SPECIAL INTEREST PAPER

York Aviation

Report prepared for the City of London Corporation
by York Aviation
Published January 2011

Aviation Services and the City

2011 update

City of London Economic Development
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Foreword

Stuart Fraser
Chairman, Policy and Resources Committee
City of London

Air services continue to be of critical importance to the functioning of the City economy. London is the world's pre-eminent financial centre and is increasingly global in its operations, with a particular need for improved air links with expanding economies such as China and India. This drives a need for additional airport capacity to ensure that London can continue to offer the high level of connectivity with the rest of the world that is critical for future economic success.

This latest report, an update of the 2008 Aviation Study by York Aviation, commissioned by the City of London Corporation, looks at the implications of changes in policy since the last study, notably the abandonment of plans for a third runway at Heathrow and a second runway at Stansted. It examines the work of the South East Airports Task Force, set-up in June 2010, and looks at its potential to address the City's connectivity needs in the short and medium term, as well as considering longer term options.

According to the report, despite a fall in passenger numbers, the market is once again growing and many companies reported that demand is now back to pre-recession levels. Based on discussions with key air transport industry representatives and wider stakeholders, it also finds that Heathrow continues to be the most important provider of business focussed connectivity amongst the London airports and the most in need of improvement in terms of capacity, punctuality and service quality. The report stresses the importance of hub operation to the London economy and revisits short and long term options for increasing hub capacity including the provision of additional runways and mixed mode operations.

If London and UK are to remain competitive and not close doors to international business, we must address London's airport offer. The need for a national strategy has never been so important for the air industry and for the long-term needs of London's economy. But in looking at long term solutions we must not ignore the pressing need for interim measures to increase capacity and improve conditions for air travellers in the short and medium term.

The City of London Corporation therefore welcomes the government aviation policy review and we hope this report will be seen as a useful contribution towards the debate on options for addressing the capacity issues that will otherwise act as a bottleneck to future growth. Access to aviation services is a critical and expanding requirement for businesses across the City, London and the UK as a whole. That is why we must approach all possible solutions with an open mind, and determine the best way forward following a thorough cost benefit analysis.

Stuart Fraser
London
January 2011

Executive Summary

In September 2010, the City of London Corporation commissioned York Aviation to provide an update to the second City Aviation Study published in 2008[1]. Much has changed since the last Study. The City economy has been through one of the worst recessions in living memory, the air transport market has suffered heavily in the same downturn and the new Coalition Government has withdrawn support for the addition of a third runway at Heathrow Airport and a second runway at Stansted Airport.

The previous City Aviation Study demonstrated City support for addressing the capacity issues and related problems that were affecting and continue to affect Heathrow, the City's most important air gateway. It also supported capacity enhancements at other London airports such as Stansted to relieve pressure in the London airport system as a whole.

With a third runway at Heathrow Airport and a second runway at Stansted blocked, this update focuses on the implications of these changes in policy for the City economy, examines the work of the South East Airports Task Force and its potential to address the City's connectivity needs, and considers the options that should be examined in the longer term.

The report's key findings are:

- London's airports have been through difficult times since 2008, experiencing substantial falls in passenger demand. Heathrow and London City have held up reasonably well and appear to be returning to growth. London City suffered a substantial decline from its high in 2008 but is now growing again. The others continue to show losses for 2010 but the decline is substantially slower;
- Heathrow continues to be by far the most important provider of business focussed connectivity amongst the London airports and its resilience has meant that there has been little change in the last two years. London City continues to offer very high levels of business focussed connectivity given its relative size but this has declined slightly in the last two years;
- The latest available estimates for demand from the City of London (taken from CAA Passenger Survey 2008) suggest that demand for air travel continues to grow, up from 2.7 million passengers in 2006 to 3.0 million in 2008. Over the same period demand from the wider Central London Business District (CLBD) remained largely static at around 13.8 million passengers in 2008. Discussions with stakeholders identified that there have been significant falls in business travel more recently but that this market is once again growing and many companies reported that demand was now back to pre-recession levels;
- Heathrow remains by far the most important gateway for the City of London (around 44% of journeys), followed by London City (17% of journeys). For the wider CLBD, Heathrow is even more dominant (around

[1] The original City Aviation Study was undertaken by Oxford Economic Forecasting and was published in 2002.

56% of journeys). Heathrow's dominance stems from its position as the only truly global connector amongst the London airports;

- Air services continue to be of critical importance to the functioning of the City economy. London is the world's pre-eminent financial centre, an industry that is both heavily knowledge intensive and exceptionally and increasingly global in its operations. This typology drives a need for travel to service clients, to manage satellite operations in other world regions and local offices within a European network, or for overseas or multinational companies based in London to reach global headquarters;
- The City's requirements of airports and air services are driven by the nature of its business. Fundamentally, the City requires breadth (range of destinations), depth (high frequencies) and concentration (on a single airport as far as possible) of connectivity. It requires strong punctuality and service quality, and reliable, quick surface access. Essentially, it is about minimising 'dead' time and having maximum flexibility and resilience. Our consultations identified that these fundamental requirements have not changed;
- The great constant across all the City Aviation Studies going back to 2002 has been the importance of Heathrow. It is the City's primary and preferred gateway. For many, any consideration of London's air connectivity is essentially an examination of Heathrow. This discussion, in turn, is often an interesting balance between 'moans' about delays, lack of resilience, passenger processing and surface access, and the essential benefits of the extraordinary level of connectivity offered. In some ways, it seems that Heathrow has been Europe's premier airport for so long that its position in this regard is almost taken for granted;
- Some scepticism has been expressed elsewhere as to the value of the hub operation at Heathrow to the economy of London. However, there is a real and tangible benefit from Heathrow's position as a global hub to City users. The City's requirements for high levels of frequency to major business destinations, particularly long haul destinations, and strong connectivity to a broad range of second tier and emerging business destinations, is underwritten by transfer passengers. Without the 'hub' considerable flexibility and resilience for users could be lost;
- The current capacity constraints in the London system must be a substantial concern looking forward. It should be noted that most consultees did not see increasing the size of London's airports as key in itself but they do want them to be 'better'. They want a level of connectivity that will enable them to compete effectively in world markets and they want high levels of service quality. It is in many ways difficult to see how these things can be secured in the long term without some expansion of capacity;
- The current market dynamic at Heathrow is damaging the short haul network, which is bad for companies with major European operations serviced or managed from London or potential new investors looking for a European base, is potentially damaging to second tier intercontinental business destinations, which are often key markets for specialist services and products based in London, and is bad for coverage of emerging business centres, which may be fruitful markets for the future for companies currently based in London and will limit likely inward investment from these countries;
- There has been some improvement in service quality issues at Heathrow in the last couple of years. Terminal 5 is felt to have made a significant

difference to the passenger experience and CAA statistics suggest that delays have reduced. However, without expansion of ultimate runway capacity, these improvements are unlikely to endure in to the longer term;

