HOUSE OF COMMONS

Transport Committee

Oral evidence: Airports National Policy Statement, HC 548

Tuesday 20 February 2018

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Watch the meeting

Members present: Lilian Greenwood (Chair); Ronnie Cowan; Steve Double; Huw Merriman; Grahame Morris; Luke Pollard; Graham Stringer; Daniel Zeichner.

Questions 576 - 677

Witnesses

I: Sophie Dekkers, UK Director, easyJet; Dale Keller, Chief Executive, BAR UK; Craig Kreeger, Chief Executive, Virgin Atlantic; Willie Walsh, Chief Executive, IAG; and Simon McNamara, Director of Communications, Flybe.

II: Andrew Haines, Chief Executive, Civil Aviation Authority.

Written evidence submitted by witnesses:

– BAR UK

– Virgin Atlantic Airways

– International Airlines Group (IAG)

Examination of witnesses

Witnesses: Sophie Dekkers, Dale Keller, Craig Kreeger, Willie Walsh and Simon McNamara.

Q576 **Chair:** Welcome, and thank you very much for coming along today. Can I ask you please to introduce yourselves for the record of our proceedings?

Dale Keller: I am Dale Keller, chief executive of the Board of Airline Representatives UK.

Craig Kreeger: I am Craig Kreeger, CEO of Virgin Atlantic.

Sophie Dekkers: I am Sophie Dekkers, UK director for easyJet.

Willie Walsh: I am Willie Walsh, CEO of International Airlines Group.

Simon McNamara: I am Simon McNamara, director of communications at Flybe.

Q577 **Chair:** Thank you. You are quite a big panel. As I or my colleagues ask questions, if you want to add something different, that would be great, but do not feel that you need to repeat things that have been said by colleagues if you are in agreement.

I have a couple of questions about the strategic case and some of the alternatives to what is set out in the NPS. It has become clear to our Committee during the course of the inquiry that there are several legal, environmental, financial and delivery hurdles to be overcome by Heathrow. How confident are you that this scheme will be delivered on time and to its budget?

Dale Keller: In terms of strategic debate over Heathrow as a hub for the UK, the case has been there economically for several decades. The runway is not already there for other reasons, not for the economic case. In terms of deliverability, hopefully the NPS and DCO process will finally see what should have been delivered many years ago put in place. Our concerns are really about some of the costs of that, the uncertainty and the risk, and how that relates to being pushed through to airlines and passengers.

Q578 **Chair:** Do other members of the panel agree with that assessment?

Willie Walsh: My confidence in on time and on budget, as you put it, is zero, based on experience of dealing with Heathrow. Heathrow will claim to deliver things on time and on budget. It is very easy to deliver on budget if you have a massive contingency in your budget that you can waste. It is equally easy to do it if your focus on costs is absolutely zero, as is my experience with Heathrow.

We do not know what the budget is yet. We do not even know what the plan is. For us to have confidence that Heathrow can expand while maintaining passenger charges flat, and that is the key objective, is a challenge that I do not believe Heathrow is up to. In terms of being on time, they do not have a great record on delivering major infrastructure projects on time. They will claim to have delivered on time, but the reality is that it is rare, if ever, that they have done so.

Craig Kreeger: The case for Heathrow is a very compelling one. The need for connecting traffic to create opportunities for more new routes to be flown is why investing in a hub is the right strategy for the country.

The question about costs and deliverability is a very different one from the basic case. Maybe to piggy-back but not make the same point as Willie made, our endorsement is sought for a plan where the consequence of an overspend on that plan will be borne by the airline and its customers. I would posit that if, in a similar circumstance, the taxpayer or the Government were asked to approve a plan where the consequence of any overspend of that plan was to be borne by the Government or the taxpayers, absent detail to be confident in the plan's deliverability, you would have a hard time being explicitly supportive in those circumstances. That is the place where we, the airlines, find ourselves being asked to be supportive.

Certainly Virgin Atlantic is very supportive of the idea. We feel that the solution to the problem is for Heathrow to make a passenger cost guarantee. They have the most information about how likely the costs are to be deliverable, and they should bear the risk of their estimate being grossly off target, rather than where we find ourselves today—being quite concerned that we or our customers, or some combination thereof, would effectively be left holding the bag for any overspending in what is now, at this point, a very unpredictable outcome.

Simon McNamara: Flybe is a relatively new operator at Heathrow. We are just coming up to our first-year anniversary. We are all about regional domestic connectivity in the UK. We would operate from an expanded Heathrow, and we think it should be expanded, but the costs have to add up. We are in exactly the same place. It has to be affordable. We can take it or leave it. We will expand if the costs work, but we will not expand if the costs do not work and we cannot access that capacity. Those are the two key things for us, but we are ready to deliver domestic connectivity by air, which is what Flybe does.

Q579 **Chair:** Sophie, is there anything you want to add?

Sophie Dekkers: From easyJet's perspective, I cannot talk from experience because currently we do not operate from Heathrow, so I will take their word on current experience. We welcome the fact that the Transport Secretary and Heathrow have both said that the charges will be as close as possible to what they are today. We would want a commitment to that, to make sure that it was the case. We will probably come on to talk about pre-funding, but we are certainly not supportive of that as a model. It is not done anywhere else. Although we do not operate there today, we would look to operate potentially in Heathrow in the future, and we do not think that existing airlines should have the burden of that cost either. I am sure we will talk about that in a bit more detail in the discussion.

Q580 **Graham Stringer:** Could Mr Walsh justify his statement about Heathrow and the costs? If I remember correctly, after T5 was completed *The Economist* and the financial press applauded the fact that it was on time and on budget. Do you think they got that wrong?

Willie Walsh: It was not on time. I gave evidence to a previous Transport Committee. It is well known to everybody that the opening did not go as well as we might have hoped.

Q581 **Graham Stringer:** I know the opening did not, but what about the actual delivery of the project?

Willie Walsh: The main reason was that everything was supposed to be complete six months before T5 opened. It was not. They were still working in T5 to finish it the day before it opened, so you cannot claim to have it done on time when you have used the six months that you were supposed to allow for completion of the training. That was the biggest mistake that was made with T5.

People like to gloss over what has happened in the past, but T5 was not finished on time. There were elements of T5 that were not even finished on the day T5 opened. I do not wish to make a major issue out of it, other than to say that history does not demonstrate that Heathrow is capable of delivering on time and on budget, despite the fact that they will claim to have done that.

As for the budget, you can claim to deliver on budget if you set the budget and there is no scrutiny of it and no detail in it. That is exactly what we see Heathrow doing today. Heathrow are saying, "Trust me; I will be able to deliver something for you for about £14 billion." We do not know what that something is. We do not know when it will be built. We do not know what makes up all the constituent parts. When we have asked for disclosure about that, they say, "We don't really have it, but we will have it after you've given us approval to build."

What they are saying to you is, "Trust us. Just give us the approval to build this and we will deliver on time and on budget." I do not trust them, and you should not trust them either. This is too big an issue for people to base their decision on trust in Heathrow's statements. If they believe that they can do it, they should give the commitment that they have so far refused to give, which is a guarantee that passenger charges will not increase, not some loose wording around, "We hope to and we think we can."

When asked, John Holland-Kaye refused to give that guarantee. He said that he could not give it. If I was in his position, I would not give it. I do not think he knows how much this is going to cost. They still have not figured out how they are going to deal with the M25. I heard him say, "Well, we might bridge it or tunnel it, but it doesn't matter because the cost will be the same." I just do not accept that, and I do not believe it.

Q582 **Chair:** Coming back to the economic case, if, as you say, there is no certainty about the costs, how can you assess whether there is a good economic case for the expansion?

Willie Walsh: That is an excellent challenge. The economic case is based on certain assumptions. If all those assumptions are delivered, you have an economic case. Instinctively, I believe that the economic case to expand Heathrow is strong, and is stronger than at Gatwick. I am not trying to run down Gatwick. I think Gatwick is an excellent airport. We have a strong presence there and will continue to have a strong presence there. If everything that has been promised is delivered, the economic argument is strong.

I do not believe that everything that has been promised can be delivered. In fact, I think it will be impossible to deliver on all the promises that have been made. If those promises are to be believed, I agree with Craig: let Heathrow take the risk. They are making all the promises, so let them take the risk.

Q583 **Chair:** Last week, we had the Secretary of State in front of us. When we asked him how the costs would be controlled in this setting, he suggested that the CAA as the watchdog would have teeth. Do you not believe that it would be able to act as that watchdog and effectively hold Heathrow to account for the cost promises they have made?

Willie Walsh: The Secretary of State, in whom I have great confidence by the way—he has done an excellent job in bringing this to this point—has said that the CAA is a regulator with teeth. I do not think the CAA has the required teeth to hold Heathrow to account. I have argued that in the NPS we should allow for competition within the airport. We should allow for alternative providers of terminal capacity. That would force Heathrow to deliver or, if they do not do it, it would enable somebody else to do so. That power should be given to the CAA. The CAA should have the power to force competition within the airport.

I am not talking about somebody having the runway. Let's leave the principal infrastructure of the runway and the taxiways within Heathrow, but I see no argument against introducing competition in terminal provision at the airport. That is something the CAA should be given, and it is something that this Committee should insist on being included in the NPS.

Q584 **Chair:** We will come back to that question in a moment. Thinking ahead, if the NPS gets parliamentary approval, notwithstanding the things you have already said, do you think there is a risk that it will get held up at a later stage of the approvals process, further delaying a response to the capacity challenges in the south-east?

Craig Kreeger: To come back to the point you made earlier about the CAA and how the process can unfold, we are asking that some more explicit language be built into the NPS to create certainty around costs, or some commitment on the part of Heathrow around costs, to guide the process as it proceeds through the remaining steps. This Committee has the authority and the capability to do just that. The more we can be explicit now, the easier it is for support to be rallied and the more likely it is that the subsequent steps will go through in a process that makes sense.

We are at an important point in time, where we are signing off on a big step in the project. We should be clear about the cost of the project, just as we are about the environmental impact and the other objectives that this Committee has for the way the project is delivered. I do not see any reason why costs should not fall into the same category.

Q585 **Chair:** Would I be right to describe it as a high-cost, high-risk scheme?

Willie Walsh: Absolutely. It is a huge cost, and the risk at this stage is completely unknown because we do not know what we are talking about. We are still talking about options. There are huge elements of this plan that we have seen no detail about. I do not know how they are going to bridge or tunnel the M25 and how much that is going to cost. We still do not know where terminal buildings are going to be built or expanded. There are options that are being considered. We are being asked to sign a blank cheque. Quite honestly, I think we would be foolish to do so.

As I said, if Heathrow believes in all the promises they are making—I have listened very carefully to what they are saying—it should give the commitment that passenger charges will not increase, and should take the risk if, as we have seen in the past, there is serious overspend associated with the project.

Q586 **Chair:** It seems to me that you are saying that, despite its being a high-risk, high-cost option, it is still the option that you want to see. Do you think that the Government were right to rule out the other options and make the NPS location specific? Were they right to rule out Gatwick, which potentially would come at a much lower cost and with a lot more certainty around delivery?

Craig Kreeger: As it is for Willie, Gatwick is a very important airport for Virgin Atlantic. We love the way we work with Gatwick airport. It is well run and a great place for us to do business, but whether I love Gatwick or do not love Gatwick, it is quite clear that for a larger catchment area Heathrow is a preferred airport. We see that in the data of flights that have been moved from Gatwick to Heathrow, both at the airline I was at previously and the one I am at now. We see the value of connectivity. We certainly anticipate having connectivity at an expanded Heathrow, with more opportunities, including with our partners at Flybe.

