Written evidence submitted by Heathrow Airport Ltd (AAS0023)

SUSTAINABILITY:

The most important role for Government as the UK looks to 'build back better' from the impact of the pandemic, is to deliver clear and tangible policy decisions to support the path to NetZero.

Heathrow agrees with the approach and principles within the Government's Jet Zero consultation but believes the Government must now act with urgency to implement this strategy. Aviation is a force for good in the world. It underpins the global economy, delivering trade and tourism to all corners of the globe.

But those benefits cannot come at any cost. Climate change is an existential threat to us all. Like every other part of the global economy, aviation needs to reach net zero emissions by 2050.

That means private sector investment of potentially billions of pounds by 2030 – particularly in new sustainable aviation fuel (SAF) plants. Decisions on those investments need to start in 2022 and 2023. SAFs are by far the most promising solution for net zero flying by 2050. That means active policy support from Government that enables wider commercialisation of SAF.

The benefits of focusing on SAF are:

- *The technology is proven*. Six different ways of producing SAF have been certified for aviation, more are under development.

- *It is a "drop-in" solution*. It can be dropped into today's aircraft, avoiding the need for costly and timely replacement of the world's aircraft fleets. It can be dropped into today's pipelines avoiding the need for new fuel distribution systems.

- *Before 2050 SAF will remain the only solution for the longer journeys that represent most of aviation's emissions*. SAF is the only plausible solution for long haul flights or flight longer than two hours, before 2050. Zero emissions flight technology (electric and/or hydrogen) is likely to only emerge for shorter journeys by the mid-2030s.

- *It cuts life-cycle carbon by 70% or more and can be produced sustainably*. Using currently approved feedstocks and manufacturing processes, waste-based or "second generation" SAFs can deliver around 70% carbon reduction compared to conventional jet fuel (based on Life Cycle Assessment)[1].

- *There is sufficient feedstock globally for aviation*. A recent report by the Energy Transitions Commission concluded that there is sufficient sustainable biomass globally for all of aviation's needs and that aviation should be prioritised for its use as alternative zero carbon technologies exist for other industries and modes of transport[2].

The main challenge for SAF is an economic one: it typically costs 4 – 5 times more than kerosene. Airlines are therefore reluctant to sign up to significant long-term supply contracts and investors are therefore hesitant to invest.

The Government has a key role to play in creating market signals to stimulate SAF use – delivering meaningful policy change by **setting out an escalating mandate for production of SAF, rising to at least 10% of all aviation fuel by 2030.**

However, the clear message from fuel producers, investors and airlines is that a mandate alone is not sufficient to scale investment. It must be complemented by the right commercial incentives that help to close the price gap with kerosene. As such, the Government should **seek to provide a price support mechanism to close the price gap with fossil kerosene – reviewing the role of Air Passenger Duty (APD) in supporting these goals.**

Furthermore, it is vital that the UK asserts a position of global leadership by being a driving force for change within ICAO. The next opportunity provided is the upcoming ICAO General Assembly in 2022. It is critical that ICAO reach and agree a net zero deal at this assembly. This would make it clear that ICAO is front and centre of tackling the climate change challenges we face and would align with the Aviation sector which airlines and airports alike, has already committed to NetZero by 2050.

RECOVERY OF THE UK AVIATION SECTOR:

Heathrow sits at the very heart of the UK's aviation industry and, by extension, the UK economy. In 2019, Heathrow was Europe's busiest airport, and remains the UK's largest port by value. Prior to 2020, Heathrow handled over 475,000 flights with more than 1.6 million tonnes of cargo (worth over £160bn) and 80 million passengers moving through the airport annually. The airport is home to more than 80 airlines, connecting passengers to more than 200 destinations and 85 countries around the world.

As the UK's only Hub airport, over half our annual passengers travel to long-haul destinations not served by any other UK airport, plugging the gaps in the UK network to vital global trading markets. We connect all four corners of the UK to wide-ranging travel, tourism and trading opportunities throughout the world.

The recovery of the UK's economy will be delivered via the connections from Heathrow and the countries and destinations we serve. The opportunity is clear to see – according to the CEBR, the value of trade going through Heathrow Airport stood at approximately £188bn in 2019 – and that by 2025 this will grow to over £204bn[3].

No other piece of UK infrastructure delivers the same level of connectivity for the regions of the UK, or the same direct and indirect economic benefits from the global tourism and trade that these connections provide.

Financial:

Aviation has been one of the hardest hit industrial sectors in the UK – and despite recent welcome changes in the framework for international travel, remains the only restricted sector in the UK. Heathrow – as the UK's hub – has been at the forefront of the impact of these restrictions. Fewer than 4 million people travelled through Heathrow in the first six months of 2021 – a level that would have taken just 18 days to reach in 2019 – and cumulative losses from COVID-19 have grown to over £3bn.