- In June 2010 the new Coalition Government established the South East Airports Task Force. This group is focussed on quick wins at the three main London Airports against the slogan 'better not bigger'. Generally, the Task Force been welcomed by both the air transport industry and City businesses. It is also fair to say that there is some optimism in the industry that worthwhile improvements can be made in relation to delays, punctuality and resilience, security procedures and border controls. However, equally, there is also a belief that, while these issues are worth addressing, they are not addressing the fundamental problems of capacity in the system;
- The need to look longer term does appear to have been recognised by the Government. In October 2010, a wide ranging review of aviation policy was announced as part of the Department for Transport Business Plan. This process will look at the longer term issues around airport capacity and would appear to be the key forum for the City of London Corporation to focus its efforts upon in seeking to influence long term airport capacity development;
- The longer term options for the development of airport capacity in the London system have already largely been defined by the Future of Air Transport White Paper and more recent developments. We have revisited a number of the key options from the perspective of the City economy for this report;
- The addition of a third runway at Heathrow remains a preferred option from the perspective of the City economy. Heathrow is the City's most important gateway and its preferred airport for the majority of its international connectivity needs. It is also the airport that is under the most pressure and is most at risk of damage from capacity related problems. Addition of runway capacity at Heathrow would enable the Airport to evolve effectively to meet the long term needs of the City, thereby supporting long term competitiveness. It should however be recognised that a third runway is not an ultimate solution. At some point in the future Heathrow would again become constrained as demand grows and the associated issues could re-emerge;
- The addition of further runway capacity at either Stansted or Gatwick would in our view be helpful in adding capacity to the London system as a whole but will ultimately have little impact on the City of London's primary gateway, Heathrow. The other airports are not heavily used by City users and consequently are not seen as a priority other than their ability to provide alternates for more leisure focussed services. The need for additional capacity at either of these airports is less urgent than was foreseen in our 2008 study as they have seen a greater downturn in demand during the recession, with Stansted in particular showing little sign of recovery as yet;
- The development of a major new airport with three or more runways to be built in the Thames Estuary has been mooted by the Mayor of London. Prima-facie and assuming that it were to come with appropriate surface access infrastructure that would make it easily accessible from both the City and the key residential areas in the West of London, such a plan could have

some merits. However, there are some major questions in relation to the deliverability of such a project, most obviously cost and it remains a very long term option;

- Expansion of London City Airport would be strongly welcomed by City users either with or without a third runway or other measures at Heathrow. Without a third runway at Heathrow, expansion of London City Airport is of particular importance to the City economy as it offers an alternative, 'business friendly' home for short haul connectivity to major European business centres. This would be, however, remain a second best option. With a third runway, the sheer convenience of the Airport for inbound visitors and those based at Canary Wharf would remain highly valued;
- One potential method for increasing runway capacity at Heathrow without the addition of a third runway would be the introduction of mixed mode operation on the existing two runways. This could either be used to improve operational resilience at the Airport or to enable some growth. In either case it should also be noted that mixed mode is really only a short to medium term solution;
- High Speed Rail does have the potential to reduce pressure on London's airports and Heathrow in particular. Our consultations have identified that, where available and time viable, city users prefer rail travel to air travel. For instance, Eurostar is now the default choice for travel to Paris or Brussels in most cases. However, there does need to be a certain degree of realism as to what extent rail travel can replace air travel. We estimate that ultimately the actual impact on passenger numbers at Heathrow from the development of a significant High Speed Rail network would be a reduction of around 7% to 9%. In terms of capacity at Heathrow, this would probably only reduce current capacity pressures for around three years allowing for market growth;
- Specifically addressing surface access issues in relation to London's airports in isolation from London's broader transport issues is not realistically possible. However, there are a number of transport projects that do have the potential to improve the overall airport experience from the perspective of City users and hence benefit the City economy, particularly the advent of Crossrail, which will improve access to Heathrow from the City and Canary Wharf and to London City from the residential areas in the West of London;
- Failure to address the need for more runway capacity in the longer term would leave the Government with the challenge of matching demand to available capacity. This could be achieved through further taxation, changing the regulatory regime to allow airports to charge market clearing prices or allowing the slot market to ration the available capacity. Whatever the mechanism, the impact of continuing capacity constraint is likely to be higher air fares as well as a restricted range and frequency of destinations. Although business travel is less sensitive to price than leisure travel, increases in the price of air travel would impact on the City's competitiveness and could have implications for the choice to locate client facing functions generating substantial amounts of air travel in London.

1 Introduction

1.1 Background

In September 2010, the City of London Corporation commissioned York Aviation to provide an update to the second City Aviation Study published in 2008[2]. The primary driver behind this update is to enable the City of London Corporation to submit an appropriate, evidence based, submission to the South East Airports Task Force at the appropriate juncture given the recent statements by the Government confirming the withdrawal of support for a third runway at Heathrow and a second runway at Stansted. More recently, Government has stated that it will be reviewing Aviation Policy more widely and this report will inform any response by the City of London Corporation to the expected forthcoming policy consultations during 2011 and 2012.

The City Aviation Study 2008 demonstrated City support for a third runway at Heathrow as an appropriate path to addressing the capacity issues and related problems that were and continue to affect the principal airport used by City of London businesses. Similarly, it supported the addition of a second runway at Stansted as this would enable the expansion of capacity within the London system and allow the market to arrive at an effective allocation of airline capacity across London's airports, with more leisure focussed services moving away from Heathrow.

With these avenues to expansion of airport capacity now blocked in the short to medium term, it is important to:

- Understand the implications of these changes in policy for the City of London as a primary driver of the UK economy;
- Examine whether the work of the South East Airports Task Force is likely, based on its remit, to effectively address the City's on-going connectivity needs in the short, medium and long term;
- Consider whether there are other medium to long term options for addressing the current constraints on capacity at South East Airports and whether these are likely to support the City of London economy by meeting its ongoing needs as an input to the wider policy debate.

Based on this analysis, this report then seeks to identify the best way forward for air service provision from the perspective of the City of London economy.

1.2 Study Approach

This updated report has built on and refreshed the evidence base and methods used in drawing together the 2008 City Aviation Study. The key elements of this updated work have been:

- An updated assessment of the quantum and patterns of demand for air services from the City of London and the broader Central London Business District (CLBD) based on the latest available Civil Aviation Authority (CAA) Departing Passenger Survey that includes all five major London airports (2008);

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[2] The original City Aviation Study was undertaken by Oxford Economic Forecasting and was published in 2002.

- An updated and refreshed analysis of the business focussed connectivity offered by London's airports, with a particular focus on Heathrow's competitive position as one of Europe's major airports;
- Discussions with 25 city companies, air transport industry representatives and wider stakeholders to discuss the work of the South East Airports Taskforce and the potential options for future airport capacity enhancements, to identify any changes in attitudes to, or requirements for air service connectivity, to ascertain views on the implications of recent changes in government policy in relation to London's airports for businesses and to discuss views on options for enhancing London's airports from the perspective of City users.

1.3 Study Area and Sectoral Focus

As with the City Aviation Study 2008, the primary geographic focus for this work is the City of London itself, often referred to as the Square Mile. This focus in turn largely defines the sectoral focus for the study as the financial services industry and the sectors that support it located therein. However, given the distribution of financial and business services across the wider Central London Business District (CLBD) as a whole and the close geographic links between the City of London and this broader area, we have also considered issues from this broader perspective where appropriate.

1.4 Structure of this Report

This report is structured as follows:

- in **Section 2**, we provide a brief overview of key changes at London's airports since the last report, including examining the relative position in terms of connectivity on offer to the City of London;
- in **Section 3**, we set out an analysis of the demand for air services from the City of London and the CLBD focussing on data from the CAA Passenger Survey 2008;
- in **Section 4**, we focus on the current needs of the City of London for air travel and the issues for the economy in terms of air service connectivity going forward;
- in **Section 5**, we consider the role the South East Airports Task Force can play in addressing the current issues facing London's airports and the extent to which it can assist in meeting the needs of the City;
- in **Section 6**, we analyse the longer term options that might offer solutions to current capacity issues and examine their appropriateness in meeting the ongoing needs of the City;
- in **Section 7**, we set out our conclusions and recommendations.