It is sometimes easy to think of connecting customers as being of low value on the face of it. Customers fly into and out of the country. They do not stay here or do a lot of business here, and therefore we do not see connecting customers as inherently valuable. On the value that connecting customers bring, it is not unusual for us to consider a route where a third of the customers will be travelling just between two cities. A third will go beyond on one side and a third will go beyond on the other. Therefore, the opportunity to bring in connections makes many new routes suddenly available. Heathrow is the place where we already have a good piece of connecting infrastructure. It is the place to add more connecting capability, which will create more new routes, both short haul and long haul.

For the UK, it seems very clear to me that if we can find a way to do this at a reasonable economic price, close to what is being suggested, it is the right call. It is not because Gatwick is a bad place, but for whatever combination of reasons it is very clear that Heathrow is preferred.

Q587 **Chair:** Is that the consensus of the panel?

Simon McNamara: On the point that Craig made, we do point-to-point regional travel, but we also do the connecting traffic. We connect through multiple hubs. We have a hub in Manchester and we do it very effectively. We would do the same in Heathrow. In fact, we have 11 code shares but seven in force at Heathrow. A large part of what we would do in an expanded Heathrow would deliver the feed for the long-haul connections to wherever it might be. We have code shares with BA, not at Heathrow but at Manchester, for example. We would deliver that and that is a very important part of what we do. It is not just the point to point; it is taking people from the regions of the UK onwards to international destinations through Heathrow.

Dale Keller: In the international network airline community that we represent, we feel that that part of the debate passed some time ago with the Airports Commission. Gatwick is a fantastic answer to a different question. If you are looking to protect the UK's role as a major global aviation hub, Heathrow is the right answer provided we can bring it in at the right cost.

The problem essentially is that, if you have the most expensive airport in the world with the highest aviation taxes in the world, it is not an aspiration for this country going forward to be globally competitive. We should not be aspiring to be the most expensive in everything. We want to work with the Government and Heathrow to bring the cost of this project down, so that the UK can really move ahead in aviation.

Q588 **Daniel Zeichner:** You are all saying that you support the proposal provided there is cost certainty, but you are not convinced there is.

Dale Keller: There are elements being thrown into the cost of this project which are completely alien to airlines around the world. It is the

Government’s requirement that the runway crosses the M25, not the airlines’ requirement. Operationally, it makes no difference to us where exactly that runway is located as long as it is somewhere in the vicinity of 3,200 metres long and we have the airport infrastructure of terminals, taxiways, traffic control and so on, which we pay for. There is huge risk and uncertainty over the road realignment, betterment and M25 coverage, which we do not know. We do not even have the rail connections fully costed into the plan. The benefits of those rail connections go far beyond the airport users and passengers, so that is the part that just does not make sense to the international airline community on the project.

Q589 **Chair:** There is obviously a great deal of risk associated with the scheme. I hear the M25 issue coming up again and again. But from what I can gather, it does not cause you to rethink. You want to put all your eggs in one basket and it should be Heathrow rather than Gatwick. Do you not see Gatwick as a viable alternative?

Willie Walsh: There will not be just one airport in London. Gatwick will continue to play a significant role. Gatwick has talked about maybe extending its capacity using its emergency runway. I certainly would not rule that out. It would be wrong if the Committee were not to look at that. Gatwick has demonstrated that it has the ability to grow well beyond what was predicted. British Airways has made a commitment to Gatwick, acquiring the slots that were made available following the collapse of Monarch.

We are clearly confident that Gatwick has a role for the future and we will continue to grow there, as we will at London City and potentially other London airports. We are by no means putting all our eggs in one basket. What you are hearing is concern that, unless there is control over the potential cost associated with this expansion as it relates to passenger charges, all of the benefits of an expanded Heathrow will not be delivered; you will not get additional flights if Heathrow becomes even more expensive.

All you have to do is look at the history of what has happened at Heathrow. Flybe used to operate at Heathrow, but it sold its slots because it could not make money there. BMI went out of business because it could not make money at Heathrow. Lots of airlines trying to operate at Heathrow have not been able to make money because the costs associated with Heathrow are too high. If they could, I have no doubt that airlines that were there in the past would still be there today. The reason why British Airways has 52% of the slots at Heathrow is that since 2001, when we held 36% of the slots, we have bought slots from airlines that have abandoned Heathrow. We were not given them; we paid for them. We paid for them because other airlines operating there chose to leave. Those slots were available to any airline to buy. They could have been bought by any of the airlines sitting here in front of you, but they were not.

The reality is that Heathrow has the appearance of being an extremely attractive airport, and it is a good airport, but it is a very difficult airport to operate from, given that it is the most expensive airport we operate from. The idea that those charges are going to increase is just alien to me and, I suggest, to everybody sitting here in front of you.

Q590 **Chair:** Is there not a risk that the risks are too high and so the choice is not between a new runway at Heathrow or a new runway at Gatwick, but between a new runway at Gatwick and nothing happening because this project just proves too difficult to deliver?

Willie Walsh: That is why you have to have clarity around the costs. That is why you have to have the guarantees that we are looking for. If those guarantees are not available, we should not waste any more time debating whether Heathrow should be expanded. We should look for an alternative.

I believe Heathrow can be expanded within reasonable cost in a scheme that would not see passenger charges increase. It can be done. I do not have confidence in the current management at Heathrow being able to do it, because they have never demonstrated that they can deliver things in a commercial fashion. They have never had to. They are rewarded for overspends, because it just goes into the regulated asset base—the RAB—and they are guaranteed a return on that. They have had a perverse incentive historically to spend more money than was necessary, because they were guaranteed a return on that money. You cannot have that situation. It does not exist anywhere else.

Q591 **Chair:** In terms of what would give you confidence, and what you think should give us confidence, is it to amend the NPS to include those guarantees, or is it to give the CAA new powers that it does not currently have? Is it something different?

Willie Walsh: It is a combination of those. Give the CAA more powers. Amend the NPS so that there is a final "Go" decision only after it is clear that all of those have been delivered, not as Heathrow said, "Give us the approval. Have the vote in Parliament and then trust us. We'll deliver all of this after you've approved the scheme." There has to be a final decision where they can demonstrate that they can deliver what they have promised within the costs that have been identified, so that passenger charges do not go up.

If they cannot do that, or if that demand is not acceptable to them, maybe you should look at alternative proposals. If I was running Heathrow, I would be prepared to guarantee that I could do that. All of us have experience of operating in a commercial environment where we are forced to do that. Heathrow has not. The operation of Heathrow has incentivised it to spend the money because it gets rewarded for all the money it spends.

Q592 **Graham Stringer:** If it did that, would there be unequivocal support?

Willie Walsh: I suspect there would be a lot more on the economic case. There are issues that clearly—

Q593 **Graham Stringer:** I am asking about the airlines. If there was a guarantee on landing charges, would airlines unambiguously say, "We now support Heathrow going ahead"?

Willie Walsh: Subject to the environmental issues that everybody is concerned about, yes. My understanding is that most of the airlines have said that they are supportive, including ourselves. At IAG we are supportive, provided we can be guaranteed that the charges will not increase.

Q594 **Huw Merriman:** I have a couple of other points, but I will save those for later. I wanted to further the questioning, Mr Walsh. Just to be absolutely clear, if in the worst-case scenario for you none of these fixes is forthcoming—so that you are required to almost be the lender of last resort on an uncosted project with all of these difficulties—and given that Parliament is being asked by the Government at the moment to vote on the NPS on the basis that there are no other alternatives, would your advice be that it would be better for Parliament to actually vote the NPS down, in which case we look at Gatwick? It would be difficult for MPs. I am looking for a steer to a certain extent, a sense of what you think would be best.

Willie Walsh: The question should be put to Heathrow. They are the people who want this. Heathrow wants to expand. If Heathrow wants to expand, it should answer those questions. If it cannot give those guarantees, it should be saying to you, "We don't want to do this."

Q595 **Huw Merriman:** But given that Heathrow has already been here and we are where we are, and you still have these concerns, it is very difficult for MPs. It is almost as if the main stakeholder's customers, being you as representative of the passengers, do not have confidence in the scheme currently being put forward. Are you not almost implicitly saying that that scheme should not continue?

Willie Walsh: What I am saying very clearly is that, if the charges increase, you are not going to get the expansion at Heathrow that has been talked about. Therefore, the third runway will become a white elephant. I think you have heard that from Flybe. It wants to expand, as do Virgin and easyJet. They have said they will look at it, but I do not know of any airline that has said, "We will expand at Heathrow regardless of the cost."

Craig Kreeger: You have put a question to Willie that was not expansive enough. What I would suggest is that we think the Committee should approve Heathrow as the case, with more than a few words on costs, guiding the rest of the process to ensure that there is cost accountability inherent in the approval. That gives the Government, the DFT, the CAA and this Committee assurances that the economic case will stack up, and gives us as airlines the capability to plan on a basis that we can totally support.

Q596 **Huw Merriman:** Following on from that, the Gatwick management obviously has huge expertise in trying to build out an expansion, because that is what it bid for. Have you had conversations with the Secretary of State or the Department for Transport about the opportunity, which I know is bizarre, for the team at Gatwick to come and bid to create some internal competition to build out at Heathrow? Or are those conversations just not on the table for you to have, hence your frustration?

Willie Walsh: I have been very clear that we should facilitate additional competition at Heathrow. I do not believe it would be workable to say that we would have somebody else build a third runway, but it is eminently workable to have somebody else design and build the additional terminal capacity that will be required, and other facilities. Introducing competition within Heathrow would be very positive and would certainly help to achieve the objective, which is to ensure that the charges at Heathrow do not increase.

Q597 **Huw Merriman:** Are those conversations that any of you have been able to have with those who might be able to do it?

Willie Walsh: Not specifically in relation to Gatwick but, yes, specifically in relation to competition.

Q598 **Huw Merriman:** What responses have you had?

Chair: Mr Keller was trying to get in.

Dale Keller: The NPS is a Government system to get this infrastructure project over the line. This is national infrastructure, as is the road, the M25, and the rail that goes around the airport, so, ultimately, we need a Government solution, to look at the NPS, for how we do that and take away the risk. It cannot be right that airlines and passengers are the last level of risk on competing national infrastructure projects. I am sorry that TFL has issues itself on funding for rail connectivity, but adding huge amounts of that on to the bill is inflating the cost of the project to levels where we have no idea of what they may be; we do not really believe the £14 billion. Our complaint is that that risk in the process cannot come back to airlines and passengers. We have our own risks on aircraft and fleet, and in our own planning to invest. We need to look at a mechanism within the NPS. The NPS is too specific in some parts and not specific enough in other parts.

Q599 **Chair:** Does it need to be amended to make guarantees part of the NPS requirements that have to be provided before development consent can be given?

Dale Keller: That is what we are asking for—quite reasonably, I believe.

Q600 **Chair:** One last question before I move on a bit. Notwithstanding expansion, even if everything went smoothly, we would not expect an expanded Heathrow to open until the mid-2020s, 2026ish, and we expect demand for people to fly to continue in the meantime. That requires making better use of our existing runway capacity. Are the Government doing enough to enable that to happen, and should there be more in the NPS about how they intend to enable airlines to make good use of the capacity that is available?

Sophie Dekkers: From easyJet's perspective, there is more that could be done in the NPS in making use of existing capacity at London airports and airports across the UK. It is almost a bit too Heathrow-centric, to be honest. We are missing an opportunity in the short term if we do not put that as part of the plan.

