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## **London City Airport**

### **Response to CSACL Comments on the Need Statement for the London Borough of Newham**

This note addresses further comments on the Need Case received from CSACL in response to our commentary on the CSACL Review of the Need Case dated April 2023. This note follows the headings set out in CSAL's response and reflects further discussions with CSACL held on 1<sup>st</sup> June 2023 and subsequent e-mail exchanges.

#### **Airports Policy Context**

1. Planning decisions must be made consistent with national policy, including in respect of carbon emissions from aircraft, where policy in the Government's *Jet Zero Strategy* is clear that that this must be considered at a national not local level. This position has been confirmed in a growing body of authoritative case law (Bristol Airport, Southampton Airport).
2. That said, CSACL concedes, in the note of additional comments, that the '*Making Best Use*' policy makes clear that the climate change/carbon issues related to aircraft emissions are a matter for national policy but highlights, as we did in the Need Case, that matters such as noise, air quality, surface access and economic impacts are matters to be considered by the local decision maker.
3. CSACL further notes that the views expressed by the Committee on Climate Change (CCC) are not reflected in the Government's *Jet Zero Strategy* of July 2022. Importantly, this was expressly confirmed in the Government's response of March 2023 to the CCC's Progress Report.
4. Hence, CSACL, in essence, has confirmed that' the position taken in the Need Case on the aviation policy basis within which the application should be considered.

#### **LCY Recent Performance**

5. Recovery of passenger numbers at LCY continues to lag the other London airports for the reasons explained in our previous notes, namely the relatively slower recovery of business traffic compared to leisure traffic coupled with the deterrent effect on the airlines of not being able to use their fleets efficiently by operating on Saturday afternoons.
6. CSACL is not correct to assert a Brexit effect as impacting European traffic specifically as any shortfall in March 2023, based on CAA Airport Statistics, seems to more closely reflect the impact of the war in Ukraine limiting travel to some countries and recession in Germany, albeit the pattern does vary country by country.
7. Another factor in the relative performance of LCY is the absence of a replacement for the Flybe network, which accounts for a substantial part of the shortfall against 2019 traffic. Our forecasts anticipate that these volumes will be largely backfilled over time, partly through aircraft size growth in line with market recovery more generally.
8. Overall, it is not robust to draw conclusions about the long term forecasts for any airport based on short term performance, particularly whilst the market is still stabilising post-pandemic. We expect to see a stabilisation in the market by the end of 2024.

9. In terms of business travel recovery, this was always expected to lag recovery in leisure travel markets due to the lower income elasticity as set out in Appendix D of the Need Case. In the Core Case, the total number of business passengers using the airport is not expected to exceed 2019 levels until 2027, driven in part by wholly new business markets for LCY as new routes are launched. Recovery is slower in the fallback Do Minimum Case as there are fewer new routes assumed to start with the potential to carry additional business passengers. The proportion of passengers using the airport that are travelling on business is also expected to fall over time with and without the approval to the amendments to the conditions as shown in the table below.

	Foreign Business	Foreign Leisure	UK Business	UK Leisure	Total Business	Total Leisure
<b>2019</b>	17%	20%	28%	34%	46%	54%
<b>2031 Do Minimum</b>	15%	22%	24%	39%	39%	61%
<b>2031 Development Case</b>	14%	24%	21%	41%	35%	65%

note: figures may not sum due to rounding

10. Overall, we consider that any short term variability would lie within the range set out between the Slower and Faster Growth Cases presented in the Need Case and assessed in the Environmental Statement. In the meeting, CSACL confirmed that it had not reviewed the Faster and Slower Growth Cases and had considered only the core Development Case.

#### Operators' Efficiency Improvement

11. CSACL's acceptance that extended operating hours on Saturday afternoons would contribute to airline efficiency and, hence, the incentives for airlines to refleet and to grow at LCY is acknowledged and welcomed.
12. The fact that LCY may make a further application in the longer term to increase its passenger and aircraft movement levels in line with its published Master Plan is simply not relevant to consideration of the S73 Application. CSACL is not correct to assert that this would necessarily require a further change to operating hours as the relative utilisation of available runway capacity would remain well within acceptable limits without any change to operating hours at Masterplan throughputs. This was acknowledged in the meeting and CSACL noted that this comment to some extent reflected an interpretation of the 'Making Best Use' policy as implying 24 hour operations, 7 days a week. This is not our interpretation of the policy and it is not consistent with other approvals granted under the policy.