2 Developments in the Air Transport Market

2.1 Background

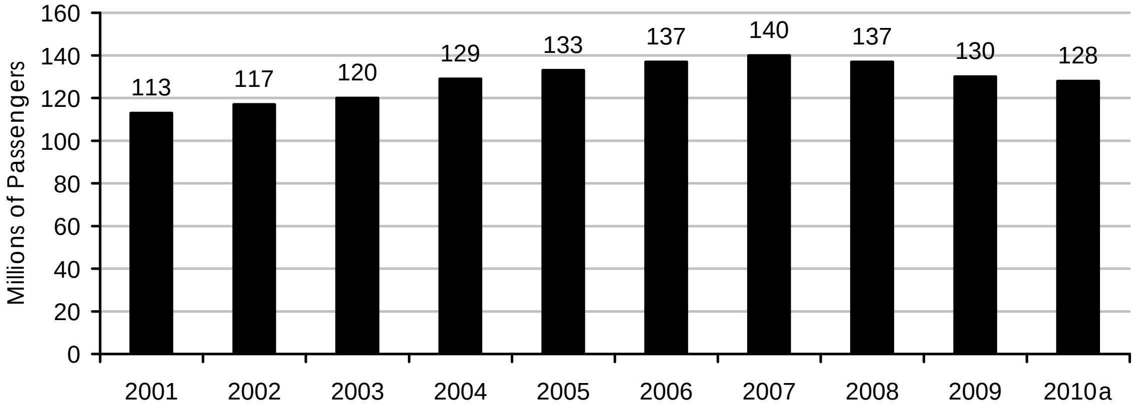
Since the last City Aviation Study was published in mid-2008, the air transport market, as a result of the global recession, has suffered a significant downturn. There have also been a number of significant changes in terms of policy that have altered the context for any assessment of the importance of air services to the City of London economy.

Below we have set out a brief overview of recent developments at London's five main airports and across the London market as a whole.

2.2 Passenger Traffic at London's Airports

Prior to the recent global recession, London's airports had been growing steadily for a number years. The recession has, however, led to a significant downturn in passenger numbers passing through the Capital's main airports[3] (see Figure 2.1).

Figure 2.1: Total Passenger Traffic at London's Main Airports



a. 2010 is the 12 month period to September 2010.

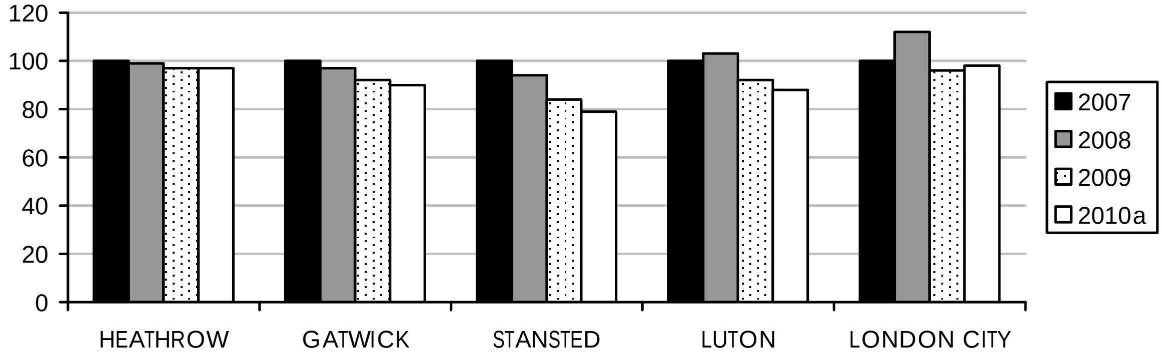
Source: CAA Airport Statistics.

At the height of the market in 2007, around 140 million passengers passed through London's airports. However, after a small decline in 2008 as the global recession set in, demand fell to only around 130 million passengers in 2009. This is roughly equivalent to the loss of five years growth. 2010 appears to be slightly down on 2009 but the pace of decline has slowed dramatically and there is a general consensus that growth is slowly returning to the market, notably at Heathrow. It should also be noted that the figures for 2010 contain the impact of the ash cloud disruption in the spring, which had a significant negative impact on passenger throughput at UK airports.

Figure 2.2 examines this trend in terms of the indexed passenger throughput at each of the London Airports (2007 is set to 100).

[3] For the purposes of this research, we have defined the London airports as the five main airports: Heathrow, Gatwick, Stansted, Luton and London City.

Figure 2.2: Indexed Passenger Traffic by London Airport (2007=100)



a. 2010 is the 12 month period to September 2010.

Source: CAA Airport Statistics.

All of the London airports have suffered a fall in passenger demand since 2007, but it is noticeable that both Heathrow and London City have held up better than the others. Heathrow's traffic is down around 3% since 2007, while London City is down around 2% on 2007. London City is, however, down quite substantially on its high in 2008. The most dramatic decline has been at Stansted, which is down around 21% since 2007, while Gatwick and Luton are down around 10% and 12% respectively. This pattern reflects the fact that the Capital's two main business airports have faired relatively well, while the more leisure focussed airports have declined, with the effects of the recession compounded by increases in Air Passenger Duty.

The latest available information on the make up of passenger traffic at London's airports comes from the CAA Passenger Survey for 2008[4]. The breakdown between UK and Foreign and Business and Leisure passengers at each of the five airports is shown in Table 2.1.

Table 2.1: Structure of Passenger Traffic at London Airports in 2008

	UK		Foreign		Grand Total
	Business	Leisure	Business	Leisure	
Heathrow	10,305,296	19,003,207	12,445,271	24,792,129	66,545,904
Gatwick	3,487,964	21,466,702	2,086,607	6,308,338	33,349,610
Stansted	2,326,294	10,885,553	1,881,584	7,130,389	22,223,820
Luton	1,383,376	5,701,403	497,191	2,376,823	9,958,794
London City	1,106,958	802,228	720,665	626,091	3,255,942
Grand Total	18,609,888	57,859,094	17,631,318	41,233,770	135,334,070

Source: CAA Passenger Survey 2008.

Heathrow is and remains by far the largest and most important gateway for business air travel, handling over 22 million business passengers in 2008 or around 34% of total traffic. The most business focussed airport is however London City Airport, where around 56% of passengers are travelling on business. At the other London airports business traffic makes up less than 20% of the total.

[4] The 2009 Survey does not cover London City Airport.

Heathrow is also the primary gateway for overseas passengers, with nearly 56% of passengers originating overseas, although this is distorted somewhat by transfer passengers (see below). London City and Stansted also have significant overseas components within their traffic (around 41% each), with London City particularly strong in terms of overseas business traffic.

Table 2.3 sets out the number of transfer passengers, those passengers that use an airport as an interchange point to connect different air journeys, at each of the London airports. Essentially, the extent of this type of traffic defines whether an airport can be considered a hub airport or not. These passengers have been divided into two groups:

- Domestic to International/International to Domestic/Domestic to Domestic Transfer Passengers;
- International to International Transfer Passengers.

Table 2.3: Transfer Passengers at the London Airports

	Domestic/Domestic/ International	International to International	Total
Heathrow	5,486,400	18,135,610	23,622,009
Gatwick	2,018,011	1,217,895	3,235,907
Stansted	752,442	1,107,908	1,860,350
Luton	170,277	90,426	260,703
London City	50,897	13,285	64,183
Grand Total	8,478,028	20,565,125	29,043,152

Source: CAA Passenger Survey 2008.

Clearly, only Heathrow can be considered a genuine hub airport amongst the London airports. Around 35% of passenger traffic is transferring between planes at the airport, the great majority are international to international transfer passengers, and the nearly 24 million transfer passengers at Heathrow make up over 80% of the total number of transfer passengers at the London Airports.

2.3 Route Networks and Connectivity

Table 2.4 compares the routes networks of the five London airports in Summer 2008 (the time of the last City Aviation Study) compared to Summer 2010.

The pattern at Heathrow is in marked difference to most of the other London Airports. Since 2008 the total number of destinations served by Heathrow has remained largely static and the overall structure has also remained similar. Similarly, the number of frequencies per destination has also remained largely static.