Willie has already talked about Gatwick looking at an alternative option on its resilience runway and how it can better utilise that. Luton is looking at expansion planning as well, as is Stansted. There are opportunities that can happen in the short term that should be accommodated in the NPS. At the moment, it talks about being "minded to" look at other capacity. We need to make that firm and make sure that we are not just waiting for 2026, and that we do stuff to unlock capacity that could be very easily enabled today and tomorrow at much lower cost, and in a more straightforward way. The NPS should absolutely incorporate that. As I say, it should be not just London but all of the UK. Let us not just make it a Heathrow-centric policy.

Q601 **Chair:** Does anybody else want to add to what they would like to see in the NPS about better use of existing capacity?

Dale Keller: One of the problems we have identified in the NPS is that none of the airlines I have spoken to can correlate the figure of 117 long-haul destinations off a two-runway airport, growing from the current 80. It has been debated that the economic value was only 123 destinations on three runways.

I have been to airlines just this week and last week that would like to expand operations at Heathrow now. It is effectively full, unless you can upgrade aircraft size, which is not always possible for a lot of the foreign airlines. Heathrow is only part of their global network. If you order an aircraft today, it will not be delivered for several years. The answer has to be across the London network. The London network will not necessarily meet the needs of particularly the long-haul operations. You already have a bit of a mismatch on the figures in the NPS on what is achievable from Heathrow as it is today.

Simon McNamara: On that point generally, the debate about airport capacity across the last 15 or 20 years has all been about the south-east and about Heathrow. As an airline, we are spread across the UK. We are very strong in Scotland as well. It is important for us, as UK plc if you want to call it that, to keep up with delivering more capacity and making best use of our capacity across the country. You only have to look at how mainland Europe have been implementing new capacity while we have been stagnant here in the UK. They have all delivered capacity. You just have to look, for example, at the regional connectivity from Amsterdam to the UK to see that they are one step ahead of us. We definitely need to be playing catch-up in delivering that capacity, and making the best use of our capacity elsewhere as well.

Willie Walsh: I have said before, and I know you have heard me say it, that the issue of APD has to be addressed if the UK is to fully exploit all the available infrastructure. That is definitely a drag and discourages airlines from operating long-haul flights in particular to other parts of the UK. If APD did not exist, you would see a lot more interest and definitely a lot of additional long-haul flights going to airports outside London. The existence of passenger duty, particularly on long haul, is a major issue; it is for short haul as well. If you are looking at how to maximise the infrastructure you have, you are not going to do that while you have a huge tax barrier.

Q602 **Chair:** Do you think that APD is displacing long-haul flights to other European hubs?

Willie Walsh: Yes. As you heard Simon say, it is displacing passengers over other hubs. It is not just the flights; people are flying to other hub airports because either they do not have the choice or they have a cheaper choice available somewhere else.

Simon McNamara: It has a major impact on us on short haul as well, as Willie says. It is £13 per passenger. In our case, APD can be as much as 50% of our lead-in fares, so it is a huge drag. We have the double issue as well; for a round-trip domestic flight, you pay it twice. That is another double drag on us that is really holding the industry back. APD is in fact one of our key issues on the affordability side, not just at Heathrow but elsewhere.

Q603 **Graham Stringer:** I agree with you completely about APD. In terms of attracting other airlines and using existing runway capacity, there is no shortage of runway capacity in the UK. It is just where aeroplanes want to land. One of the problems, which probably applies to Manchester and Birmingham most, is that when those airports try to attract intercontinental routes, where you need a bilateral agreement with another country, airlines tend to object, and have objected in the past. Are you saying now that if, as part of this process, the Government declared a completely open skies policy for the other airports, there would be no objection from airlines to either individual applications or a completely open skies policy for the rest of the UK?

Willie Walsh: I cannot speak for other airlines, but I do not believe in restrictive bilateral agreements. I have said openly that we would prefer to have open skies agreements with everybody. To be fair to UK Governments, both current and past, they have generally been quite liberal in their approach. There are issues of fair competition, but more and more of those issues are being addressed.

There are plenty of UK airlines that I am sure would be willing to operate from airports outside London if APD did not exist. I do not think you have to look to foreign airlines. You could generate a lot of employment based in the UK if APD did not exist. It is a huge drag. The bilateral issues are tiny relative to the drag of APD.

Craig Kreeger: As an airline that has recently added quite a bit of service to Manchester long haul, we certainly see the regional long-haul opportunity as one that could be bigger. In an environment with APD where it is and the weak pound that we currently see, it is harder to find the next opportunity than I would like it to be. We would certainly like to see those opportunities grow.

Sophie Dekkers: Building on the point about it not just being international airlines flying inbound, from easyJet's perspective, every time we get an aircraft into the fleet I and my fellow country directors based in Europe write a business case to say, "I want to base it in Manchester; I will fly these routes; this is how much it is going to cost me to fly; this is how much money I think we could make; this is what the demand looks like." My counterparts do exactly the same in Europe, but they do not have the £13 APD to put on to their business case. Even within an airline, and an airline that is majority—57%—British, we still have those challenges with APD internally. At the moment, a lot of the aircraft growth is going to Europe and is not happening in the UK. APD is a massive factor that does not exist there.

Chair: That is really helpful, and I do not blame you for taking the opportunity to talk about it.

Sophie Dekkers: You gave it to us.

Chair: If you don't mind, I will move on, because the point has been well made. Ronnie, I feel we have covered most of the issues.

Q604 **Ronnie Cowan:** You have pretty well kicked the life out of my questions, but I have one question. I am curious about who bears the risk. In my simplistic view of this, I see the runway and the terminals, the surface access—roads, rail, tunnels and bridges or whatever they are going to build—as a separate project. Can we break that down, itemise those and associate risk separately, or does it all have to be in one basket?

Craig Kreeger: We certainly see it as separate baskets. Infrastructure projects, whether they be rail or road, are not directly related to the runway itself. If you took advantage of building the runway to expand the M25 to more lanes, it would benefit customers who were not going to the airport, so we should assess the proportion of that benefit and attribute costs proportionately. I think we can view it separately and we would encourage the process to recognise that the airline and the airline's customers should not effectively bear the burden for infrastructure improvement not directly related to the airport itself.

Willie Walsh: The CAA should be given the power to ensure that that does not happen. I do not think anybody has any objection to paying a fair share towards the development of the infrastructure, but I do not think it should be used to provide a windfall for other parties in the expectation that airline passengers will pay for it. I know that Andrew Haines is addressing the Committee; if the CAA had sufficient powers to ensure that the only costs associated with the expansion were those directly related to the activities of the airport, we would be more comfortable and we would have better assurance that the costs associated with expansion were the costs relative to the airport.

Q605 **Chair:** It is a question of which costs should be apportioned to the airport.

Willie Walsh: Yes. The CAA has done this in the past and I think the CAA, with the right powers, could do it in the future.

Q606 **Chair:** Equally, you cannot have this size of expansion and not have improved transport to make sure people can get to the airport, whether workers or passengers.

Dale Keller: We need to evaluate that. Because of the regulated asset base settlement for Heathrow, part of the problem is that, if all the costs go into one big pot, the airport is making a return on an investment, so the bigger the RAB, as Willie pointed out before, the bigger the margin it actually makes on that. It is not just passing on the cost; it is passing on the cost plus interest really.

Chair: Point taken.

Ronnie Cowan: My concern was that, if we do not do it that way, we end up with one huge supplier, and we are looking at Carillion all over again. If that goes belly-up, the taxpayer will yet again have to step in and bail people out. That was not a question.

Chair: Luke has some further questions about the way costs are dealt with.

Q607 **Luke Pollard:** The way I approach looking at costs is by separating Heathrow and the business case around Heathrow expansion and Heathrow Airport Ltd. There is an element about contestability and competition that I want to come to, but before I get there I would like to get your perspective on costs over time. My understanding from Heathrow is that it is going to release the availability of passengers on the new runway over time, so that you do not suddenly start with all the new capacity being introduced on day one. Is it your understanding that costs will be spread out over those additional passengers, or are you expecting today's passengers to be paying for tomorrow's improvement, and vice versa?

Willie Walsh: I know Sophie has views, but let me go back to the Airports Commission, because there was a much more detailed breakdown of costs in that. Of the £17.6 billion that Heathrow now says is £14 billion, 1% was for the runway. The third runway is not the cost issue. Building a third runway will facilitate additional flights.

There is capacity within the existing infrastructure at Heathrow that can handle those flights and the passengers associated with those flights. The phasing of the development of Heathrow should be consistent with the phasing of the passengers who come on stream. If you build everything before you open the airport, you have a massive up-front cost, and that cost will have to be borne by somebody. You cannot make a case that the people who are flying from Heathrow today should bear that cost. The pre-funding idea that Sophie mentioned is just unacceptable.

There is a case to be made for phasing the development, and therefore the cost of expansion, as passenger demand increases. I do not think you could have a situation whereby if you go from 480,000 movements to 740,000 it will be done overnight. It will be phased over a number of years. If done sensibly, it can ensure that the costs do not escalate from a passenger charge point of view. The two go very much hand in hand.

Sophie Dekkers: I have a couple of points. One is around the pre-funding. It does not happen in commercial markets. It would not happen if you were building a toll bridge; you do not pay until you use it. It should not happen here. As I said, it would not affect easyJet because we do not currently fly at Heathrow, but we are against the principle anywhere at any airport.

The second point is around what the infrastructure looks like. We want cost-effective infrastructure. We do not want it to be gold-plated. We have been having quite detailed dialogue with Heathrow about what we would want from a cost perspective. For easyJet, it is about facilitating a 25-minute turnaround. It is about having what we call walk-in/walk-out, so you do not have jet bridges; you have the capability for passengers just to use the steps. It needs to be cost-effective expansion with the right infrastructure. It does not need to be gold-plated. If it means it is phased and comes online gradually, it is something we would seriously consider.

We operate at Amsterdam Schiphol and Paris Charles de Gaulle. We operate at hub airports and have a low-cost operation. We are able to do a turnaround in those sorts of times, so it is important that it is not gold-plated and that Heathrow delivers what is right and efficient but as cost-effectively as possible.

Craig Kreeger: I could not agree more on the pre-funding discussion. When you add APD to the already highest charges in the world at Heathrow, adding a pre-funding charge is completely unacceptable.

In thinking about bringing capacity on gradually, it is our view that we are 40 years late in adding capacity. It should not take a long time to bring on capacity. The most important thing is for us to know with clarity when and how much, and to be able to build plans around the capacity coming in over what might be a few years but I do not think should be many years. Capacity is needed there. It is the whole reason the business case works. We would love to see it in a reasonable enough time period, but with clarity. That is what our view would be.

Sophie Dekkers: The reason why we have not gone into Heathrow previously is that there has not been a decent amount of capacity for us to have a low-cost operation. Domestic slots have become available and we were encouraged to look at them, but it would not have been a big enough operation for us to be low cost. It is that point; it is about a gradual release of capacity but not so slow that new entrants do not find it cost-effective. That is certainly something we support.

Q608 **Luke Pollard:** The principle of contestability is something that the Secretary of State is very keen on for railways. When I asked him about that in aviation, he was less keen on it. The idea of different terminals being operated by different companies is something that happens around the world but does not happen here. Is there an opportunity for reducing costs by creating an intra-airport competition framework? I know that Mr Walsh has some views on that, but perhaps I could ask the rest of the panel before we come to him.

Craig Kreeger: As an airline our entire business is constructed around and embracing of competition, so it is impossible for us to be uninterested or unenthusiastic about considering alternatives that could lead to a better outcome for our passengers and for us. Competition usually does exactly that. While I am very intrigued by it and supportive of the idea, there are a couple of elements I would be concerned to add to the equation, to ensure that at the end of the process there is a level playing field and the benefits of competition are shared by all who utilise the airport and not just those who might fit into a terminal that one person is managing versus another. Unless there is unlimited capacity in terminals so that any of us could be there, it is important for us that there should also be a level playing field. I totally see that as something we should be looking at.

