I do not. The upshot is to reduce the space between aircraft.

**Chris Essex, easyJet:** The technology that is being used today was really developed at the time of war to detect people who did not want to be found. The technology opportunity is to change all of that and actually involve people more, so the pilot has situational awareness to a much greater degree, the technology is actually controlling the aircraft into the available landing capacity, landing slots, etc. We think there is a step-change opportunity there.

**Lynne Featherstone (Chair):** But is it right that to get more aircraft stacking you will ultimately have to reduce the separations?

**Chris Essex, easyJet:** To a degree, that has already happened. Again, we go back to the whole value chain. You cannot just focus on one aspect, because then you just create a bottleneck somewhere else. We have got to look at this holistically, not just talking about UK or foreign airspace but European airspace, making sure that is controlled in the most efficient manner. A strike in France tomorrow, as we had yesterday, and suddenly you have a major back-up in what is going on. That creates problems as well. On a nice clear blue sky day there is absolutely no pressure on the system at all. However, you have to manage for when it does not work as effectively.

**Lynne Featherstone (Chair):** But things do happen, as you say. While the technology may improve and get clearer onscreen...

**Chris Essex, easyJet:** It must be all of these things.

**Lynne Featherstone (Chair):** The one thing you cannot change is the air traffic controllers; the people who are trying to deal with this ever-increasing load and concentration of aircraft. What plans do you have to help these people?

**Chris Essex, easyJet:** They will stay in the loop. NATS, who gave a presentation to The Airline Group three or four months ago about their technology plans, are looking at significant improvements in what they are doing. Support and training are absolutely critical.

**Lynne Featherstone (Chair):** I just wonder, with the straight line going up that Samantha was talking about, whether human capacity will be reached at some point.

**Paul Ellis, British Airways:** I think there are two points there. The straight line is actually a decline over time. We are actually talking about gradually reducing the rate of growth down to about 2.5% per annum by the end of the period, according to the DFT. The point is really about air traffic controllers. The way they are organised is that they each control one or two sectors. As you get more sectors of controlled airspace you will need more air traffic controllers. It is not about putting more load on to the individual; it is about having more controlled airspace with the air traffic controllers trained to deal with that, which does take time. It takes several years to fully train an air traffic controller, but because of our wonderful planning system we have the luxury of at least ten years to be able to train those air traffic controllers.

**Lynne Featherstone (Chair):** Lastly, on safety: you mentioned life happens, things happen, and pressure occurs. How much more compromised will people's safety be if something goes wrong at Heathrow, if Heathrow suddenly has to be closed?

**Chris Essex, easyJet:** Then people sit on the ground.

**Lynne Featherstone (Chair):** If they cannot land?

**Chris Essex, easyJet:** Then they are brought in. It is well controlled so that people are not given permission to take off in Paris to fly to Heathrow, because it is closed. The safety mechanism is to de-escalate what is there. That causes huge problems to the individual because they do not take off, cannot go anywhere, or whatever. It is a huge burden on the infrastructure but safety is not compromised in that regard.

**Lynne Featherstone (Chair):** I understand that, but it just seems to me that while all this is being managed safely now, there is no recognition that it will change. You are saying it is absolutely going to be as safe. The extra pressure brought by a third runway will do nothing; it will not increase the difficulty when the airport closes.

**Chris Essex, easyJet:** No, it will not. The pressure we are placing on NATS is to get ahead of the growth curve and to build in redundancy – overcapacity, if anything – to meet what will probably be additional demand in certain areas.

**John Biggs (Vice Chair):** We are lay people; we claim to be, anyway. I think there is a gulf here between you clever aircraft professionals, who are basically saying 'Trust us. There is a lot of clever technology there and it is a very safety-driven industry,' which it clearly is. We would be in some trouble if it was not. Safety is not really an issue in this debate about expansion, as long as we do not build airports in unsafe places, for example. It is not really an issue.

I think there is a gulf between that and the wider public concern, which says that if you have these 200 tonne lumps of metal flying over our heads there is something intrinsically unsafe about that. I do not know if I am asking a question or making a comment, but there is clearly an issue here about people's perception. You have to manage people's confidence in air travel. After accidents there does tend to be fall-offs in demand as people's confidence is undermined, so safety is very critical to you from a marketing and business point of view. However, you are saying it is not really an issue for airport expansion.

**Chris Essex, easyJet:** It was not trying to say it is not an issue. What we are trying to say is that it would not be compromised. The issue is then that if you introduce more airport capacity, you have to recognise that creates pressure points elsewhere; for instance, in the air traffic control system. Without being able to give you a definitive view on what NATS are planning, from what we have seen they are planning to take into account that additional capacity to maintain a very safe environment.

**Paul Ellis, British Airways:** For example, they will build initial modelling of the additional runways. Controllers will then use the models to work. It is still the same dots on the screen and they will have different scenarios thrown at them to deal with, in terms of disruptions and so on. When you actually commission a new airport – we have the example of Manchester in this country – you do not just open it up to full capacity. You tend to bring in the capacity gradually. I think Manchester brought it on at five movements an hour after several years. It is a matter of managing your way into the process.

**Lynne Featherstone (Chair):** So the scenario in *The Day Britain Stopped* is not true, or whatever it was.

**Samantha Heath, AM:** I want to return to slots and the point Paul raised about Cliffe. My understanding is that with the technology with NATS and with new aircraft the need for stacking should be reduced dramatically, because you can more or less predict the wind speeds, landing times, and so on when you take off. That is really I think where we need to go if we are going to develop the way you are talking about. I had not heard the Cliffe argument before. In the Environment Committee we took evidence from Airbus, who said the need for space over London should begin to line out [phonetic]. I wanted to square that with what you said about Cliffe.