The pandemic's impact has been felt against the backdrop of £16bn of fixed asset base that Heathrow Airport represents. Despite low passenger numbers and significant cutbacks in Operating and Capital Expenditure, we have remained open throughout the pandemic and the costs of financing this asset have remained. This is also against the backdrop of the Aviation sector receiving no widescale, bespoke financial support from Government – in contrast to our competitors in Europe and around the world. Despite the Government championing a 'world leading' financial support package for Aviation, this is made up of general Covid financial support offers, and mainly by a few multi-billion-pound loans to a small number of airlines and manufacturers, whereby those packages available to airports were either not suitable and/ or were capped per airport.

As an example, in 2019, our business rates bill was £120m spread across 81m passengers and four operational terminals. Despite the significant reduction in passenger volumes and terminal infrastructure, the Government is currently legislating to prevent us claiming rates relief. We continue to pay one of the largest rates bills in the country as other industries have been exempted. In 2022, the same rates bill will be recovered from approximately half as many passengers, which will impact airport economics for airlines and for consumers.

Overall, our payments covering business rates and policing bills accounted for 13% of our cost base in 2019, increasing to 16% in 2020. These costs are essentially fixed, limiting our ability to deliver further cost savings. While the launch of the Airport and Ground Operations Support Scheme (AGOSS) was welcome in 2020/21, the £8m maximum relief amount covers less than a month of our business rates bill. This is compounded by the Government's revised approach to business rates relief set out in March 2021 – which rules out appeals for revaluations due to Covid-19 – and is likely to prevent us securing further relief.

As a priority, and if Aviation remains restricted, the Government should prepare a compensation package that includes an **extension of the AGOSS scheme into 2022 and increase the level of the cap** so airports around the UK can receive support ahead of a vital Summer 2022 season.

Alongside this, the Government's decision to withdraw tax-free shopping has had a devastating impact as the UK has become the only country in Europe not to offer tax-free shopping to international visitors – putting thousands of jobs at risk across the UK, and inflicting irreversible damage on the retail, hospitality and travel sectors. Pre-pandemic, retail and shopping was the second highest reason for leisure travellers to visit the UK. With the reopening of international travel, the Government has an opportunity to attract high-spending visitors and also divert sales away from the EU. The Government must therefore **implement a new airside tax-free shopping regime and launch a consultation on the introduction of duty-free stores in arrivals at UK travel hubs**.

Regulatory:

The UK Government has made attracting inward investment a key focus of its Global Britain agenda – and achieving a NetZero economy cannot be done without an environment where sustainable investment – through the right regulatory environment - is encouraged.

For Heathrow however, supporting the Government's ambitions is at risk of being undermined by not only an uncertain international travel policy, but also poor regulatory policy and decision making.

As Heathrow's economic regulator, the Civil Aviation Authority (CAA) sets a price cap for Heathrow determining the maximum amount of revenue Heathrow can earn per passenger in each year of its regulatory period. This framework determines the totality of how Heathrow operates. In setting and enforcing the per passenger price cap, the CAA specifies how much Heathrow can invest in our airport operations, how much operating expenditure we can incur and the levels of service we have to provide. The price cap also, importantly, establishes the conditions and incentives for investment.

Currently, much of the CAA's decision making on price controls in the consumer interest is focused on ensuring the price cap is kept arbitrarily low over the entirety of a five-year period. However, while a focus on keeping charges low in the short-term may save consumers today a small amount of money on their overall ticket price (around 4% on average if following the lower plan as part of our H7 consultation), the consumers of tomorrow will suffer through lower resilience and service quality caused by long-term underinvestment.

As part of the **Government's 'Better Regulation' initiative and review, Heathrow believes this should cover wider sectoral regulation and economic licensing to support UK recovery infrastructure investment**. Such a review would cover if sector regulators clearly define the outcomes which they should seek to achieve and whether these align and are consistent with the long-term interests of the UK, as well as whether economic licensing provides the right framework in place to support future investment in 'big bang' infrastructure and innovation.

THE TRAFFIC LIGHT SYSTEM AND COSTS FOR INTERNATIONAL TRAVEL:

Over the course of the summer, Heathrow welcomed updates to the UK's international travel framework – particularly recognising the lower risk posed by vaccinated travellers and therefore exemptions for self-isolation being applied to UK, US, and EU citizens arriving from Amber countries. This reflects the need to live with Covid and manage its impacts – as well as place the benefits of vaccination at the heart of how international travel can safely restart.