#### Demand Forecasts

13. CSACL's assertion that the demand forecasts underpinning the S73 application are not robust appears to be based on its view that the overall UK air passenger forecasts produced by the Department for Transport are not robust and should not be relied on. First of all, it is important to reiterate that, as set out in Appendix D of the Need Case, the demand forecasts are not directly based on DfT's UK Aviation Forecasts but are worked up from first principles using updated assumptions (as at the point in time when the forecasts were prepared) and using DfT's underlying demand elasticities.
14. In relation to CSACL's point as to whether the DfT forecasts adequately take into account the higher cost of SAFs relative to kerosene, we have reviewed DfT's FOI response to CSACL (kindly provided to us). We note that the DfT has effectively confirmed the position set out in paragraph 23 of our note of 27<sup>th</sup> April 2023, namely that the effect of higher SAF prices could be considered as accounted for in the modelling on the basis they "do not exceed the costs they [the airlines] face in using kerosene, including the relevant carbon costs". The validity of this assumption is confirmed in the subsequent paragraph from the DfT FOI letter where they state that they expect that, subject to some uncertainty, "some cheaper forms of SAF could become cost-competitive with kerosene plus carbon pricing by around 2030". All of this is consistent with our position that, having included the up to date carbon

cost assumptions used by the DfT (derived from the BEIS target appraisal values), the demand forecasts take into account both the cost to the airlines of paying for residual carbon in future and/or relevant abatement costs, which would include any additional fuel costs related to the use of SAFs.

15. Although the specific forecasts for the S73 Application were not directly derived from the DfT's national air passenger forecasts from either 2017 or 2022, our model does use the updated demand and cost elasticities from the DfT's March 2022 updated methodology as set out in the *Jet Zero Modelling Framework*. As with the DfT's work, we adopted the 'Other Costs' element of the air fare calculation from the 2017 UK Aviation Forecasts and adjusted these to reflect efficiencies in line with DfT assumptions, but all other elements of the air fare are worked up from first principles using appropriate sector length, fuel cost and carbon cost assumptions. This was set out in responses to queries from CSACL dated 28.3.23 and 30.2.23.
16. While CSACL notes that the carbon component of the air fares appears lower in 2030 in the Jet Zero March 2022 forecasts, reproduced at Figure 3.2 of its April 2023 Report, than it was in 2017, CSACL has accepted in correspondence that this is a consequence of the illustrated carbon costs being a blend between UK Emissions Scheme (ETS) related values and CORSIA<sup>1</sup> related values. The CORSIA related values are held low in the early years before converging to the assumed cost on flights covered by the ETS.
17. The key point to note in relation to the specific forecasts for LCY is that, in our modelling, carbon prices are applied as appropriate to each market segment. In the case of LCY, 98% of flights and 99% of emissions (as made clear in Chapter 11 of the ES) relate to flights covered by the ETS (the only exception being a small number of flights to the Channel Islands using turboprop aircraft that, in any event, are forecast based on the growth rate for UK domestic flights taking into account the higher ETS carbon values). Hence, for the purpose of the LCY forecasts, it is not appropriate to use the blended CORSIA and ETS carbon cost as a basis for comparison as the forecast growth rates (including for the Channel Islands which are treated as UK domestic within the forecasting equations) include the full ETS assumed carbon cost. Compared to the £77 per tonne in 2030 used by DfT in their 2017 forecasts (£83 in 2020 prices), these were included at £150 per tonne in 2030 (2020 prices) in the latest DfT passenger forecasts and in our modelling.
18. As we made clear in our previous response, these carbon costs have been deliberately set over the longer term at target values aimed at incentivising abatement of carbon emissions and are not solely the anticipated cost of a carbon permit. Hence, they have been set at a level considered to be high enough to incentivise the use of SAFs or zero emission aircraft in line with the Jet Zero assumptions for take up. By including these target carbon costs fully within the modelling, the anticipated higher cost of SAFs is fully accounted for in the forecasts. This is in line with the DfT's FOI response.
19. A further factor to be borne in mind when comparing back to the DfT 2017 forecasts, as CSACL seeks to do, is that the DfT has also now included an efficiency factor in its analysis and this serves to further reduce fuel consumption over and above simply load factor growth. As the DfT makes clear in its *Jet Zero; further technical consultation* of March 2022, a further relevant factor is fuel efficiency, regardless of type of fuel, which means that fuel consumption per passenger carried is expected to fall and a fuel efficiency feedback loop is included in the modelling at 2% per annum in the relevant High Ambition Scenario from Jet Zero (i.e. a 17% reduction in fuel consumption per passenger over the period 2023-2031). The 2022 fuel and carbon costs elements of the air fare also reflect increasing load factors resulting in lower costs per passenger. Even with efficiency taken into account, the combined cost of carbon and fuel is expected to double as a share of the overall air fare assumed by DfT for the future as reproduced as Figure 3.2 of the CSACL Report, meaning that the implied cost of fuel increases by substantially. Hence, it is incorrect to claim that the increased cost of SAFs is not fully accounted for within the demand forecasts.