**Paul Ellis,** It takes a very short period of time for an aircraft, once it has crossed from Belgian or French airspace. You want to be able to manage the flow of arrivals on to the runways in an organised way, coming from various different directions, but also to select the aircraft so that you get the best use of the capacity. If you have too many alternating big and small ones, you actually reduce the capacity. It is doing all of those things with the aircraft coming at you over a very short period of time, out of foreign airspace. That is one of the difficulties of managing Cliffe.

**Samantha Heath, AM:** But is the scenario we have of nirvana, of reducing the need to stack the way that we have been told by the people who design those things, is that not true then? Is that just wishful fairy dust?

**Paul Ellis, British Airways:** I think there must be something in it. I would hope there is something in it. The more information you can get further back in the system, in terms of what is coming at you, the better you can do in terms of managing and the less the need to stack.

**Samantha Heath, AM:** My understanding of the new NATS is that the new technology is actually there. It is just the aircraft that need to now match it. Is that not true? That is what I have been told by the CAA, at least.

**Paul Ellis, British Airways:** It is not just NATS of course. You are thinking about all of the other sectors of European airspace which have to be operating on the same standards, and so on and so forth – and supplying the information. Having the technologies is an enabler, rather than something which is necessarily going to take us as far as we would all like to go.

**Samantha Heath, AM:** Do you have a time span?

**Paul Ellis, British Airways:** No.

**Lynne Featherstone (Chair):** I am suffering from being an ordinary human being. I am trying to exemplify what John was talking about and it defies logic in my mind. Is this statement true: 'as aircraft get more concentrated, there is a higher risk of collision'?

**Chris Essex, Business Development Manager, easyJet:** If they are unmanaged, no doubt, but the focus has to be on managing that capacity. On that basis, if safety will not be compromised then that is not true. I do not think you can just make that statement in isolation – it has to be in context.

**Lynne Featherstone (Chair):** I understand you would want to manage it. I am trying to argue the human perspective. If you try to manage something more complex that would ordinarily be a true statement. It is conceptually very difficult for the ordinary human being to understand. You are saying, 'I can cope with all of these planes, do not worry.'

**Chris Essex, easyJet:** One aspect of complexity is the increased volume. Again, what we are trying to do is to simplify the equation by getting an integrated approach as well.

**Richard Barnes, AM:** Even with the systems we have today, people try to land on the A4. We live in dangerous and interesting times. To what extent has security played a part in the conclusions which the four of you have reached? Security is different to safety.

**Vanessa Tamms, Virgin Atlantic:** Security is obviously always very important and we are subject to very detailed US regulations.

**Richard Barnes, AM:** So you have not sat down as a company and looked at the security implications for your company from expansion at any of the airports; you have just taken it as a given.

**Chris Humphrey, Virgin Atlantic:** We constantly review security of operations around the world, in every airport we operate in. It is always under review.

**Chris Essex, easyJet:** Is your question asking whether we have considered security as being a limiting factor in terms of growth?

**Richard Barnes, AM:** That is part of it.

**Chris Essex, easyJet:** I do not think so. In consultation with the relevant authorities, they are putting more and more demands upon the airlines to improve their security. We are working with them on that basis, so we do not see it as a limiting factor.

**Paul Ellis, Head of Airport Policy & Planning, British Airways:** I would endorse what has been said. We have a daily review of security and individual locations are put on and off the list, and at different levels of security. Certain things are now being designed into airports of course, in terms of segregation of passengers and so on. That is taking place now. It is not an issue which is a limiting factor.

**Richard Barnes, AM:** Are any of you aware of Sir John Wheeler's report into airport security?

**Paul Ellis, British Airways:** I am aware of its existence.

**Richard Barnes, AM:** You are aware of its existence?

**Paul Ellis, British Airways:** Yes, it is not my area of responsibility within BA.

**Chris Essex, easyJet:** I am not aware of the particular points.

**Richard Barnes, AM:** He makes particular recommendations as regard to security of airports.

**Valerie Shawcross, AM:** We have had a few doomsday scenarios this morning. Chris talked about how the airline operators would respond to and manage a short-term incident: an air traffic strike or whatever. Supposing we did suffer a catastrophic attack at Heathrow and Heathrow was going to be out of operation for a very long time, what would be the response of the operators in terms of London resilience? Do you think this is something we ought to be factoring into long-term runway and airport capacity planning? Do we need to have spare capacity or fallback capacity?

**Chris Essex, easyJet:** It is probably for BA to answer, being the major operator at Heathrow.

**Paul Ellis, British Airways:** I am not sure it is something I would want to talk about in an open forum, obviously for security reasons but also it is not my area of expertise. If that is something which you would like to have some information about, then I can take it back to BA and we can perhaps arrange something.

**Valerie Shawcross, AM:** It has not been a factor in past planning of runway capacity issues, but is it something which ought to be thought about?

**Paul Ellis, British Airways:** Security must be thought about and contingency planning must be thought about, yes.

**John Biggs (Deputy Chair):** The absence of another two-runway airport in the South East of England would imply that if the green munchies came and ate Heathrow, you would have a real problem landing things anywhere else.

**Valerie Shawcross, AM:** I think we have understood the argument you have been making about the critical mass, the hub, and Heathrow being a focal point. If that critical hub was significantly and severely damaged for a long period of time, how could you limit the economic damage to London? I'm trying to make another argument for Gatwick.

**Paul Ellis, British Airways:** I would rather not react to that off the top of my head. I would have to think about some scenarios.

**Lynne Featherstone (Chair):** Thanks you for coming.