Table 2.4: Destinations and Frequencies from the London Airports – Summer 2008 and Summer 2010

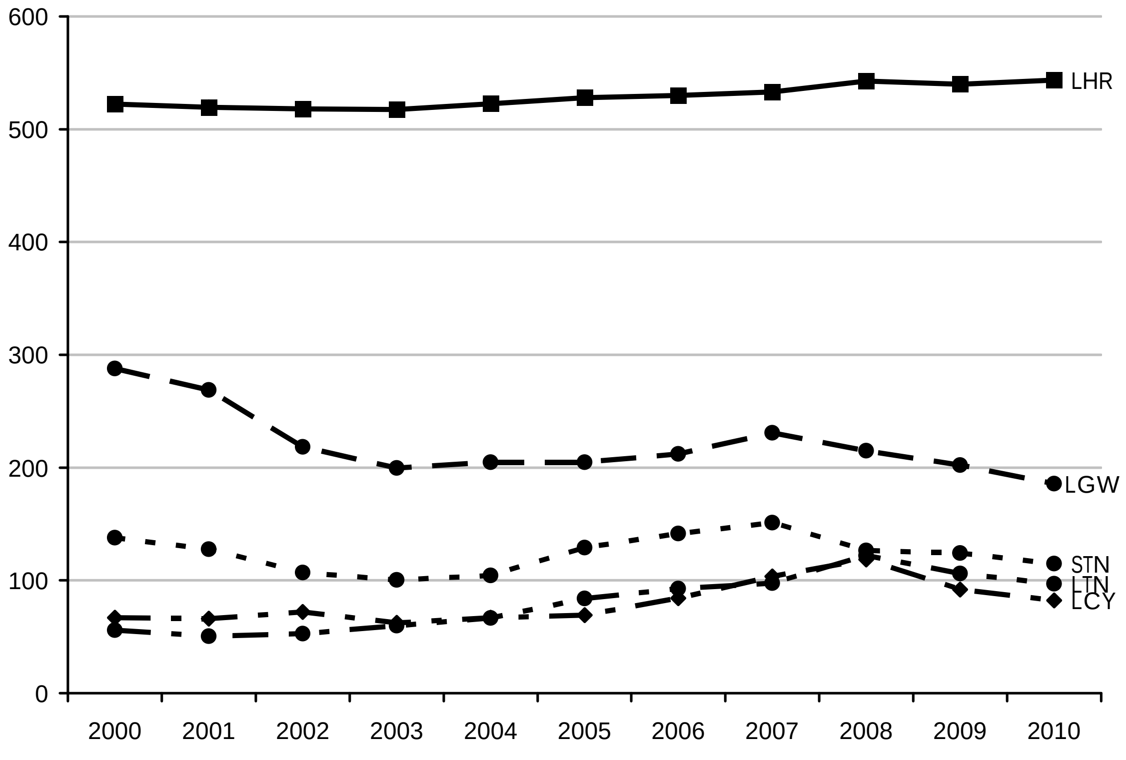
	Heathrow				Gatwick				Stansted				Luton				London City			
	2008		2010		2008		2010		2008		2010		2008		2010		2008		2010	
	Dest	Frq	Dest	Frq	Dest	Frq	Dest	Frq	Dest	Frq	Dest	Frq	Dest	Frq	Dest	Frq	Dest	Frq	Dest	Frq
Africa	23	212	21	224	18	81	23	82	2	2	6	8	1	4	5	11	0	0	0	0
Asia	30	445	26	422	3	12	2	6	0	0	1	9	0	0	0	0	0	0	0	0
Central/ Eastern Europe	15	240	16	281	26	210	16	142	24	164	20	168	16	152	26	183	1	6	0	0
Western Europe	58	2,802	62	2771	101	2079	129	2113	124	1,544	143	1,333	45	692	85	539	33	934	29	647
Latin America	8	62	8	45	19	67	22	84	0	0	0	0	0	0	0	0	0	0	0	0
North America	28	871	30	860	24	214	21	89	1	32	3	2	1	13	2	0	0	0	1	11
Middle East	17	283	17	295	3	34	3	30	1	3	1	0	2	10	3	12	0	0	0	0
Australasia	3	63	3	63	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	182	4978	183	4961	194	2697	216	2546	152	1745	174	1520	65	771	121	745	34	940	30	658
Frq per Destination	27		27		14		12		11		9		12		6		28		22	

Source: OAG.

Elsewhere, route networks have grown quite significantly. However, this has been at the expense of frequency, particularly at Stansted and Luton. The exception is London City, whose route network has contracted slightly and also experienced some loss of frequency (although it is still notable that the Airport offers substantially higher average frequencies than anywhere apart from Heathrow). This is most likely a reflection of its exposure to the business travel market from the City, which declined significantly during the recession.

In Figure 2.3, we analyse the connectivity offered by each of London's airports using York Aviation's Business Connectivity Index (BCI). The BCI scores an airport's destinations based on their ranking within research undertaken by the Globalisation and World Cities (GaWC) network. This research identified a hierarchy of world cities based on a detailed analysis of the location decisions of 175 advanced producer service firms in 525 cities around the world. These scores are then weighted by the frequency offered to these destinations to reflect the extent of 'connectedness' to individual points. The BCI therefore provides a relative assessment of an airport's business focussed connectivity compared to either other airports or different points in time. Figure 2.3 compares the London airports against each other over time.

Figure 2.3: Business Connectivity Index Scores for London Airports



Source: York Aviation

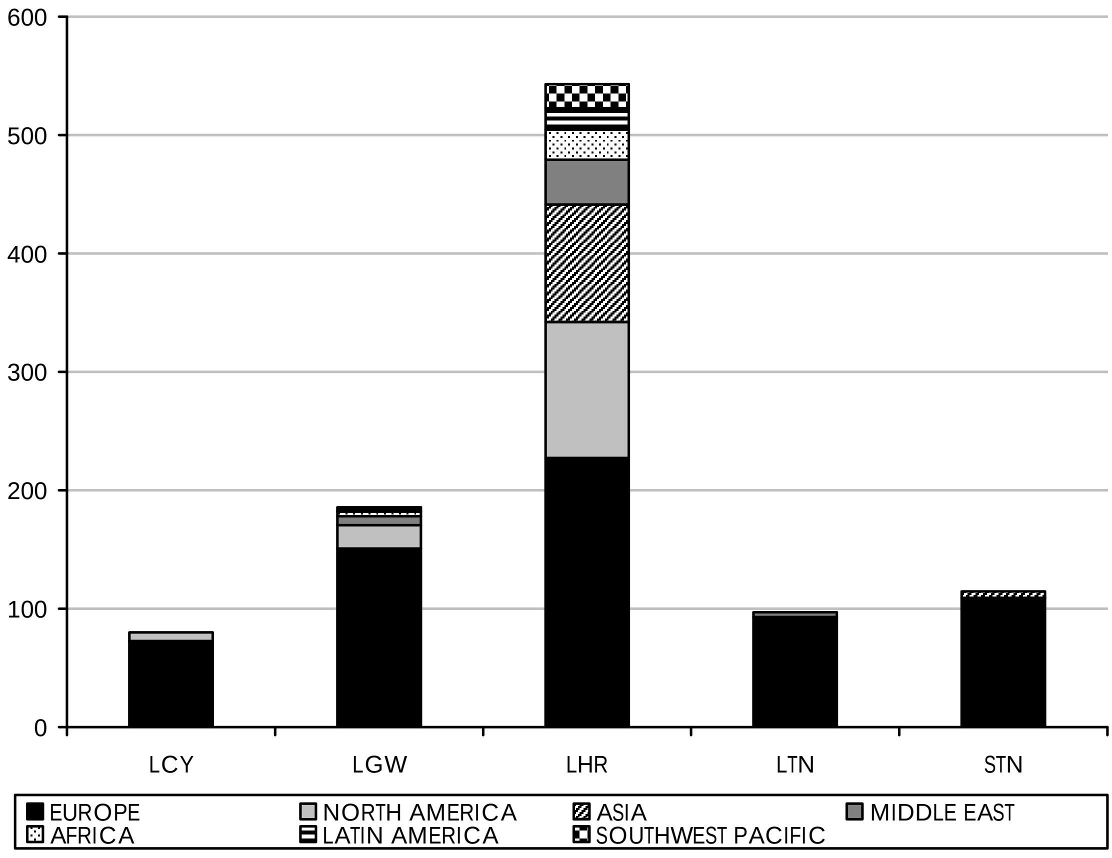
This BCI analysis helps to explain the importance of Heathrow and why it is the City and the CLBD's primary air gateway. Heathrow offers a level of connectivity to the world's major business destinations massively beyond that offered by the other London airports. It should be noted that this is not just a function of size. In passenger throughput terms, Gatwick is around half the size of Heathrow but its BCI score is considerably less than half of that offered by Heathrow.