Willie Walsh: I have very strong views. It should be included in the NPS, and the CAA should be given specific powers to enforce it. It was an issue that was debated in Parliament back in 2011-12. Heathrow is campaigning very hard to ensure that it does not happen, and I think that should set alarm bells ringing everywhere. Why would it be so concerned about that? It does not want competition, because it will definitely put pressure on it.

Competition in this area is possible. It is absolutely possible to have different operators of different terminal buildings. It would be very positive for consumers if that were to happen. I believe the NPS should specifically address this and should specifically give power to the CAA to force it, if necessary.

Q609 **Luke Pollard:** The Arora Group and the Airports Commission proposed a similar model for that type of competition—to build a runway and operate a terminal separately. Do you think that is an area that we should be recommending for the NPS, or do you think it was an option that was of its time but now the framework and competition has moved on somewhat?

Willie Walsh: Arora has a very credible alternative. I am not supporting the overall proposal, which included him building the runway, but in terms of alternative terminal capacity I see no reason why not. He has more experience than probably anybody, including Heathrow, of building facilities at Heathrow airport. He does so in a commercial fashion and he builds very good facilities. I have absolutely no doubt that he does it at a fraction of the cost of Heathrow. There is strong merit in looking at that. He is very credible, but the issue should not be restricted to one person. The CAA should have the power to force it and the NPS should allow it.

I would not specifically say that it should be Arora or Heathrow. What Arora has done is very credible. He deserves credit, because even the idea of somebody proposing an alternative has forced Heathrow to look at cheaper delivery. As soon as that is removed, Heathrow will breathe a big sigh of relief. We have to facilitate that competition.

Q610 **Luke Pollard:** On the contestability option, if the NPS recommends the expanded runway and terminal facilities, and HAL gets to do it, what lessons does the CAA need to put in place and what do we need to put in place in our recommendations to ensure that we get better value out of HAL building that additional terminal and runway capacity?

Craig Kreeger: Value is an important thing. We need the same kind of participation in the process, looking at options and transparency around what options are being considered and rejected, where things are located and how they could connect together, so that the scope remains a viable hub airport. I do not mean gold-plated either. We should also have a cost guarantee, as we have highlighted. Competition is an intriguing thing worthy of consideration. I certainly do not want to rule it out, but, if Heathrow is capable of being the low-cost or a good-cost solution, they should be confident of giving a guarantee on that.

Q611 **Chair:** Are a cost guarantee and competition alternatives, or do you want to see both of them in the NPS?

Willie Walsh: I would like to see both. I do not see any reason why we cannot have both. A cost guarantee sets a ceiling. Competition could drive the actual charges below that ceiling. The experience with Heathrow is that under the regulatory environment they are allowed a maximum passenger yield. They work hard to make sure that they get that maximum yield. There are also other unregulated charges at Heathrow. Introducing a cap and competition would be very healthy.

Q612 **Chair:** Does anybody have a different view?

Sophie Dekkers: From the conversations we have had with HAL so far, and that includes having shown them the operation at Schiphol, we are more encouraged, but we do not have the historical experience, I must admit. One thing I would flag is that I would be concerned if we put in anything that delays it any further. This expansion is long overdue. I would be slightly concerned if we put in too many more hurdles. We want reassurances and guarantees, but let's not drag this out any longer.

Chair: That might be having your cake and eating it, I suspect. We have questions around airport charges and economic regulation.

Q613 **Daniel Zeichner:** This is carrying on with the same point. There seems to me to be a contradiction in your positions. As you have just said, you want it to go ahead. Last week, the Secretary of State told us he had confidence that landing charges would not need to increase, yet you have said that you are not convinced and that it needs to be in the NPS. There is a fundamental contradiction at the heart of this, isn't there? What is it that you actually want? How can this go forward?

Willie Walsh: I do not think the language being used by the Secretary of State or Heathrow is strong enough. It is a bit loose. What I want them to say is that there will be no increase in passenger charges. What people are saying is that passenger charges will be broadly similar to today or will not increase too much. That is not enough. If you say it is capped at today's rate, which is £20.70 per passenger, and cannot go above that, I will be smiling; but language like, "We don't think it will be necessary; we think it will be close to; we think we will be able to deliver within reasonable" is no good.

Q614 **Daniel Zeichner:** The Secretary of State basically ruled out its being in the NPS. That is what he told us last week. He thought it would not go up very much. That is not enough for you.

Willie Walsh: No.

Q615 **Daniel Zeichner:** I understand why you take that position, but that is not his position.

Willie Walsh: I thought the reason we were having this discussion was so that this Committee could make some suggestions in relation to what should and should not be in the NPS.

Q616 **Daniel Zeichner:** We may well do that, but we may well come to the conclusion that these contradictory positions make it difficult to proceed.

Going on to the Civil Aviation Authority, again last week the Secretary of State told us that it had the teeth to manage costs. You obviously feel that costs have not been managed well enough. What does the CAA need to do differently?

Willie Walsh: I have been critical of the CAA, maybe unfairly. I think they do a reasonably good job. Again, the language that was used by Andrew Haines initially was quite powerful. We want to see that language followed up with strong delivery. Andrew will be testifying so I do not want to put words in his mouth, but I have no doubt that he would be happy to take on board a challenge that charges cannot increase, and, if there was a cap, I am sure the CAA would operate within it.

The CAA will come under severe pressure from everybody in this process. Depending on the source of the most significant pressure, it will bend to that. In the past, without question—this is not Andrew Haines or the current team there—the CAA gave the airport a very rich cost of capital. It allowed for significant headroom in the cost of capital that goes into the calculation. That is a key factor in determining what the average charges are. The reason it did that was to encourage investment. We do not believe that you need those guarantees. The airport should operate like all of us; it should take commercial risk where there is commercial risk, but it should not have the luxury of guarantees. I would like to see the CAA having more power and delivering it more strongly. It has done a reasonable job, and for me to say reasonable probably means they have done a pretty good job.

Craig Kreeger: Through whatever combination of vehicles over the last several years, Heathrow is by a pretty significant margin the most expensive airport at which to do business. The capabilities of the existing regime, and the teeth in the existing regime, have not led to a reasonable conclusion on charges for the airlines. An opportunity to put more teeth in the process of expansion by including a directive in the NPS that specifies that costs cannot increase is a different level of teeth for the CAA in my mind.

I will give you an example. This year, although costs did not necessarily go up by this percentage for all airlines, long-haul passenger charges were up 8.5% for Virgin Atlantic. We are literally spending 8.5% more this year on our charges at Heathrow than we spent last year, despite an economic environment that I think everyone in the UK would describe as "Meh." It is a pretty big headwind in doing business.

While I think the CAA has broadly done a good job, it has not manifested itself in competitive charging at Heathrow. We have concerns that it will not in the future.

Willie Walsh: When I started dealing with Heathrow in 2001 as CEO of Aer Lingus, Heathrow charges were £5.23 per passenger. Today, they are £20.72. In the period when I have been involved directly, the charges went down in only one year, in 2015. That was the only year in which the charge decreased. I heard the CEO of Heathrow saying that its charges were coming down. They are not coming down. The reality is that inflation through the period 2001-17 was around 45% CPI. Heathrow charges have increased by over 300%.

Chair: Increased in real terms. I am conscious of the time; we have a lot of questions.

Q617 **Daniel Zeichner:** When the Airports Commission made its assessment of the finances, it concluded that it would need a combined £30.5 billion in debt and equity, and that the only way that could be financed was by lifting airport charges to around £31 per passenger, which is obviously far more than you want to pay. Was it wrong about that, and where was it wrong?

Willie Walsh: Yes, I believe it was. You can phase the development in a way that would not require passenger charges to increase. It depends on what you build. It had £17.6 billion as the estimated cost. There was significant headroom in our contingency included in that. If you reduce what is in the regulated asset base, the cost of debt is significantly lower than it is today. If you reduce the weighted average cost of capital that it is allowed under the regulatory regime, it can be expanded without an increase in passenger charges. There are a number of moving parts, and all of those moving parts have moved in favour of an argument that it can be done without increasing charges.

Dale Keller: To give an example on costs, Heathrow has always priced right up to the cap set by the CAA, so we see that as quite a generous settlement. John Holland-Kaye sat in front of this Committee and said they had made an initiative to help domestic connectivity by giving a £15 discount on landing charges. That was not funded by the airport shareholders; it was funded from within the cap, which is why the long-haul carriers have seen an increase of around 8% in their charges.

If we are looking to increase global competitiveness, it should not be robbing Peter to pay Paul. Why are the airport shareholders not putting their money where their mouth is to drive their own business case?

Chair: Let us move on. You mentioned domestic connectivity, which is where we want to go next.

Q618 **Steve Double:** A fair amount of support for the expanded third runway at Heathrow has come on the basis of a significant boost in regional connectivity. What is your view on how many more domestic routes could be available from an expanded Heathrow?

Dale Keller: Airlines are very quick to grab a commercial opportunity where it exists. We can look at PSOs, but the real lever available to the Government is to get rid of the absurdity of £26 on a domestic return journey. That is what is killing the domestic connectivity.

Chair: Let's not talk about APD again.

Dale Keller: But it is a lever.

Q619 **Steve Double:** I think we are with you on that one.

Simon McNamara: From Flybe's perspective, as I said before, we are all about regional connectivity in the UK. We are going to keep coming back to the same subject. It has to be affordable. We will take that opportunity if it is affordable and it works for us. There are plenty of routes that we would operate in an affordable Heathrow.

The other issue that we may come on to is accessing capacity at the right time, which is driven by the slot allocation system we have. That is a factor and it is one of our issues. For us, it would have to be affordable and we would have to get the capacity at the right time. More than 50% of our passengers are business passengers who want to fly at certain times of the day, whether they are point to point or connecting into waves that operate out of there for the long-haul carriers that we would put passengers on. For us, the timing is important and it is driven largely by our access to slots at the right time.

To answer your question, yes, we would deliver additional regional connectivity in the UK. It is what we do at Flybe. We are the biggest regional operator across the UK, operating more than 50% of regional flights or domestic flights in the UK. We would deliver that connectivity, but it has to be affordable and we have to have access to slots at the right time.

Willie Walsh: British Airways is the principal provider of domestic connectivity. The reason why domestic connectivity has reduced is that the airlines that were previously providing it sold their slots because they could not make money. You will not get more domestic connectivity if charges go up. In fact, the only reason Flybe came back to Heathrow, having stated that it would not because the charges were too high, was when Heathrow said, "Okay, we will reduce the charges." As you have heard, that was just pushing the cost somewhere else. You will not get any additional domestic connectivity, and I suspect that you will lose some of the existing domestic connectivity if the charges go up.

Q620 **Steve Double:** Thank you; that is pretty clear. Simon, you referred to Flybe's operation. To what extent do Flybe's current domestic routes out of Heathrow rely on the PSO?

Simon McNamara: None of the routes into Heathrow is a PSO. Our Aberdeen and Edinburgh routes are not. We have a PSO out of Gatwick. The two routes we operate at the moment are entirely funded; we are paying the rates that are published, and there is no state support or any support through the PSO mechanism.

The PSO mechanism plays a role. It is an important role and it is something we support. In the UK, we make far less of PSOs than we should. When we look abroad to France, Italy, Spain, Norway or Sweden, they make far more use of them to enable connectivity where routes would not be commercially viable but where there is a need for transport. We do that with the railways and with other systems, so we should make more use of it. That is a tool we could look at for Heathrow for using additional capacity—to put in more PSO routes where we need that additional domestic connectivity.