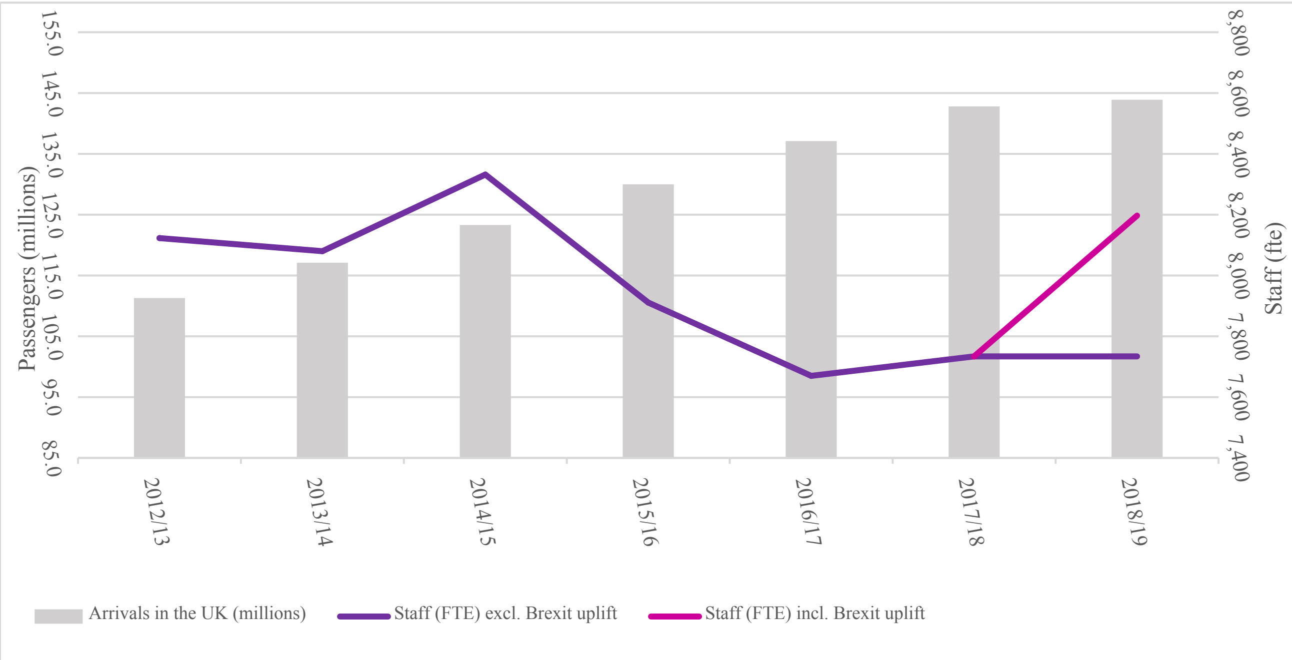
We are pleased to see the Government recently announce the move to a simpler system of a single red list and rest of the world from 4th October 2021, further reductions in the red list as of the 11th October as well as an expansion of approved vaccination countries.

Ministers must continue to work towards friction-free travel for all vaccinated passengers and place vaccination status right at the heart of an individual risk-based approach to international travel. This should include:

- **The change from PCR to lateral flow for all fully vaccinated passengers at the earliest possible opportunity by October half-term**
- **Reform of the passenger locator form to capture only essential information and enable an improved passenger experience**
- **A full review and engagement with industry to identify new steps for moving to frictionless travel in January 2022**

BORDER READINESS:

Whilst passenger levels have increased steadily over recent years, Border Force resourcing has not (see below). As a result of Government cost savings, Border Force recruitment was frozen following the previous economic crisis, and while other departments and agencies have received funding for additional staff due to the changing threat and risk dynamic, this has not included Border Force. This has meant a reduction in the number of officers manning desks at the border, which routinely places strain on the border operation and there has been a parallel decline in performance.



Source: Airport Operators Association

The Government must give urgent consideration to resourcing across the entire Border Force structure. This includes improved rostering, recruiting officers with appropriate skills and capabilities, utilising the passenger data provided by industry, optimising planning and building in resilience. Harnessing innovation and technology will also modernise border processing, providing a seamless and swift travel for the vast majority of low-risk passengers.

To improve the current issues, the Government must focus on:

- ***Planning:*** Optimise rostering to ensure necessary resource is available at the busy peak periods and outlining a roadmap and milestone dates to meet customer expectations for Service Level Agreements of 5 minutes for 90% of EEA passengers and 25 minutes for 90% of Non-EEA passengers.
- ***Resourcing*****:** Confirming and protecting a base level of resource with sufficient flex that supports changing passenger volumes and demographics, and fluctuating flows of EEA and non-EEA passengers.
- ***Automation:*** Improving the reliability of eGates, ensuring they are all operational particularly during peak periods, and increase the cohorts of eligible passengers, including permanent UK residents on non-UK passports as well as passengers from more low-risk countries.