In recent years, Heathrow's BCI score has grown slowly while Gatwick has fallen away. This is largely a function of the latter airport's switch to becoming more of a low cost and leisure focussed airport. London's other airports do offer connectivity but at a considerably lower level. The exception to note is London City, which, given its relative size, offers exceptionally high levels of business focussed connectivity. This again helps to explain the patterns of demand described above. London City in fact has a higher BCI score per passenger than any of London's other airports.

Overall, it is fair to say that nothing has changed significantly within the overall connectivity offer from London such that Heathrow's position as the primary provider of business focussed connectivity has altered compared to 2008.

Figure 2.4 shows the BCI score for each of the London airports for Summer 2010 broken down by world area.

Figure 2.4: London Airports Business Connectivity Index Score by World Area – Summer 2010



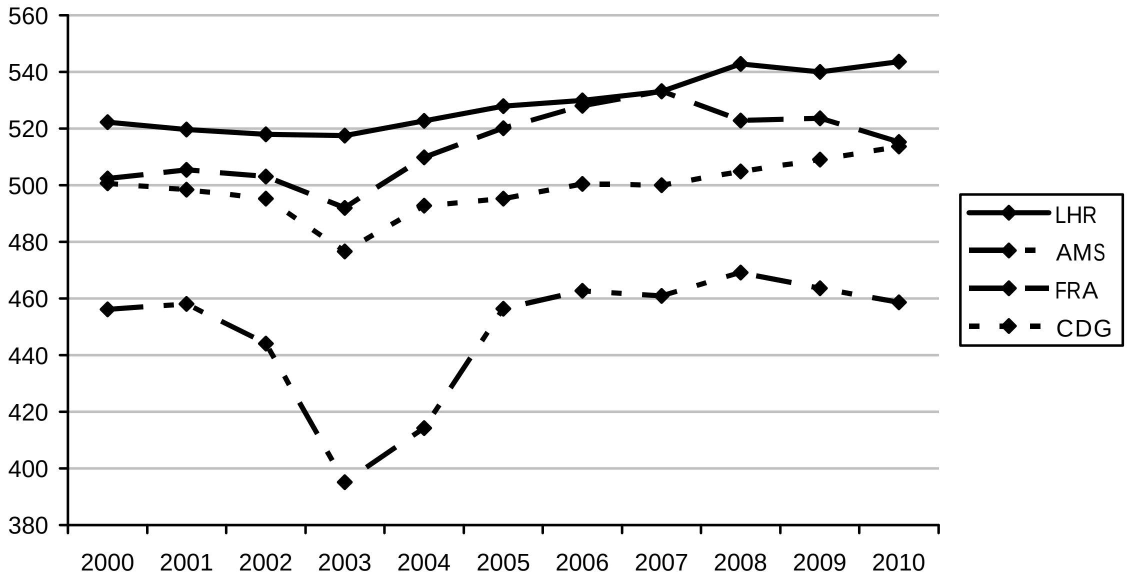
Source: York Aviation

This reconfirms Heathrow as London's only truly global gateway airport. Gatwick offers a level of intercontinental connectivity and London City offers the niche New York business class only service but only Heathrow has the breadth and depth of global connectivity required by an international financial centre. In terms of European business connectivity, there is a greater balance across the airports.

2.4 Heathrow and the Other European Hubs

Figure 2.5 puts Heathrow in the context of Europe's other major intercontinental hub airports, Amsterdam Schiphol, Frankfurt and Paris Charles de Gaulle, and examines the change in the BCI scores of these airports in recent years.

Figure 2.5: Business Connectivity Index Scores of Heathrow and its Main European Competitors



Source: York Aviation.

Heathrow has long been the best connected of the European hubs in terms of its BCI score and it has managed to maintain this position over recent years despite its capacity issues. Of the others, CDG has continued to grow steadily and has the advantage of having the most spare capacity currently; Frankfurt had been growing strongly up until around 2007 and was beginning to challenge Heathrow but has since dropped back, while Amsterdam has remained relatively stable in recent years.

The reasons behind Frankfurt's decline are not entirely clear. Examination of the underlying data identifies some loss of frequency on a number of business focussed routes and lost connections to a small number of second tier long haul business destinations but nothing dramatic. In relative terms, the fall in demand at the Airport since 2007 has been greater than that at Heathrow and, hence, given the pattern behind the losses, it seems reasonable to say that the decline is likely to be a recession driven effect. It is also interesting to note that it is the two hubs with probably the greatest reliance on transfer traffic, Frankfurt and Amsterdam, that have been worst affected by the downturn. The lower yields and the generally smaller business component of transfer traffic may have left individual destinations and frequencies more exposed to airline network rationalisation.

The concern for Heathrow must be capacity going forward as it currently has very little scope for further growth while all the others either have spare capacity or significant improvements that will come on stream in the near future, notably the new runway at Frankfurt, which is due to open in 2011. Terminal 5 at Heathrow, after its initial problems which were flagged repeatedly in the City Aviation Study 2008, has been a great success. Service quality at the Airport has improved greatly and the Airport's ability to operate as a hub has been enhanced. However, fundamentally issues remain regarding runway capacity that mean that significant further growth to allow Heathrow to compete with the other European hubs in the longer term is stymied.

2.5 Government Policy on New Runway Capacity in the South East

While no update to Government policy in relation to air transport has been issued since the 2008 City Aviation Study, and consequently the Future of Air Transport White Paper remains in place as the latest expression of overall policy, there have been a number of significant developments in the policy environment.

In January 2009, the previous Labour Government stated its support for BAA's plans for a third runway and a sixth terminal at Heathrow Airport. This development was the key element to the future aviation strategy for the City of London. The plans would have enabled the Airport to handle around 135 million passengers per annum by 2030, a nearly doubling of passenger capacity. This would have addressed the primary runway capacity constraints facing Heathrow. However, the plans remained hugely controversial and both the Conservatives and Liberal Democrats included pledges to cancel the third runway within their manifestos for the 2010 General Election. Following the election, as expected, the new Coalition Government cancelled support for the third runway on 12th May 2010.

The other key capacity development from the White Paper for the London airports was the development of a second runway at Stansted. BAA submitted a planning application for the so called G2 project in March 2008. A Public Inquiry to consider the application was set for April 2009. This was, however, delayed following the Competition Commission ruling on the break-up of BAA. Ultimately, the new Coalition Government cancelled support for the project in May 2010 and BAA withdrew the application.

Following the cancellation of these two major runway capacity developments, the Coalition Government has focussed on making the South East airports better not bigger and, as part of this, established the South East Airports Task Force.

The impact of these changes is the key driver for this update report.