Craig Kreeger: I would like to make an observation on UK competitiveness. Without belabouring the APD or charges point, the fact that there still remain 25 cities in the UK served out of Schiphol airport—with a significant portion of those customers flying one way, and back over the UK to go in the other direction—is an indication of the fact that we have not invested sufficiently in both runway capacity and potentially competitiveness. That has seen jobs, growth and revenue that have no business being in the Netherlands that could absolutely be here. We need a runway at Heathrow with a reasonably competitive charging regime, whether we add it or find a partner to add it. We want to serve those markets.

Sophie Dekkers: In terms of numbers of seats serving domestics, easyJet is the largest carrier in the UK. About 18% of our capacity is domestic. If we were to come into Heathrow, if the charges were at the right price, we would absolutely look to increase the number of domestics served from Heathrow. We do not operate to any PSOs. We do not use that as a basis for our business case, but airport charges are fundamentally what underpin it all. One of the reasons why we would look to Heathrow is that we are able to offer domestic connectivity. It is something we do. We have added 1.5 million seats on domestics in the last three years. We see it as a growing market, even though Heathrow has decreased in terms of the number of domestic seats served.

Q621 **Chair:** But your business model is not going to work at Heathrow if those charges go up.

Sophie Dekkers: It would be very difficult for it to work.

Willie Walsh: Nobody's business model would work.

Q622 **Steve Double:** When the Secretary of State was before us, he expressed his desire that 15% of all new slots from the new runway at Heathrow would be for domestic connections. Do you believe the Government have the necessary levers to deliver on that desire?

Dale Keller: I do not believe that the NPS should be specific on the slot mechanism. The 15% figure is not in the draft NPS; I think it was put forward by the Secretary of State to this Committee. There are already tried and tested vehicles for slot allocation globally, with the IATA world slot guidelines. We have the EU regulations as well. If the UK Government want to look at some specifics around that with those later on, fine, but I do not think it should be specified in the NPS.

Craig Kreeger: Whether or not it is specified in the NPS—I am not necessarily advocating that it should be—when the Davis Commission finished the work on where the runway should be, it assumed perfect allocation of slots in an economic value to the country sense. The only way that will happen is not by using the existing IATA regime, although I respect Dale for his opinion, but by picking a bespoke solution to ensure that domestic connectivity is appropriate and that maximum value comes to the UK customer as a result of allocating those slots.

Q623 **Steve Double:** You think there is a role for Government in determining that.

Craig Kreeger: There is a process. We would like to come back to you with specific ideas, but there is a process to be done to make maximum value out of the additional runway.

Sophie Dekkers: We need to be cautious. We understand the need for ring-fencing for domestic connectivity. It is something that, if we were to operate in Heathrow, we would be very keen to add. What we would not then want is slots being empty, because it is passenger demand that actually fills the planes, and that is what will make the most economic benefit. There is definitely a need to have some sort of ring-fencing as an opportunity. However, it should not be restricted, so that if it is not filled the slots are empty.

Chair: We will have to move on because I am really conscious of the time.

Willie Walsh: Could I put some figures on it? It is important. I am assuming he is referring to the new capacity, which would be about 39,000 slots. That is about the amount of capacity that is used on domestic flying today. British Airways uses about 15% of its slots—39,000 or 40,000 slots per year—to provide domestic capacity. You are talking about doubling the amount of slots allocated to domestic capacity. I do not think you will see BA continuing to provide all the domestic capacity that it is doing. I suspect that a lot of that additional domestic capacity will be people wanting to fly on routes that BA is already flying rather than new routes. If you ring-fence this, you run the risk of having slots that are effectively empty because nobody will use them. There needs to be more thought about how you would actually do this.

Chair: That brings us to the issue about competition between airlines.

Q624 **Luke Pollard:** The main premise is that more capacity will equal more competition between airlines. It is one that we are told about quite a lot. Do you think that is going to happen? Is more capacity going to deliver more competition, or will BA still have 53% of slots in the expanded capacity?

Craig Kreeger: That will depend on how the slots are allocated. This is an opportunity for us. Virgin Atlantic has every intention of trying to see significant growth and either to create or more likely partner to create connectivity within the airport. That should offer opportunities for new routes as well as competition on existing routes. We see this as a very viable alternative, and it is one of the reasons why we have been very supportive.

Simon McNamara: At the heart of it, it comes back to the way the new capacity will be allocated. That will drive competition. We are bound by an existing regulation on slot allocation where, for example in our case, we are only operating two routes, but we are no longer a new entrant under the scheme, so our ability to access that capacity will be limited. I do not want to go back to the previous discussion, but a factor we have to look at is the way capacity is allocated through the slot allocation regulation.

Willie Walsh: Typically, they are EU rules, so I do not think they will apply. I want to address this because it is important. People talk about the British Airways position. As I pointed out earlier, BA has the slots at Heathrow that it has today—about 52% of them—because BA bought slots from other airlines that sold slots. It is not that BA has a strong position because it was given these slots. Those slots were available to anybody to buy. In some cases, BA was the only airline interested in buying those slots. In other cases other airlines did compete, and in many cases BA did not succeed in acquiring all the slots that came up for sale.

Heathrow has been a competitive market. We have the position we have because we were buying slots off airlines that were abandoning Heathrow. That is the reality. I suspect what you will see going forward is that, when more slots are made available, airlines will apply for slots and the same airlines that will apply for new slots will, in time, look to sell those slots if they believe they can make an economic return on the sale. I would not draw too much from what exists today. You need to look at how the situation that exists today developed. The situation that developed into the position today is because a lot of airlines operating at Heathrow—

Q625 **Luke Pollard:** Are you expecting more competition with this expansion?

Willie Walsh: Yes, I would expect more competition, but I do not think it is going to be the nature of competition that people are expecting. A hub works because you have short haul and long haul. I suspect there will be a lot of interest in additional long-haul flying. I think there is going to be very little appetite for additional short-haul flying. I suspect there will be practically no appetite for the domestic unless something is done to support it.

I do not think you are going to get the connectivity that we talk about in the context of a hub. Connectivity means that a customer flying from one airport over the hub airport seamlessly connects. There is connectivity at Gatwick that easyJet does with Norwegian, but it is at a cost; the customer has to pay £34.50. The customer has to collect their bag and check it in. If it is that sort of connectivity, you could get it today at Heathrow, but I do not think customers are willing to do that, or are expecting to do that, at Heathrow. I think easyJet and Norwegian have provided an interesting alternative. It is what we call the sum of sectors plus a fee. That is not what exists at Heathrow today.

If we are to generate all of this at a hub, benefiting hub economics, you need short-haul airlines with a short-haul network feeding long-haul airlines with a long-haul network. You are not going to get that overnight. It is not going to happen on its own. The only one that does that today to any degree is British Airways, and British Airways provides connectivity to our competitors as well. It is not just to our partners.

Q626 **Chair:** If you do not get that connectivity, it undermines the whole strategic case for Heathrow expansion.

Willie Walsh: I agree.

Craig Kreeger: I do not happen to agree with Willie's perspective on whether we would see that kind of connectivity.

Willie Walsh: But Virgin will never offer those flights. We have heard Craig say that. It is for somebody else to do it.

Q627 **Chair:** But somebody else would have to come in and offer them in partnership.

Craig Kreeger: To be clear, I believe that one of the impediments to a short-haul network being successful is lack of scale. If the runway capacity is allocated in a way that would allow a short-haul entrant to have sufficient scale to connect to enough long-haul flights, we could indeed see that, in a city the size of London, an airport of the size that Heathrow would be was a viable alternative connecting airline.

Willie Walsh: It is 8% of the slots, and BA bought 16% of the slots, so there was plenty of connectivity available. Nobody was prepared to pay for it, and nobody was prepared to operate what is a difficult and generally unprofitable segment of the market.

Chair: We will move on. Airspace change is one of the issues that has come up time and again.

Q628 **Grahame Morris:** You have touched on this a little bit in relation to capacity, but I wonder if you might share with the Committee your thoughts on redesigning the available airspace. The Committee has been told in evidence that the northwest runway can operate at 740,000 aircraft movements a year. I am interested to know whether the issue of changing or redesigning the airspace has been adequately dealt with as part of the NPS process.

Dale Keller: The CAA and the DFT are working on those mechanisms now. They are overdue. Unfortunately, a lot of this has been locked in or tied up with the particular debate over runway capacity in the south-east, but airspace is a national and European problem. Now that we are getting a mechanism in place, it is time to implement and crack on with it. We need more progress escalated. Ultimately, we are not going to see a runway open until 2026-27. The airspace is at a critical point right now in terms of escalating delays. The redesign should be cracking on now.

Sophie Dekkers: There is a process of airspace modernisation review under way at the moment. Our understanding is that the Airports Commission worked with NATS and said that in view of this, an expanded Heathrow should be able to operate, but it is a case of accelerating modernisation and accelerating that review. London is so congested at the moment. The airspace is not set up.

Q629 **Chair:** How confident are you that that is going to happen, knowing what previous attempts have been?

Sophie Dekkers: The process is already under way, and it is not being held up by the NPS or anything else; it is something that is happening today. They are already doing the review and that is already in progress. I think we can be more confident about that than other things we have discussed.

Q630 **Grahame Morris:** I want to ask about mitigation in night-time flight bans. What would such a ban mean for the airlines operating out of Heathrow?

Dale Keller: As a headline position on that for the industry, we are pretty concerned that the NPS is too specific on some of the aspects of a ban. It is not in the consumer or the economic interest for the country to have a hub airport that is not globally competitive. The European hubs are one hour ahead. Frankfurt opens at 05.00, so some of the times being talked about do not sit very well with a hub operation.

However, that is not to say that there are not some real benefits for the consumer in terms of airspace change and what can be done. The airline community put through a proposal that we should look at potentially a guaranteed respite per runway community under each of the three runways. Unfortunately, that was not put forward in the NPS and it was not put forward in Heathrow's consultation 1 that is currently out. It is a really viable alternative that follows the ICAO balanced approach, where the improvements we can make are shared with the industry and the public, and create the economic benefit we need from the hub, but also take into account public concerns.

Q631 **Chair:** That is where you would change the night flight ban—by runway rather than its being the same for all.

Dale Keller: We might be able to find out through consultation that it could be seven hours and not six and a half, but just to put a blanket ban over the entire airport operation may not be what the public want. It certainly may not be what the country needs, so why are we excluding it as an option at this point? We are at the consultation stage. That should absolutely be in there so that the public are aware of it and can have an opinion on it.

Q632 **Huw Merriman:** I will condense my questions into one, if I may. Given the reservations you have expressed about Heathrow Airport Ltd, but notwithstanding your support of Heathrow expansion, which adds huge credibility to that particular point, what will be the impact on your business, and indeed passengers, if MPs do not make a decision on the NPS or Government do not do the job that you expect, or the legal process puts it in the mire such that capacity runs out by 2030?

Willie Walsh: For us, it would limit our ability to grow at London, specifically at Heathrow. British Airways has the ability to grow, as you have heard, by increasing the gauge of aircraft—the size of aircraft—and we are intending to do that. We would be operating at an airport that in effect is restricted. We took the view some time ago that it was, on balance, in our interests to support expansion at the right price because it would give us the ability to grow, and it would be positive for the UK economy to have a growing economy supported by growing hub capacity.

It would be a negative impact. From an IAG point of view, we would look at significant opportunity to expand the presence of a number of our airlines at Heathrow, not strictly related to what British Airways would do. We would have opportunities for other airlines within the group also to expand their operations at Heathrow.

I am supportive and think it is positive for our business and for the economy, but only if the costs are capped. If the costs are increased, I do not see the economic argument being supported.