REGIONAL AND GLOBAL CONNECTIVITY:

Regional and Union Connectivity:

Heathrow's role in providing vital links between the nations and regions of the UK into London and onto the unique and extensive global route network we hold, is extremely significant. As the UK's only hub airport, we play a unique role in UK air connectivity and deliver directly for the Government's core objectives of 'Levelling Up', and 'Global Britain'.

Maintaining the UK's strong domestic network and the onward connections provided by the hub, should be an important priority of Government decision making. APD is the single biggest lever the Government can pull to encourage airlines to restart routes. Research conducted by Frontier Economics in 2017 outlined that in a pre-Covid market environment, a 100% cut in domestic APD could cut the cost of air travel for passengers between Heathrow and the UK regions by around £24 million per annum[4].

HM Treasury should deliver its proposed policy to cut domestic APD, and in particular the double counting aspects on return domestic journeys. This should be delivered by a new domestic band (rather than a return leg exemption).

Alongside this measure, more should be done to review the role Government can play in protecting lifeline routes into Heathrow - which are vital in connecting remote corners of the UK with no viable alternative mode of transport, to our vast global network.

The Government should also extend and build on the interventions made during the pandemic to protect and grow vital air connections between the UK nations – via a Regional Connectivity Fund (RCF) and reviewing the use of Public Service Obligations (PSOs).

Whilst Heathrow provides significant air connectivity benefits to regions and nations of the UK, we have always championed the concept of “the right mode for the right journey”.

As such, Heathrow believes greater emphasis should be placed by the Government on supporting and delivering clear tangible Union Connectivity projects, such as Western Rail to Heathrow. The project would generate more than £220m in economic benefits and resulting in improved air quality and lower CO2 emissions equivalent to approximately 30 million road miles per year[5]. However, the impact of Covid-19 has meant both Government and Heathrow funding structures that would underpin the delivery of Western Rail, have been adversely impacted.

The Government should commit to progressing the Western Rail Link to Heathrow to DCO stage in 2022 – allowing space for when the aviation industry recovers, and Heathrow’s ability to provide a contribution in its next regulatory period after 2027

The Southern Access to Heathrow (SAtH) connection also remains a key priority for Heathrow and the Government should further develop the project as an opportunity to generate private sector investment in the rail network and new infrastructure in the UK.

<u>Global Britain, Global Hub:</u>

Heathrow is the UK’s biggest port by value and the UK’s only hub airport. Currently, a fifth of the UK’s total trade by value passes through Heathrow, increasing to over a third of non-EU exports. Cargo also provides a significant economic prop for making routes economic, thereby supporting passenger flying.

However, without the right framework to support the recovery, the UK's long-term air trade could be at risk. Recent figures show that cargo tonnage at Heathrow is down 18% on pre-pandemic levels, while Frankfurt and Schiphol are up by 9%. British businesses are losing out on income and trade with key economic partners as a result of the enhanced restrictions on travel and cargo movements.

As such, **the Government should review and lead the complete modernisation and digitisation of the air cargo process**. As the UK takes control of its borders post-EU exit, there is an opportunity to address inefficiencies in the movements of air freight to help trade with 'Global Britain' partners, such as the CPTPP This should include:

- Encouraging more cargo canalisation trials that result in change – as many HMRC-led pilots have taken place but not been acted upon and any progress made.
- Ensuring there is sufficient Animal and Plant Health Authority (APHA) resource to manage the additional checks on plants and animals' post-EU exit.

October 2021

Endnotes

[1] Sustainable Aviation Fuels Roadmap, https://www.sustainableaviation.co.uk/wp-content/uploads/2020/02/SustainableAviation_FuelReport_20200231.pdf. Add further non-industry source before final submission – there are several.
[2] Energy Transitions Commission, July 2021, https://www.energy-transitions.org/energy-transitions-commission-warns-demand-for-biomass-likely-to-exceed-sustainable-supply/
[3] https://cebr.com/wp-content/uploads/2021/07/Cebr-Report_Heathrow_Airport-20210711.pdf
[4] https://www.frontier-economics.com/media/2245/benefits-reducing-domestic-apd.pdf
[5] "Taking Britain Further" - https://assets.heathrowexpansion.com/wp-content/uploads/2017/08/TBF-Volume-1-72dpi-jm.pdf; Western Rail Link to Heathrow - Network Rail