2.6 Other Market Developments

In addition to the policy developments described above, there have been a number of other market developments since the 2008 report, namely:

- Since 2008, Air Passenger Duty (APD) has been increased substantially and restructured to better reflect the distance travelled and the environmental impact of flights. This will have a potentially substantial impact on ticket prices, particularly for long haul, premium travel, which is a key market for the City of London. For example, in 2008, a trip to New York in business class would have attracted APD of £80. Now the same trip would attract APD of £120. Similarly, a trip to Hong Kong in 2008 would have attracted £80 compared to £150 now;

- Following the Competition Commission's ruling on BAA, Gatwick Airport was sold to Global Infrastructure Partners (GIP). While GIP's strategy appears to be more aimed at competing with Heathrow for traffic, the lack of runway capacity and the lack of hub function means that the impact of this change is likely to be limited in its impact on business travel;
- Shortly before the publication of the previous report, EU-US Open Skies was implemented. This has liberalised air transport on the highly lucrative and economically important transatlantic routes. This has resulted in a noticeable switch in transatlantic capacity into Heathrow primarily from Gatwick with a consequent increase on pressure for slots;
- Aviation's entry into the EU Emissions Trading Scheme (ETS) has been confirmed from 2012. This again is likely to increase ticket prices in the longer term.

3 Demand for Air Services from the City of London

This section examines the quantum and patterns of demand for air services from the City of London and the wider CLBD. This provides an update to the information provided in the City Aviation Study 2008.

The analysis draws primarily from the CAA Departing Passenger Survey for 2008. This is the last year in which all five of the main London airports were surveyed. It also provides a 'snapshot' of demand from the City prior to the global recession, which, in terms of understanding the long term requirements of the City economy, is perhaps a more helpful benchmark.

In the interests of clarity, it is important at the outset to be clear about the reference dates for both this report and the previous City Aviation Study. This latest report provides new data for the year 2008, while the previous City Aviation Study was produced in 2008 and provided data in relation to the City's demand for air services for 2006.

3.1 Demand for Air Travel from the City

Establishing the volume of demand for air travel relating to businesses in the City of London and the CLBD is a complex exercise. Journeys that start or end at workplaces within the City or CLBD are relatively simple to extract from CAA Passenger Surveys. These surveys provide detailed information on the surface origin of passengers. However, the City Aviation Study 2002 identified a pattern in which UK passengers travelling on business relating to their jobs based in the City or wider CLBD were not being identified by simple examination of the CAA Passenger Surveys, as their journeys involved starting or ending at their home addresses in other parts of London or the South East.

The original 2002 study by Oxford Economic Forecasting developed a methodology for making an estimate of home departures based primarily on the observed differential between the ratio of foreign to UK business passengers from the City and CLBD and in London and the South East as a whole, but also allowing for foreign passengers staying in hotels outside the City or CLBD and the relatively small numbers of people who live and work in the City or CLBD.

Table 3.1 shows the number of business passengers originating from the City or CLBD based on the CAA Passenger Survey in 2008 split in to domestic and international travel. This demonstrates the clear imbalance between UK and foreign passengers within the City and CLBD compared to both Greater London and the South East as a whole. For instance, within the City of London foreign passengers on international flights outnumber UK passengers by nearly 3.8 to 1. However, at the South East regional level, UK passengers on international flights outnumber foreign passengers by 1.02 to 1. This supports the conclusion reached in the previous studies that UK business traffic relating to activities in the City or CLBD is being substantially understated assuming, as seems reasonable, that the great majority of foreign passengers will travel directly to or from their intended destination.

Table 3.1: 2008 Passengers by District Route Type and Residency

	Domestic				International			
	UK	Foreign	Total	Foreign as % of UK	UK	Foreign	Total	Foreign as % of UK
City of London	**306,930**	**20,378**	**327,308**	**7%**	**227,095**	**858,280**	**1,085,375**	**378%**
Tower Hamlets	141,812	5,896	147,708	4%	188,030	343,279	531,308	183%
Hackney	23,204	1,298	24,503	6%	103,750	55,696	159,446	54%
Islington	63,951	1,077	65,028	2%	202,533	99,394	301,927	49%
Camden	128,237	8,661	136,898	7%	224,728	399,828	624,556	178%
City of Westminster	549,166	28,600	577,767	5%	565,495	2,111,184	2,676,679	373%
Kensington & Chelsea	88,917	2,520	91,437	3%	273,567	744,480	1,018,048	272%
Lambeth	32,904	0	32,904	0%	199,050	147,387	346,436	74%
Southwark	110,935	1,865	112,801	2%	156,048	121,372	277,421	78%
Railway Stations	2,848	0	2,848	0%	1,415	21,606	23,020	1527%
Unspecified GLC	12,215	1,409	13,624	12%	9,325	140,586	149,911	1508%
CLBD	**1,461,120**	**71,706**	**1,532,826**	**5%**	**2,151,037**	**5,043,090**	**7,194,127**	**234%**
Other Greater London Boroughs	822,703	69,985	892,688	9%	2,573,480	1,801,011	4,374,490	70%
Greater London	**2,283,822**	**141,691**	**2,425,513**	**6%**	**4,724,517**	**6,844,100**	**11,568,617**	**145%**
Other South East Counties	1,893,129	71,945	1,965,073	4%	5,133,278	2,787,426	7,920,704	54%
South East England	**4,176,950**	**213,636**	**4,390,587**	**5%**	**9,857,794**	**9,631,526**	**19,489,321**	**98%**

Source: York Aviation analysis of CAA Passenger Survey 2008.

The adjusted totals for 'true' demand based on the methodology described are shown in **Tables 3.2** (City of London) and **3.3** (CLBD) along with the equivalent figures for 2000, 2003 and 2006.

Table 3.2: True Demand for Business Air Travel for the City of London (000s)

	2000		2003		2006		2008	
	Dom.	Int.	Dom.	Int.	Dom.	Int.	Dom.	Int.
UK Passengers Travelling from the Office	251	326	223	194	278	230	306	226
UK Passengers Travelling from Home	264	343	386	336	690	570	881	651
Foreign	15	813	9	548	14	876	25	957
Total	**529**	**1,482**	**617**	**1,078**	**982**	**1,676**	**1,212**	**1,835**

Source: York Aviation Analysis of CAA Passenger Surveys.

Table 3.3: True Demand for Business Air Travel for the CLBD (000s)

	2000		2003		2006		2008	
	Dom.	Int.	Dom.	Int.	Dom.	Int.	Dom.	Int.
UK Passengers Travelling from the Office	1,195	2,009	1,307	1,767	1,409	2,083	1,335	1,966
UK Passengers Travelling from Home	1,371	2,306	1,882	2,545	2,105	3,111	2,170	3,195
Foreign	115	4,699	94	3,924	83	4,963	72	5,043
Total	**2,681**	**9,014**	**3,283**	**8,235**	**3,597**	**10,157**	**3,577**	**10,204**

Source: York Aviation Analysis of CAA Passenger Surveys.

In 2008, there were around 3.0 million business passengers travelling to or from the City of London via London's airports. This included around 1.2 million passengers using domestic services and around 1.8 million on international services. Demand had grown around 15% since 2006.

Across the wider CLBD as a whole, around 13.8 million business travellers travelled to or from the area in 2008. The majority, around 74%, were travelling on international services. Demand in the CLBD is little changed compared to 2006 despite the increases in demand from the City of London.

Building on these estimates of total demand for air services, we have set out in Table 3.4 an analysis of airport choice. This uses the CAA Passenger Survey for 2008 to identify the airport of choice for journeys starting in the City or CLBD and estimates the use of London's airports by passengers starting their journeys from home by first allocating this demand to boroughs and counties in line with the home address information for those starting from the City or CLBD and then allocating the demand from each area in line with airport market shares for that area.

Table 3.4: Airport Choice for 'True' Business Demand in 2008

	London City	Gatwick	Heathrow	Luton	Stansted
City of London					
CAA Identified Passengers	408,375	228,448	603,273	59,450	215,045
Home Starts	124,931	219,897	745,616	159,744	282,834
Total	**533,307**	**448,345**	**1,348,889**	**219,195**	**497,879**
% of Total	**17%**	**15%**	**44%**	**7%**	**16%**
CLBD					
CAA Identified Passengers	1,107,099	1,253,634	4,842,991	292,762	919,821
Home Starts	617,648	888,397	2,806,020	381,117	660,143
Total	**1,724,747**	**2,142,031**	**7,649,011**	**673,879**	**1,579,964**
% of Total	**13%**	**16%**	**56%**	**5%**	**11%**

Source: York Aviation analysis of CAA Passenger Survey 2008.

