

Andrew Haines speech to the Runways UK Conference 16 January 2014

Airspace and financing issues

CHECK AGAINST DELIVERY

The CAA is the UK's independent aviation regulator – we regulate safety and airspace, enforce consumer rights rules, promote competition and provide government with advice about aviation.

Recently we acquired a new legal duty and powers to gather and publish information on both consumer and environmental issues and this week we publish our proposals to make information on aviation noise more accessible, transparent and intelligent. And having sat there today I'm convinced more than ever of its importance.

The consumer is at the heart of almost all we do as a regulator and this focus gives us a unique approach to the Airports Commission. So the first thing I should say is that we agree with the Commission assessment that additional runway capacity is necessary to avoid consumers suffering in future from higher prices, less choice, worse punctuality and weaker resilience. And we support the conclusions that in the next 15 years, one runway is likely to be affordable. Some of these issues are already starting to affect us today but our assessment is that we will see further detriment by 2030.

Economic Regulation

It goes without saying that whatever gets built now needs to be paid for. Barring legislation changes, that will mean the CAA will be involved in overseeing expenditure and that it will be privately funded – ie passengers will pay for it – unlike any other of the foreign airports mentioned so far today.

I'm not going to touch on the sources of private finance – because I don't believe that is the key issue. There is no obvious shortage of new investors in UK airports. We've seen European, Far Eastern, Australasian, North American and Middle Eastern investment in recent years.

For the CAA the key issue is the market, what is the value to passengers, how will they be prepared to pay to fly when faced with alternatives in mainline Europe or elsewhere.

So following the changes introduced in the CA Act 2012, the CAA has to first assess whether an airport has significant market power and if it does, whether economic regulation is in the best interests of passengers and if so, what form should it take. At present, the two airports on the short list, Heathrow and Gatwick are economically regulated by the CAA and last week we announced our final view relating to regulation there after April this year.

One question has been whether we will allow spending on developing proposals for the Airports Commission to be passed through to airlines, and ultimately to passengers.

Our position on this is that the two existing airports will not be able to recover their initial spending on developing their proposals through their charges to airlines. This ensures that the risk of nugatory spending lies with the airport and its shareholders, news which may be welcomed by Jock with the only short-listed option not from a regulated airport.

Once the Airports Commission has published its final report and the Government has responded, the challenge will be considering how development is funded. We have committed to consulting later this year on a statement of policy on how we would approach regulating development of additional capacity...

The CAA's regulation has typically allowed airports to recover infrastructure costs as expenditure is occurred, rather than when the runway or new terminal is open, providing certainty for investors, and lowering the cost of capital, to reduce the overall cost of the project.

For that approach to be successful, we need to be reasonably confident that the proposed development is affordable – that is a calculation based on the true cost of the scheme and the number of passengers it can really be expected to attract...

And of course, the last thing we want to see is a new runway scheduled to the point that resilience is damaged, causing the same problems for passengers that Heathrow suffers today. So planning assumptions must build in resilience.

As Sir Howard made clear at the outset, in the UK there are no levers to force airlines to use one location over another, and forecasting passenger demand is an art not a science, so there is always a chance of infrastructure passing muster at the first phase but turning out to be a white elephant. This means we will be cautious about which schemes we allow to recover costs.

In that context, the 2003 White Paper prediction of the need for a second Stansted runway serves as a cautionary tale – an airport that is today operating at around half of its potential capacity would by now have a second runway open if plans had gone ahead, and it will have been passengers who would have borne the cost of that decision not shareholders or the Treasury.

Another key consideration is airlines' willingness to pay for infrastructure development that could lead to benefits for their rivals – our concern must be what is best for passengers both now and in the future in taking these decisions... usually airline views are representative of their passengers but not always. Should existing passengers and airlines contribute to new capacity for new airlines and new passengers and if so, to what extent.

There is then a decision about the balance of risk between shareholders and passengers – taking higher risks means accepting shareholders have both downside and upside potential, and funding infrastructure today may lead to gains tomorrow.