Craig Kreeger: I would make a very similar observation, just adding slot distribution to the same mix. I do not really know what Heathrow expansion will mean for Virgin Atlantic without certainty about how much growth is available to us in the distribution of slots. We support Heathrow as a solution because we believe it is right for the country, without clarity on whether it would actually be right for Virgin Atlantic and with the expectation that costs would be manageable. What it would mean for our business, with and without expansion, are both quite unclear in my mind. Obviously, we have the same restriction that Willie cited. We would have to look for growth elsewhere or, in our case, not grow at all. Those are the alternatives naturally facing an airline that is focused on growing economically.

Sophie Dekkers: We talked a bit about competition. From easyJet's perspective, we would be new competition in the airport and it would be a great opportunity to bring low cost into Heathrow. If we did not have the capacity growth at Heathrow, we would probably invest in Europe and the planes would go to hubs that we have in Europe already, where we have very strong positions in Schiphol, CDG or Berlin. It is unlikely that we would get that growth within the rest of the UK. It is more likely that as a business it would take the decision to invest in the European hubs.

Simon McNamara: From our perspective, if there is an opportunity we will take advantage of it. We are not a big player at Heathrow now, but if there is capacity we will do it. The wider point is that if we do not expand at Heathrow we will bleed capacity elsewhere. We talked earlier about the example of Amsterdam, and that will continue. We will bleed capacity.

We will bleed domestic connectivity to other hubs in Europe, and I do not think that is a good thing for the UK. It is an important infrastructure project for us to deliver, and it would be a loss if we did not deliver it.

Chair: The evidence has been very clear. Thanks to all our witnesses for giving evidence today.

Examination of witness

Witness: Andrew Haines.

Q633 **Chair:** Welcome, Andrew. Thank you for coming along today. For the record, would you like to introduce yourself?

Andrew Haines: My name is Andrew Haines. I am the chief executive of the UK Civil Aviation Authority.

Q634 **Chair:** I could see that you were listening intently through the first session. The CAA at this point has expressed its desire for Heathrow to bring forward credible cost estimates in the process. You have heard what the airlines think about the level of cost certainty and detail. Are you happy with the level of cost detail that Heathrow has provided at this stage?

Andrew Haines: It is very early days. The Secretary of State set out his stall very clearly and very helpfully at the end of October 2016. It is only since then that the project has had real energy behind it to develop the cost base.

This is probably the largest privately financed infrastructure project anywhere ever in the world. It is of that scale in terms of being genuinely privately funded and not being backed by Government guarantee. Heathrow is still at a relatively early stage. Because of the Secretary of State's challenge, we have seen very good progress in bringing costs down, but I completely endorse the point made by the airlines. There is concern that it is not bankable at this stage because there is still so much more work to do. Where I differ with them perhaps is on the solution they proposed to that problem.

There is decent progress, but it is way too early to give a definitive judgment on whether or not Heathrow has these costs fully articulated. It has only just started, in the last few weeks, a massive consultation exercise. Until that has been done, how can it possibly even know the full detailed scope?

Q635 **Chair:** How can we be confident in the economic case when, as you have just acknowledged, some of the costs still feel uncertain because they are still at the development stage? Obviously, the M25 has come up a number of times. Doesn't it create a risk for the parliamentary scrutiny of the NPS when we are not certain about the cost element of the equation?

Andrew Haines: My understanding of the NPS process is that you do not need that cost certainty because you are asked to take a decision in principle. Indeed, you might even contend that there is a risk that the NPS would be pre-empting the development consent order if you determined a cost that meant that actually it could not be adjusted through the rest of the process.

The modelling we have done says that it is plausible to build the infrastructure that is currently proposed and keep costs flat. We know that it is possible. What has happened historically may sound a bit counter-intuitive, but we know it is possible to do that, so it is a credible stance that this could be done. What I am saying is that there is still too much uncertainty about the detailed scope, how Heathrow is going to procure it and how it will deliver it, to be emphatic about what the actual cost will be at the end of the day.

Q636 **Chair:** What gives you the confidence to say that it is possible?

Andrew Haines: Several things are in favour. We heard about the current costs at Heathrow, but they are largely driven by the funding of two big infrastructure projects in the last 10 years: terminal 5 and terminal 2. As the costs of those would come out of the regulatory charge, costs would otherwise be coming down. That is something in Heathrow’s favour. The general cost line would have been coming down otherwise.

Secondly, we are talking about a 50% increase in passengers, so obviously the cost is divided by a much larger number of people. Thirdly, we are facing historic low levels of cost of debt, which Willie Walsh alluded to. This will be largely new debt, so it allows Heathrow to place that debt in the market at an almost uniquely low point in time. When we look at all those factors together, and we model them and share that model with Heathrow and with the airlines, we see that it would be possible to do this project, as currently scoped, at flat prices.

Q637 **Chair:** Could you share that modelling with the Committee?

Andrew Haines: I do not believe there is any reason why we could not. I would need to check on the legal status, but in principle I would be very happy to share that with you.

Q638 **Chair:** That would be very helpful. You heard the airlines’ concern about managing Heathrow’s costs. How does the CAA intend to regulate Heathrow’s costs of expansion?

Andrew Haines: The important thing to say is that we are still at a relatively early stage of this process as well. Our proposals, on which we are currently consulting, would not lead us to make a final decision on costs until the very end of 2020 or 2021 at the earliest. That is because we need to see Heathrow develop those proposals.

Heathrow has said to me that it aims to get a more robust cost base by the end of this financial year, having consulted on the plans. We have already conducted a very extensive engagement process for the airlines, and frankly I do not believe that the costs would have come down as much as they have already had it not been for that airline role. We see a critical role in the airlines scrutinising the design. It is all very well to quibble about the cost of the paint, but, if you have a fundamentally expensive piece of infrastructure being designed, it is too late to worry about the cost. Getting the right design is a fundamental, first and foremost. That is why the role of the airlines is important there.

Secondly, we have an adviser supporting us in assessing the efficiency of Heathrow's planning costs. They alone could be £500 million. It is really assessing whether or not the planning process is being managed efficiently.

The airlines and the airports have appointed what is called an independent fund surveyor, who will then report to us on the efficacy of the scheme and the extent to which the costs that are being developed are fit for purpose. They are Gardiner & Theobald, a very well-known and credible quantity surveyor. They are testing those costs.

We will then bring all that information together based on Heathrow's business plan. We will consult on proposals. We are looking at the cost of capital that is applied and that is a very significant factor in terms of the overall cost. That alone can change the cost per passenger by several pounds.

We will then put those proposals together. They will include mechanisms for capex triggers, which allow capital expenditure to be released only when certain targets are met. They will include proposals for how we review the efficiency of delivery afterwards. Fundamentally, when we have put all those proposals together, if either Heathrow or the airlines do not agree with our assessment, it can go to an appeal, to the Competition and Markets Authority. Airlines are almost unique in economic regulation in having symmetrical rights of appeal. That is a very good vehicle for holding the CAA quite true. If we were tempted to be pressurised by Heathrow or the Government, we know that the airlines have a right of appeal to an independent body and vice versa.

Q639 **Chair:** Is that about having a sense of knowing what the cost should be? It seemed to me that its concern was not just about what the cost of the scheme is, but the pressures and levers on Heathrow to stick to the agreed budget so that it does not bear the risk if it starts to spiral out of control. Would that be fair?

Andrew Haines: You have absolutely put your finger on the issue for the airlines. The message we heard was that we have made progress because of a challenge from the Secretary of State, but what happens if that challenge suddenly evaporates post the NPS designation, or indeed if this Committee itself asks the NPS to be loaded with costs for the airlines? You might decide to recommend a whole host of things that the airlines think will not be necessary. What happens then if Heathrow's costs go out of control?

All those factors can be taken into consideration by the regulatory process. The one thing we cannot do is require Heathrow to open up to competitive tendering. I am happy to go into that in more detail, but that is not a power we currently have.

Q640 **Chair:** Do you think it is a power you should have?

Andrew Haines: It would be nice to say that it is a power we should not need to have. We have made it very clear in our guidance to Heathrow that we strongly expect it to look at working with alternative parties and to look at other parties who can deliver parts of the scheme more efficiently. It is somewhat disingenuous of Heathrow to say that only it can build and operate a car park, if we take that at one extreme, but I have to say that when the current set of powers were debated in Parliament, the mood of Parliament, effectively, was not to grant that right of forcing competition either to the Secretary of State or to the CAA.

I would be nervous about doing something that meant the scheme was delayed. We heard from Sophie Dekkers that delaying this scheme very significantly while we went through a contentious piece of primary legislation might not be in the consumer interest. There are powers I would like to have, but certainly not at any cost if it meant delaying this long overdue scheme even longer.

Q641 **Chair:** You have already said that you think it is realistic for an expanded Heathrow to be delivered without airport charges needing to increase. Do you think there should be an explicit condition around airport charges as part of the NPS? Would that be reasonable?

Andrew Haines: I am nervous with that solution because, as I said, the costs are still at a relatively early stage. If you will forgive me the analogy, have any of us had our fingers burned by a builder where you get a fixed price before you have designed your own specification? What tends to happen is that either you end up with a cost escalation or you are very unhappy with the quality. That might seem like an absurd analogy, but it is what can happen here. We are very early in the development process. I completely get the aspiration of the airlines to avoid significant cost and scope creep, but I do not think that a cost guarantee in the NPS is the best way to do that. In fact, it could rebound on the airlines and on consumers. Ultimately, as the regulator, my duty is to protect the consumer.

Q642 **Chair:** The alternative, as a way of giving them some certainty, which they obviously want, is for them to trust you and the CAA to make sure that Heathrow is kept under pressure throughout the process.

Andrew Haines: The continuation of the process we have had in the last 18 months would be welcome, where the Secretary of State set a very clear expectation, and we should get transparency around that. That certainly helps. We have to do more. The nature of the regulatory process, because it is subject to legal challenge, means that we act quite cautiously in consulting on proposals. We wait to get people’s feedback.

There is more we can do to satisfy airlines in that respect, but something is probably needed to bridge the formal regulatory process and the end of the NPS.

Something related to that comes back to my point about this being such a large scheme. It has to be financeable as well. There is nothing in the legislation that compels investors to make this scheme happen. Parliament could designate it, but the CAA cannot force investors in Heathrow to develop a scheme that is fundamentally uneconomic. If we ended up with a cost guarantee that meant it was uneconomic, we would just have stasis a few years down the line.

Q643 **Ronnie Cowan:** I am struggling to understand that. I have never worked on any project where basically you said, "Build it and then I'll tell you how much it is going to cost." Any builder who has come to me has spec'd out what is going to be done. We have scoped the project. We have both gone into the detail. There may be a bit of leeway, but ultimately I have not given anyone a blank cheque and said, "Go and build me something." With something on this scale, the costs could be astronomical.

Andrew Haines: I completely agree. What I am saying, with respect, is that the NPS designation is not saying, "Go and build it." It is the planning approval on one side and the regulatory process that sets the charge. That was perhaps slightly unhelpful about the airline participation; you are not saying, "Go ahead," but, "Go to the next step," and that is still subject to DCO, and it is still subject to a very robust regulatory process that gives both parties rights of appeal to an independent body. I would completely agree with your observation but I just do not think we are at that stage of the process yet.

Q644 **Daniel Zeichner:** You have been making the point that the costs are still unclear, but the Airports Commission did have a stab at estimating how much it would all cost. It came to the conclusion that charges would have to rise by up to 50%, to achieve the investor confidence you have just been talking about. I put it to the previous panel. Was it wrong, and why have you come to a different conclusion?