This clearly identifies Heathrow as by some margin the most important airport for business travellers from the City and CLBD. For the City of London, London City is the second most heavily used airport but it is only marginally ahead of Gatwick and Stansted. It is, however, interesting to note that for journeys starting or ending in the City of London, it is some way ahead of the other two. For the CLBD as a whole, the pattern is slightly different, with Heathrow even more dominant and with Gatwick, the Capital's second largest airport, overtaking London City as the next most popular choice for business travel.

This pattern of use has changed somewhat since 2006. The overall hierarchy has not changed but there is some evidence to suggest that use of Heathrow has been declining. In 2006, Heathrow accounted for around for 54% of demand from the City of London and around 61% of demand from the CLBD. This may be a function of the issues around quality of service and delays at Heathrow that have been well documented or of improving connectivity at the other airports. Some care should also be taken given the process by which 'true' demand has to be identified. However, overall it seems that Heathrow's position has been eroded to some extent, with London City Airport gaining in terms of its role in serving demand to European destinations.

3.2 Patterns of Use

The analysis below examines how, why and where passengers originating from the City and CLBD are travelling via air. This analysis focuses on journeys that are directly identifiable via the CAA Passenger Survey. It does not seek to take account of journeys started from home addresses. However, it seems reasonable to assume that the patterns observed will be common to both groups.

Table 3.5 shows the employer's business of those passengers travelling either to or from the City of London. Demand remains dominated, as in previous reports, by the Banking and Business sector, with Government & Other Services and Transport & Communication the next largest but some way behind.

Table 3.5: Business of Employer by Country of Residence – City of London Passengers 2008

	UK	EU	Other	Total
Banking & Business	244,588	144,485	108,235	497,308
Government & Other Services	30,827	22,558	21,330	74,715
Transport & Communication	17,332	22,420	13,627	53,379
Catering, Retail, Wholesale & Hotel	8,817	12,177	8,862	29,856
Other Manufacturing	1,237	8,447	4,856	14,540
Engineering	9,081	3,355	248	12,685
Agriculture, Forestry & Fisheries		5,798	3,494	9,291
Construction	4,444	4,400		8,845
Paper, Fabric and Wood	2,717	3,135		5,852
Chemical Manufacturing	55	3,863	1,540	5,458
Extraction & Mining		2,852	1,454	4,306
Energy & Water Supply Services	534	2,439	177	3,150
Total Responding	**319,634**	**235,929**	**163,821**	**719,385**
Unknown	214,392	301,443	177,464	693,298
Total Passengers	**534,026**	**537,372**	**341,285**	**1,412,683**

Source: CAA Departing Passenger Survey 2008.

Table 3.6 sets out the specific reasons for travel for passengers originating in the City of London according to their country of residence.

Table 3.6: Detailed Journey Purpose by Country of Residence – City of London Passengers 2008

	UK	EU	Other	Total
Meetings with customers/others external to the company	218,098	250,234	129,779	598,112
Attending internal company business	212,474	195,456	149,265	557,195
Conference/Congress	31,435	35,136	24,768	91,339
Trade Fair/Exhibition	4,438	8,360	7,387	20,186
Overseas Employment - less than 12 months	12,720	5,868	583	19,172
Overseas Employment - 12 months or more	137	2,256	5,025	7,418
Studies paid by employer – other course	2,158	4,200	145	6,503
Contract Home Leave	4,624			4,624
Studies paid by employer - formal academic course	346	1,079	234	1,659
Armed services		203		203
Business (no detail)	47,595	34,580	24,099	106,274
Total	**534,026**	**537,372**	**341,285**	**1,412,683**

Source: CAA Departing Passenger Survey 2008.

The great majority of business travel relates either to meeting with customers or external parties or attending internal company business (around 81%). Other reasons for travel are in the main relatively minor. This pattern has again changed very little over time, although there does appear to have been a small decline in the proportion of travel relating to internal company business.

Table 3.7 examines City of London passengers' choice of airport and destination by world area[5]. It shows the importance of London City Airport as a niche provider of domestic and European connectivity to the City of London. It handles more domestic and non-EU western European passengers than the other London airports by some margin and is a substantial player in the EU market. This is similar to the position in 2006 but London City has enhanced its overall share in these markets. Heathrow remains by far the most important gateway for long haul destinations and has, in fact, enhanced its position in these areas. It has, however, lost out to London City since 2006 in relation to European Union routes particularly. The other London airports have also gained in terms of short haul traffic at the expense of Heathrow but their presence in long haul markets in relation to the City remains very limited.

Table 3.7: City of London Business Passengers at London Airports in 2008

	LCY	LGW	LHR	LTN	STN	Total
European Union	188,641	115,312	222,227	15,055	123,148	664,383
Domestic	112,013	63,274	73,973	28,833	49,216	327,308
Other W. Europe	79,450	15,347	34,933	1,857	11,054	142,641
North America		8,893	110,210		400	119,503
Eastern Europe	746	8,902	27,270	9,698	16,732	63,349
Asia & Australasia			51,609			51,609
Middle East/N. Africa			26,092			26,092
Other Africa			15,962			15,962
Caribbean/Latin America		1,321	333			1,654
Total	**380,849**	**213,049**	**562,610**	**55,443**	**200,550**	**1,412,502**
% of Total	**27%**	**15%**	**40%**	**4%**	**14%**	**100%**

Source: CAA Departing Passenger Survey 2008.

The top 10 largest individual destinations from the City in 2008 were:

- Edinburgh;
- Glasgow;
- Amsterdam;
- Zurich;
- Dublin;
- Frankfurt;
- New York JFK;
- Madrid;
- Geneva;
- Munich.

In the wider CLBD (see Table 3.8), Heathrow's dominance is reinforced and London City's niche role is reduced. Short haul travel is more evenly spread across the airports other than Heathrow, which gains a significantly higher market share. For long haul travel Gatwick improves its position but Heathrow remains the overwhelming choice.

[5] This data shows demand to/from the immediate destination airport. Most City of London and CLBD passengers travel from point to point and do not change planes. There is, therefore, very little difference between this data and the results for final destinations.