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<sup>1</sup> Carbon Offsetting and Reduction Scheme for International Aviation

20. In any event, to the extent that there is take up of SAFs and/or zero emission aircraft, the balance between the cost of fuel/technology and the residual carbon payments for carbon permits will shift. In considering the higher cost of SAFs, it is important to have regard to the fact that the *Jet Zero Strategy* relies on only 10% take up of SAFs by 2030, in line with the proposed mandate, so the impact on average fuel prices and, hence, air fares at the critical assessment year for the S73 Application would be relatively small in any event.
21. The main thrust of CSACL's analysis remains to suggest that the demand forecasts may have been overstated and that growth might be slower than projected. It was for this reason that, to reflect uncertainty, Faster and Slower Growth Cases were presented in the Need Case (Figure 5.12). Ultimately, we welcome CSACL's original conclusion that 9 mppa could be reached at LCY and, at paragraph 3.48, confirms that the assumptions relating to future aircraft types and refueling are "*reasonable*". Overall, then, we remain confident that our forecasts for LCY take fully into account the cost of carbon and its abatement including any increase in fuel prices associated with the use of SAFs.

#### **Demand: Capacity Balance in the London Area**

22. We note CSACL's referencing of recent DfT overall UK passenger and aircraft movement forecasts produced in connection with the SAF mandate legislation in March 2023. These forecasts show slightly slower market growth than the projections underpinning the *Jet Zero Strategy* and, in broad terms, show a two-year slippage in the point in time when any given passenger volume would be reached nationally. Hence, these forecasts are broadly consistent with the Slower Growth Case reported in the Need Case. However, it should be noted that the Office for Budget Responsibility's March 2023 economic forecasts now show marginally higher economic growth is expected over the 5 year period to 2027 than the November projections upon which these air traffic forecasts were based, so it would be expected that any further revision to the DfT forecasts would be upwards.
23. We reject CSACL's unsupported claims that there are other factors that might serve to reduce the forecasts still further. This is pure speculation and there is no evidence that the DfT is taking steps to adjust further the demand elasticities that it adopts. We consider that the DfT long term demand elasticities remain the most appropriate basis for forecasting air passenger demand in the UK.
24. The explanation set out in paragraph 15 of CSACL's response note and the updated Table 2 simply confirm that its analysis takes no account of the role of individual airports and assumes that "*demand will like water fill the seat capacity available*". This cannot be correct as, if it was, airlines would never move routes from one airport to another to improve viability or cease serving a route because demand is too low. Airports across the London system are not entirely substitutable.
25. Furthermore, the CSACL analysis takes no account of the consequences of such an approach to considering the need for capacity at any particular airport, namely the costs to consumers of having to use a less preferred, more distant airport, and the broader economic consequences in terms of undermining the attractiveness of the area around an airport for business and tourism. In the case of Newham, the adoption of a planning approach that suggested no London airport should be allowed to grow until all of the others are full would simply result in lost economic opportunities, including the potential to support additional direct, indirect, induced and catalytic employment in the Borough. We note that CSACL confirmed in our meeting that it had not reviewed the economic section of the Need Case and so could not comment on the economic consequences of assuming that displacement of passengers to other airports and the lost employment and economic opportunities in Newham and surrounding areas as a consequence. We believe the economic consequences of displacement would be significant.
26. In relation to the carbon implications of using alternative airports, it remains the case that a key aspect of the S73 Application is to incentivise the faster introduction of new generation aircraft than would otherwise be the case so delivering carbon benefits. It is evident in Chapter 11 of the ES that the

accelerated fleet transition will lead to a reduction in carbon emissions per passenger at LCY faster than would be the case if consent was not granted.

#### **LCY Capacity**

27. We appreciate that CSACL now confirms that it has *“accepted that the projections put forward by York were a reasonable basis for impact assessment”*. This was not clear from the original CSACL Report.

#### **Conclusion**

28. Having reviewed the further response set out by CSACL, it would appear that the only point of substance is that demand growth could be slower than set out in the Need Case. This is already addressed by the presentation, as part of the S73 Application, of a Slower Growth Case.
29. Hence, the CSACL analysis in essence confirms that the case for the S73 Application is essentially robust as presented.

YAL/8.6.23