Andrew Haines: I think it made some assumptions on which now, three years on, we have better data. We know that it is feasible to build some of the scheme in phases, as we heard. Why take all the cost up front before all that is necessary? That allows for phasing. There are parts of the scheme that can be built more cheaply. If you look at what is currently being consulted on, one of the options from Heathrow is a different allocation of terminal capacity, to the west and not the east. That is considerably cheaper, and supported by the airlines. The latest information on cost to debt and the cost of capital that will be applied, and indeed the forecasts on numbers, mean that it is entirely reasonable to come up with a different assessment. As I said, the Committee is welcome to look at our model.

Q645 **Daniel Zeichner:** But investors are going to need some confidence. If they are hearing that essentially charges are going to remain flat, then, exactly as you say, there is a danger that investors will not come forward.

Andrew Haines: Indeed, which is why I am saying that a cost guarantee at this stage really would not be appropriate. We need to keep the investors on board. Obviously investors are rational. They would like as high a return as possible. It is my job to make sure that they do not get that, but that they get a reasonable return that reflects the cost to them of debt and equity commitment, and any risks they bear. Until we have allocated risk for this, we could not possibly determine those overall costs.

Q646 **Chair:** Based on the work you have done, what exactly in the scheme do you think can be phased?

Andrew Haines: Terminal capacity is the obvious one. You do not need entirely brand-new facilities on day one. We are going to see an incremental approach. The western campus proposal, which is a core part of the scheme on which Heathrow is currently consulting, allows for incremental building of terminal capacity, for example.

Q647 **Luke Pollard:** Over the course of the inquiry we have had people tell us that you either have the powers to regulate more effectively than at the moment or you do not. What is your answer? Do you have enough powers to regulate Heathrow effectively?

Andrew Haines: The powers were changed in 2012 with the Civil Aviation Act. We certainly have more powers now than were available when terminal 5, and indeed terminal 2, were being spec'd and constructed. We had very limited powers at those times. We have considerably more powers and much more flexibility.

One of the things we are seeing played out is that the airlines, perhaps not unreasonably, are assuming more of the same when these things come forward. There are probably four areas where we do not have powers, where sometimes people think we might have them. The first, as I said, is that we cannot compel investors to invest. We are looking at a licence condition that would compel them to promote the scheme if it is economically rational, but no economic regulator could compel investors to invest if it did not make economic sense.

The second area is about competition, which we have talked about already. The legislation is there to allow for competition, but it requires Heathrow's consent. Neither the Secretary of State nor the regulator has the powers; only the CMA—the Competition and Markets Authority—could issue a market investigation, which would probably take three or four years once it had started it. It could propose that.

The third thing where we do not have any powers is around airspace, and collaboration with other airports to facilitate airspace change. The last one is around noise. A lot of people think that the CAA should be enforcing on noise, and that is not our role. Indeed, in the new ICCAN, the Secretary of State is looking more broadly at enforcement powers.

Q648 **Luke Pollard:** If regulation is working as well as it could be at the moment, why does Heathrow have the highest charge of any airport anywhere in the world? Surely that is a sign of your regulation not working in bringing down prices.

Andrew Haines: There are two answers. The first is that it has two world-class terminals that are being funded entirely through its users. That is pretty unprecedented anywhere in the world. The costs at Heathrow went up rapidly to fund £10 billion-worth of infrastructure for terminal 5 and then terminal 2. In a five-year period, we had two brand new terminals opening and significant redevelopment of terminal 3 and terminal 4. That is why the cost went up very significantly.

Secondly, as I have already said, our powers at those times were very restricted. We set a price cap and then we walked away. That is what the statute said we could do. We now have the ability to issue a licence and to put in place controls. It gives us much more flexibility in how we oversee those costs.

Q649 **Luke Pollard:** One of the things we have heard from a variety of witnesses is that very few people seem to believe the Secretary of State when he says that landing charges will remain at around the same level as they are now. Do you think you have the powers to control the landing charge sufficiently that it remains at the level we have, with good confidence? You said it was possible, but I am wondering whether it is probable rather than a scenario where pigs might fly.

Andrew Haines: The legislation is very clear for us. It gives us a primary duty to consumers. Let me be absurd for the purpose of illustration, if I may. If the prices at Heathrow had to go up by one penny—flat plus one penny—to deliver this capacity, a flat charges cap would be absurd. We have to ask at what point it would no longer be in passengers' interests to allow an increase. That is not the same as allowing inefficient expenditure, but, if Parliament said that surface access compensation and the reality of the costs of constructing meant it was marginally more than flat charges, I would not have the power to say that consumers must not have the benefit of a third runway because of dogma around a particular number in time.

I do not want that to be misinterpreted as a licence to print money. That is absolutely not the case, but there has to be a sense in which you say that an incremental cost might just be, unfortunately, the best thing for consumers to enjoy the benefits of the additional capacity. I do not have the powers to guarantee it, and I do not think it would be appropriate. I would not seek them, because ultimately passengers should have access to the 50% increase in capacity, choice, value and better service quality, but not at any price.

Q650 **Luke Pollard:** It seems that there is a fair amount of scepticism about the flat level of the fees and whether you might want powers or not. That might be a recommendation we produce.

Andrew Haines: Powers to regulators almost invariably require primary legislation. That is my hesitancy on that. Primary legislation in the current parliamentary timetable and agenda could be several years away. It could be contentious. If we were to make those powers a condition of progress on the NPS, it would feel to me like the wrong trade-off even if I would rather like to have had them in the first place. There is a real trade-off that would have to be made and that is what makes me hesitant.

Q651 **Luke Pollard:** In the previous evidence session, we touched on the idea of intra-airport competition. Have you done any work on what powers would be required if Parliament suggested that might be a good thing, so that you could be ahead of it? I understand there are models that work in other airports around the world at the moment.

Andrew Haines: Yes. Munich is an airport in Europe where one of the terminals is largely owned by Lufthansa. Ironically, the powers for it to function are in the legislation. When the legislation was being debated and tabled for Parliament in 2012, it was envisaged. It was something that we were keen to have as part of that. But the decision was taken—I have to say that if you read the transcripts of the Bill Committee that was largely the tenor of the comments from Members of Parliament—to have powers to disinvest an investor that were quite draconian. That is what we would be talking about. We would be saying, "You own this asset, Heathrow, and we are going to forcibly take it away from you." They slip off the tongue as easy things to have, but the reality would be potentially quite disruptive.

On that basis, I believe Parliament decided not to give us the powers and said, "Yes, that route can still happen but only through a market investigation with the CMA." Then I come back to that being typically a three-year process, which is very often appealed. You are probably adding four or five years to the process if you go down that route. That is the dilemma in that situation.

Q652 **Daniel Zeichner:** You said the charges are high because the costs of terminal 2 and terminal 5 have been borne by users, and that is unusual. How is it done elsewhere?

Andrew Haines: Until quite recently, airports were largely state owned almost everywhere else in the world. It is only really in the last five or 10 years that we have seen the privatisation of airports beyond the UK. That is now catching on, certainly in Europe. We have seen a lot of divestment of public airports. In America, a lot of airports are still publicly owned, but sometimes the terminals are privately owned. Our model was unique. Some other countries are now embracing it.

Q653 **Daniel Zeichner:** In the end, this is really a negotiation about who pays, isn't it?

Andrew Haines: I am not sure I would use the word "negotiation" because then you would not need a regulator. The reason the regulator is there is that there is an imbalance of power. The thing the Committee should take some comfort from is that not only are we subject to appeal but we are very evidence based. We publish all our assessments as drafts in advance for people to consult on, so there is a high level of transparency in those processes. That is something the CAA and all economic regulators are very thorough about, not least because we will be subject to legal challenge, and we can disrupt the whole process. I would not want the idea of a dirty backroom negotiation; it is a very transparent process.

Having said that, the power of the airlines around the table is not a pure proxy for competition but it is undoubtedly a lever. I would not want to do anything that diminished the role of airlines in that debate, in holding a monopoly provider to account. Without pressure, monopolies tend to act in a typical way; they look to maximise the return. That is why we have regulators.

Chair: Notwithstanding your earlier comments, we want to get your take on airspace and noise.

Q654 **Ronnie Cowan:** The estimates assume 740,000 aircraft movements from the north-west runway. What airspace changes will be required to cater for that?

Andrew Haines: Pretty fundamental. If we do not change the airspace, there is no economic case to build the runway. You might be able to use it for a few hours a day, but the economic case is destroyed. Moreover, it requires a co-ordinated response across the whole of the south-east of England. Our airspace is a national piece of infrastructure, but nobody sees it so we tend to forget about it. The last time there was a significant change in London, in the Heathrow area, we think was 1974. It is more than 40 years since we have done that. It is a big challenge, but I think we are now in a very much better place to deal with it than we were three or four years ago.

Q655 **Ronnie Cowan:** Is the plan to get the planes up quicker, so that there is a steeper take-off or steeper descent to land?

Andrew Haines: There is an option for steeper departures and steeper arrivals. They are not currently baked into the proposals. Certainly they are not factored into the noise assessment, but there are certainly some options around that.

Q656 **Ronnie Cowan:** What would be the benefit of that? Does it reduce noise or pollution?

Andrew Haines: For example, the approach at London City airport is 5.5 degrees; at Marseilles, it is 4.4 degrees. You would have a significant improvement on noise further out in west London, but then you have to come in. If you think of braking hard, effectively you create a noise bubble in the immediate area. There are some trade-offs to be made and there are some interesting proposals. Those are still to be worked through. They are not part of any core proposition. The key for airspace modernisation is principally capacity in the upper airspace to systematise the work done above 9,000 feet. That can only work if we modernise below 9,000 feet as well, and that is where the co-ordination challenge comes in.

Q657 **Ronnie Cowan:** Would that reduce the detritus you get on what are supposed to be the recognised air routes? We know that people are veering off, coming off early and joining late.

Andrew Haines: Yes. The system currently requires controllers to vector. The whole purpose of satellite-based navigation is to reduce the requirement for that. Airlines that follow satellite-based navigation end up with very precise routings. That then causes issues of concentration, but the technology in this country and elsewhere across the world can be demonstrated to do just that.

Q658 **Ronnie Cowan:** Given the scale of the airspace issues, do you think it is correct that they have not been dealt with as part of the process?

Andrew Haines: There are parallel processes that the Department for Transport has put in place and they are now working well. Three and a half or four years ago I gave a speech in which I said, "I think there are four things missing from our ability as a country to modernise our airspace." I said it needed political sponsorship; a narrative for communities; clarity around the policy, and a change process that was much more transparent and modern.

I think we now have all four of those elements in place. With Heathrow, we have the narrative, because it is the thing that is driving the case in the short term. We have had, in the last 12 months, clearer guidance from the Department for Transport, which we welcome. On 2 January this year, we ourselves introduced a massively more transparent process so that communities can have some confidence that they understand what is going on, even if they do not like it. We cannot aim to please, but we can demonstrate to communities that they are being adequately consulted. Those are four reasons why we are in a better place to do it now, but it is not easy. It will be tough. It will be noisy in every sense of the word.

Q659 **Ronnie Cowan:** John Holland-Kaye said that "safety is the starting point for any airport or airline operation. That is never negotiable." If that is the case, why have only preliminary safety assessments been completed for this scheme?

Andrew Haines: There are two reasons. First of all, the detail of the operation has not yet been developed. The way we would receive a safety case for this is that they need a detailed location, a full plan and then a method of operation. Then they would develop a safety case, which would come to us. The commitment I can give the Committee is that hell will freeze over before the CAA allows a scheme to go forward about which we have fundamental safety concerns.

We have a role in the DCO process. As a statutory consultee, we expect to be asked to confirm whether or not there is a major impediment to the scheme progressing, before that decision is taken. We think that Heathrow has to come up with a robust, detailed concept of operation and a safety case before we can give that assurance to the DCO. That will be done. I do not think it is necessary for the NPS, again because it is a principle, not the detail of the scheme.