Getting this right needs a strong understanding of consumer demand to effectively assess proposed expenditure. But it will also be vital for the short-listed schemes and the Airports Commission to ensure that understanding what passengers want, at what price, is at the heart of their work as we reach a single recommended proposal.

Our consultation later this year will set out our view of the role of the regulator in this area.

Airspace policy

Another key area where the CAA will be asked to take judgements as one of the schemes becomes reality is around airspace.

When looking at the short- and medium-term options, the Interim Report highlighted the importance of the CAA's Future Airspace Strategy to enhance resilience, reduce stacking, increase fuel efficiency and improve punctuality... We agree with the focus on the importance of FAS, and welcome the attempt to speed the work up. In the end though, progress comes down to industry's and political appetite to move – and to date that has been varied.

In the UK's disaggregated, privatised, competitive aviation sector, there are limited levers to force the industry to advance these issues if they do not see a reason to prioritise them. We do believe though that there are strong economic, environmental and safety reasons for

major London airports and airlines to throw their weight behind FAS - both for short- and medium-term benefits and crucially to prepare for increased capacity.

Providing those airspace improvements occur, and subject again to not over-scheduling new capacity, we don't see insurmountable airspace-management challenges for any of the three currently short-listed long-term schemes, provided they form part of a fundamental redesign of UK airspace... But that is not to say there won't be other challenges.

Along with many other speakers, our strong view is that the environmental impact of aviation, through noise, has been the major stumbling block for the many previous proposals to develop additional runway capacity in the South East, and noise is essentially an airspace issue, but one influenced by clear political considerations.

Considering the three short-listed proposals, it is possible to identify three potentially competing approaches to the noise issue:

- First, we have the third runway proposal from Heathrow: here we see new people negatively impacted by noise, but in a way that still allows respite at set periods through alternating runways.
- Then there is the Heathrow Hub proposal, which exposes far fewer new people to noise nuisance and reduces the impact of noise at night and early morning, but means there is at best limited alternation of runways, and no respite for the affected population impacted,.
- The Gatwick proposal impacts far fewer people than either Heathrow scheme... that is a clear positive. Though as Stewart illustrated, it is in a much more rural area, where, it has been argued, new noise produces the potential for more intrusive annoyance.

Weighing up these conflicting approaches to tackling noise has previously been a role for government. With the creation of the Airports Commission, and their proposal to create an Independent Aviation Noise Authority, politicians could be moving themselves further from decision-making on noise, which will undoubtedly remain a politically sensitive issue within constituencies close to airports.. It is the commission itself not an individual noise authority that will decide both between different approaches and the relative weighting given to local impacts and the other evaluation criteria. Perhaps understandably, Sir Howard didn't touch on this, which I perceive to be his biggest challenge, this morning.

The Airports Commission's process may reduce the political impact of noise. They put a much greater onus on bodies who don't face the electorate to tackle these issues in a transparent, open fashion that allows sufficient, if not universal, consensus to develop around the proposed way forward. This could be a big step forward, provided that late in the process, politics does not become the overriding consideration.

The understandable local and national political considerations, especially at Heathrow, mean this will be a tough call for any government to take.

Conclusion

The Airports Commission have published their assessment criteria today – we believe focussing on the following areas will help to narrow their short-list to a single option:

- The scheme must be driven by consumer demand
- There must be a clear financing proposition
- It has to be operationally safe
- And it must be environmentally sustainable.

In today's session I have focussed on practical issues we face that touch on each of those criteria. While the issues I've raised may seem a long way away right now and pretty parochial, if we do not consider them before we choose a scheme, as the options are narrowed, we risk ruling a proposal in that, in practice, will not be deliverable, or ruling one out that might be.

We understand that, as we go through this process, there may well be a proposal that is on paper 'best', but in practice is unrealistic.. We are conscious of the danger of letting the best be the enemy of the good, but the last thing the CAA wants is to have to put our hand up in two or three years time and say actually, that isn't going to work.

Avoiding that scenario means that we have to tackle these complex questions soon, before a final scheme is decided on, and in doing so leave ourselves with a proposal that is stronger for it.