Q660 **Ronnie Cowan:** To what level has it been done so far?

Andrew Haines: A very high level indeed. They are at a very preliminary level because the detail just is not there to do it, but we did work for the Airports Commission back in 2014 and found that there was no obvious impediment to any one of the three schemes being developed. There were issues that would need to be dealt with. In Heathrow's case, there was the proximity to Northolt; the precise location of the air traffic control tower; and how you would deal with missed approaches. None of them appeared to us to be things that, with the right design, were insuperable obstacles.

Q661 **Ronnie Cowan:** Nothing insurmountable.

Andrew Haines: Not from the high level of information we have reviewed thus far. If there was, we would be making that very clear once we had a detailed concept of operation.

Q662 **Ronnie Cowan:** The safety issues would be fully assessed at the same time as they were putting in other costs.

Andrew Haines: Indeed, yes.

Q663 **Ronnie Cowan:** Is it at another time or at the same time?

Andrew Haines: It is a parallel process because we will need to give an opinion to the planning inspectorate as part of the DCO process. Logically, we see that coming broadly at the same time as the regulatory economics piece of work, even though they are two quite discrete pieces of work.

Q664 **Chair:** What I am getting from what you are saying, Andrew, is that there is considerable uncertainty around airspace modernisation, because it is difficult, and there is some uncertainty around safety, although you do not think it is insurmountable. But that still builds quite a lot of risk into the whole scheme, doesn't it?

Andrew Haines: I do not think it builds risk into the scheme. It is a recognition of where the scheme is. I am conscious that your challenge as a Committee is that you are asked to take a view when the scheme is still at a very high-level stage. It is a function of that. We are in a much better place to deliver airspace change now than we were even 18 months ago. There is uncertainty because it needs co-operation from all the players and because there will be local resistance. We are much better placed to deal with those things now than if we had been having this conversation two years ago.

Q665 **Chair:** But that requires us to have confidence that those things are going to be dealt with. You have already described how it has been a long time since we have had significant airspace modernisation.

Andrew Haines: Yes, but I hope what I have also done is articulate why we are in a better place. There is now an imperative to do it, which is essential to unlocking Heathrow. We have clearer policy guidance from the Department for Transport and we have an infinitely better and more transparent system that allows the process to be legally robust and for communities to feel they have a voice. They are critical foundations.

Chair: One of the reasons why airspace matters so much is the impact it has on noise. Grahame has a few questions about that.

Q666 **Grahame Morris:** Mr Haines, with the qualification that I understand that the CAA does not have legal responsibility for enforcing on noise, I am sure that the Committee is interested in your opinion on how some of the statistics and the modelling have been done. It will help to inform our views.

The first question is in relation to noise modelling and the Department's suggestion that fewer than 93,000 people would be severely affected by noise annoyance in 2030 with the new north-west runway. The contention is that in producing these numbers the Department used only one set of flightpaths. Do you think that is a reasonable approach for the Department to take?

Andrew Haines: From my understanding, I think it is. What we are alluding to is the fact that for the Airports Commission work, three different flightpaths, effectively, were modelled—one to reduce the total number of people affected, one to limit the number of new people affected and one to maximise respite. The purpose for the NPS was simply to update those forecasts for demand, because the DFT's own demand model had increased, and to reflect the fact that actually there was some good news, which is that some of the aircraft types being introduced were quieter than the modelling for the Airports Commission predicted. I do not think that is unreasonable. What it was doing was validating one of those three solutions. That is my understanding.

Q667 **Grahame Morris:** In the context of what you told us about airspace and making better use of the airspace, what are the chances of achieving concentrated flightpaths in practice? Is that possible? I take on board your point about the new generation of aeroplanes being quieter, but the Department's figures seem to rely on concentrated flightpaths.

Andrew Haines: I do not think that in practice the Department's figures rely on concentration; at least, that is not my understanding. In practice, concentration will be difficult to deliver because what the technology delivers is hyper-concentration—a very narrow path. That is why one of the things the Airports Commission modelled was respite, which is concentration, albeit spread across different routes. I do not think the work that the Airports Commission did is in any way invalidated by the updating of just that central route.

There is something slightly counterintuitive, in that, if you are a long way out, respite actually means that you may well fall below the 54 dB level of annoyance. The shape of the contour is different, but I do not think it in any way invalidates the Airports Commission's work. It is just testing the central case for those two changes.

Q668 **Grahame Morris:** In assessing the level of noise of the new generation of aeroplanes to which you referred, it has become nailed on as fact that they are quieter, but when we also factor in the different flightpaths that are being used—you mentioned the consequence of noise bubbles—what kind of evidence has been presented that the second generation are actually quieter, given the changes to flightpaths, angles of descent and so on?

Andrew Haines: The way noise modelling is done has a whole set of different inputs. There is the total demand, which will drive the number of planes. There is the type of planes. There is how much noise those planes will make. Then there is the size of the population in the area and the precise route.

In terms of the noise that is emitted from the aircraft, as I said, there is largely good news, as the assumptions in the Airports Commission modelling have been bettered in reality since then. We have quite a few 787s and A350s in practice, and they are materially quieter than was predicted. There is one aircraft type that is slightly noisier, but they are a relatively small player at Heathrow.

For that reason, the Airports Commission work is looking conservative. When it comes to second generation aircraft, which you mentioned, all we have done there on behalf of promoters is to use the ICAO assumption that generally a 0.1 dB improvement in noise will be achieved by aircraft types per annum. That is a global assumption. Again, I can give you some comfort. When modelling was done in 2002, and again in 2007, the reality has been better than those conservative assumptions. I do not think there is any suggestion that the noise modelling is anything other than conservative. Every time it gets refreshed, the impact, if anything, is less than had been predicted.

Q669 **Grahame Morris:** I am not sure how I feel about conservative noise modelling.

Andrew Haines: It is a lower case "c."

Q670 **Grahame Morris:** I know what you mean; I was just pulling your leg.

Can you tell us something about noise envelopes? You mentioned the second generation and reduced noise. Is there a way to incentivise the airlines to use quieter aeroplanes?

Andrew Haines: Yes. Heathrow is what is called a designated airport. That means that the Secretary of State effectively has the powers to set the terms under which the airport operates. For all bar three airports in this country it is the planning authority. The Secretary of State has those powers in this country. There has been lots of discussion about the principle of noise envelopes, which would allow different trade-offs to be made. Rather than specifying individual characteristics, you might say that, if you had a noise envelope that gave a maximum amount of noise, it might incentivise you to use more fuel-efficient planes. It might incentivise you to do work on steeper approaches. It might incentivise you to make a trade-off between engine wear and noise that is not perhaps currently incentivised.

The work I understand the Secretary of State is going to ask ICCAN to do will be really important. One of the reasons we have had such difficulties with local communities is that they do not have confidence that their interests are well looked after. There are not enough incentives, and the noise envelope is a good way of demonstrating that in a transparent way.

Q671 **Grahame Morris:** In terms of what the Committee can do to mitigate for the benefit of the residents, is this an area where you would highlight that we need to do some more work?

Andrew Haines: Supporting the Secretary of State's proposal to ask ICCAN to investigate this would be very appropriate.

Q672 **Chair:** I would like briefly to come back to the question about noise modelling and the fact that they have used one set of flightpaths. I am struggling to understand it. Surely, that is only one scenario. If there are concentrated flightpaths, it is one way of dealing with airspace change. Concentrated flightpaths lead to a certain number of people being affected by noise annoyance. Isn't there a danger that you will potentially get the numbers wrong if you do not consider the range of different options that you might end up with, taking into account community preferences or whether people would rather have a dispersed model or a concentrated model? Could it not lead to different numbers and should we not be aware of that in order to cost the noise annoyance?

Andrew Haines: It could, conceivably. My understanding—I am not a noise expert—is that it is unlikely to change the shape of the contours from the airport significantly. Maybe that is something I could address in writing to the Committee, or even offer a briefing with the technical experts on noise, who could demonstrate and walk you through some of those scenarios, if that would be helpful.

Chair: Thank you. That is helpful.

Q673 **Huw Merriman:** Under your responsibilities, which I have just looked up on your website, you state that you are clear that without additional aviation capacity in the UK passengers will suffer from less choice, more disruption and higher air fares.

Andrew Haines: Yes.

Q674 **Huw Merriman:** You then say, of areas outside your responsibility, that you do not decide where the runways should be built. It is very much within the spirit of where it is within your powers and whether there is a need for more capacity. Given all the concerns that have been raised, how confident are you that this project can be delivered by 2030, with particular regard to the sheer number of legal challenges that are likely to be raised?

Andrew Haines: I feel confident as a result of the level of work that has gone on to deal with every element. We have a different economic regulatory regime. As I said, we have the fundamentals for an airspace debate now, and we have a better planning process, bluntly, than we had when Heathrow was last seriously considered eight or nine years ago. All of those remove risk.

Will it be challenge free? I very much doubt it. If I was a betting man, I would put my money on legal challenge, but I do not think that means that the scheme is not going to be robust enough to succeed and overcome those challenges, provided we come up with something that is financeable, affordable and acceptable to communities. Those are the three fundamental planks for me. If we can do those three things, we can overcome legal challenges.

Q675 **Huw Merriman:** But one of those legal challenges could be that it actually breaks the law, when we look at the environmental impact. At that point, either the law gets changed, which would be highly unlikely, or it does not go ahead. At what point in time, as the regulator, do you flag up those risks and say, "There is a great danger that we are spending a lot of time and money on a project that just may not be delivered"? All the disruption comes back to your responsibilities, because we do not have the additional capacity that you are empowered to help us deliver.

Andrew Haines: If you are talking particularly about air quality, it is an area where we have no expertise, so I rely in my assessment on what the experts have said and what the Department for Transport and the Government have established. I am taking that at face value because I have no expertise to challenge it.

On the other elements, we have our own expertise so we can give an informed opinion. Notwithstanding the air quality issues, because I cannot pass comment on those, my assessment is that we are in a good place.

Q676 **Luke Pollard:** I have a cheeky question, because it is not strictly directly related to Heathrow, but as you are in front of the Committee I thought I would seize this opportunity. It relates to Brexit and aviation. We can't have a meeting without mentioning Brexit.

Andrew Haines: I thought it was going to be about Plymouth airport.

Q677 **Luke Pollard:** We heard in an evidence session for airlines a few months ago on Brexit and aviation that they were very confident and ready for a deal, although they all flagged up concerns about the UK's participation in the European Aviation Safety Agency. Do you feel that, in the event of the UK leaving the EU without a deal, your organisation, which presumably would assume those responsibilities, would be ready to fulfil them?

Andrew Haines: In all my time in this job I have never known an issue so unite every element of the aviation and airspace community as wanting to maintain EASA membership. I think the Government have a very clear message from the regulator and from every constituent that the right thing to do, if at all possible, would be to maintain full membership. Aviation safety is not best dealt with on a national basis. It is inherently international. In the ideal world, we would have one global safety regime. We would not have conflicting standards. All the energy and aspiration is focused on trying to get a deal whereby we have full participation.

If we end up not in that position, we can effectively choose to replicate what EASA does for the vast majority of the activity. We are currently helping Thailand to develop an EASA-compliant regime. There are other countries in the world who can adopt those rules and do not need the permission of the Commission to do it.

There are one or two areas—things like design approvals and certification—that we could not do without co-operation from EASA. Those are the areas where we are currently mapping out with the Department for Transport what would be the best scenario in the worst case of not having EASA membership on an ongoing basis.

Luke Pollard: I appreciate that; thank you.

Chair: Thank you very much for giving evidence today. That concludes our session.