Table 3.8: CLBD Business Passengers at London Airports in 2008

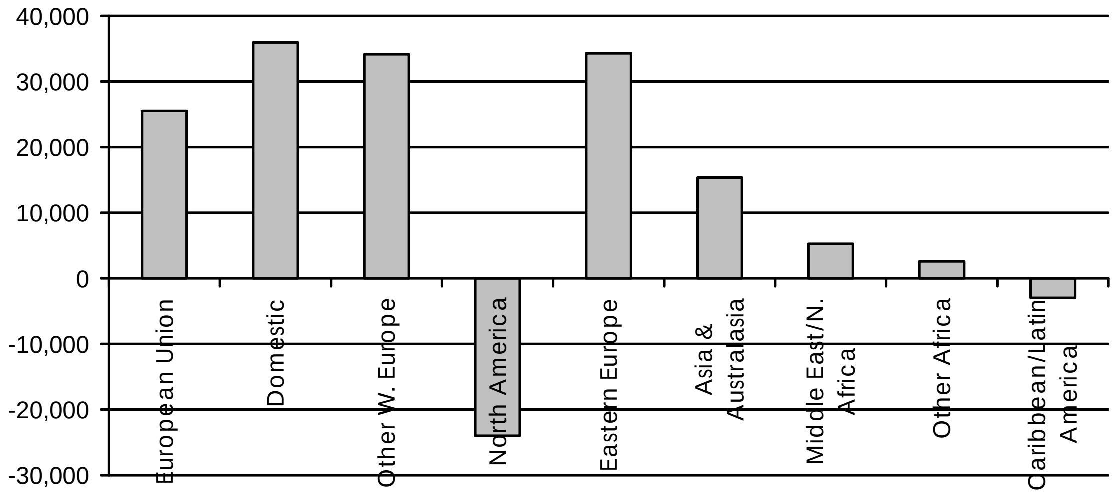
	LCY	LGW	LHR	LTN	STN	Total
European Union	577,203	592,657	2,065,131	113,360	670,743	4,019,093
Domestic	321,023	352,965	579,773	106,550	172,514	1,532,826
Other W. Europe	247,551	99,827	316,016	30,333	54,002	747,729
North America	0	94,808	964,394	0	5,106	1,064,307
Eastern Europe	1,837	91,288	221,673	53,233	50,534	418,565
Asia & Australasia	0	3,864	406,194	0	0	410,058
Middle East/N. Africa	0	12,961	271,821	0	583	285,366
Other Africa	0	36,724	165,122	0	0	201,847
Caribbean/Latin America	0	14,417	30,098	0	0	44,516
Total	**1,147,614**	**1,299,511**	**5,020,223**	**303,476**	**953,483**	**8,724,307**
% of Total	**13%**	**15%**	**58%**	**3%**	**11%**	**100%**

Source: CAA Departing Passenger Survey 2008.

The Top 10 destinations from the CLBD were largely the same as those for the City of London. The only differences were Stockholm and Copenhagen replaced Munich and Madrid.

Figure 3.1 compares the demand for travel from the City of London for different world areas in 2008 compared to 2006. Most markets have shown growth, particularly for short haul travel. The primary decline has been in travel to North America, although in reality this was only a little over 20,000 passengers.

Figure 3.1: Change in Demand by World Area - City of London (2006 and 2008)



Source: CAA Passenger Surveys.

Table 3.9 shows demand from the City of London by the type of ticket purchased for short haul and long haul destinations.

Table 3.9: City of London Demand by Ticket Type in 2008

	Short Haul				Long Haul			
	All		Banking & Business		All		Banking & Business	
	2006	**2008**	**2006**	**2008**	**2006**	**2008**	**2006**	**2008**
First	0%	0%	0%	0%	5%	10%	6%	18%
Business/Club	25%	15%	30%	19%	48%	30%	52%	26%
Premium Economy	1%	2%	1%	3%	6%	14%	8%	14%
Economy Full Fare	20%	8%	22%	11%	14%	10%	13%	8%
Economy Other	54%	74%	46%	66%	27%	36%	21%	34%
Other	1%	0%	1%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: CAA Passenger Survey 2008.

For short haul travel, Economy other fares are now the most commonly purchased ticket type. The observed share of the market has increased by nearly 20% for both the market as a whole and for the Banking & Business sector. The Banking & Business sector remains more likely to purchase a premium class ticket for short travel but the gap appears to be narrowing.

Premium class tickets still make up the majority of long haul tickets purchased but the proportion has declined since 2006 from around 59% to 54% for All passengers and from 66% to 58% for Banking & Business passengers. Within the premium classes, First and Premium economy have grown at the expense of Business/Club. There has also been a change in the purchase of economy tickets, with a decline in the purchase of Economy Full Fare tickets.

4 The Air Service Needs of the City Economy

In this section, we consider the needs of the City of London in terms of air service connectivity, drawing on the existing evidence base, the data analysis in the previous section and our recent consultations with City businesses and stakeholders. This focuses particularly on changes in patterns of demand and attitudes to air travel since the City Aviation Study 2008. Ultimately, this leads to an analysis of the strengths, weaknesses, opportunities and threats facing the City in terms of air service connectivity. This provides a basis from which to consider the work of the South East Task Force and other options for future airport capacity development.

4.1 Key Requirements of the Air Service Offer

The air service needs and requirements of the City of London and the broader financial and business services cluster are largely a function of London's position in the global economy and the nature of its business. The City is the world's pre-eminent financial centre and financial services is both heavily knowledge intensive and exceptionally and increasingly global in its operations.

There are a number of key facts about London as a financial centre that help to demonstrate this point[6]:

- London is and has been for some time the leading world city in the Global Financial Centres Index produced by Z/YEN[7];
- There were 241 branches and subsidiaries of foreign banks in London in March 2010, more than in any other centre worldwide. A third of these banks were from the euro area. Foreign banks manage over one half of UK banking sector assets, totalling over £7,600 billion at the end of 2009, mainly on behalf of foreign customers;
- The UK insurance industry is the largest in Europe and third largest in the world with net premium income of £200 billion in 2009. London is the world's largest international insurance market, with gross premium income of £24.5 billion in 2008. It is the main skill centre for world reinsurance. The UK is the global market leader in marine insurance with a 21% market share in 2009;
- The London foreign exchange market is the largest in the world, with average daily turnover of around $1.8 trillion in April 2010. This represented 37% of global turnover, more than New York and Tokyo combined;
- Nearly one third, £1,400 billion, of the £4,100 billion assets managed in the UK are managed on behalf of overseas clients;
- London is Europe's leading centre for hedge funds. At the end of 2009, four-fifths of European-based hedge funds' assets were managed out of London. The UK has a 20% share of global hedge fund assets which have been generating substantial returns in 2009 and 2010;
- The London Stock Exchange has a higher number of foreign listed companies than any other exchange and is one of the leading centres for foreign equity trading;
- London is the biggest market in the world for derivatives traded over-the-counter with 46% of global turnover in April 2010.

[6] Selected key facts and figures taken from TheCityUK website. http://www.ifsl.org.uk/what-we-do/the-research-centre/key-facts-and-figures-about-uk-financial-services.aspx.
[7] Global Financial Centres Index 8 – Z/YEN (September 2010).

The result is that London has become the location of choice for:

- UK banks and major financial and businesses services companies' global headquarters;
- European banks and financial services companies requiring a foothold in the region's most important financial centre;

US, Asian, Middle Eastern and other financial institutions seeking a European headquarters location from which to serve clients within the region. The creation of this financial and business services cluster in London and the concentration of global firms and talent has in turn made London a centre for expertise and innovation, further strengthening the need for travel as specialist services, products and advice 'housed' in London are sold to clients in a wide variety of world regions through a firm's 'local' offices or partners. This picture has been reconfirmed by our consultations.

Major financial institutions are often, in fact, organised in a similar way to a network airline. They are based around a series of 'hub' offices or headquarters in major world cities in different world regions with 'spokes' to smaller offices in subsidiary cities within that region. People and knowledge flow in high volumes between the 'hubs'. Smaller numbers then travel between the individual hubs and their respective spokes. Where specialist services are required, there will also be a requirement on occasions for travel between the central global headquarters or main hub and individual spoke offices around the world.

If London's position as a global financial and business services centre creates the need for travel, the nature of the industry helps to further shape its requirements in terms of the nature of air services. Our consultations emphasised that the industry is essentially a knowledge based service industry, in which the primary assets to be sold are people, their knowledge and their time. Individuals' time in this context becomes highly valuable and this drives a requirement for air service connectivity that is:

- efficient;
- quick;
- direct;
- easily accessible;
- flexible;
- resilient;
- comfortable

Ultimately, in more precise terms, this defines the following key requirements for London's air service connectivity and by extension the parameters for an effective airport offer:

- **Breadth of European connectivity** – the City of London's role as a financial and professional services 'hub' for Europe drives the need for extensive European connections, with an obvious focus on major business centres and capital cities. These are essential for firms operating European headquarters type activities from London, such as either US or Asian banks;

- **Links to major intercontinental business cities** – these destinations make up much of the air travel demand for either companies with global headquarters in London managing activity at 'hub' offices in other world regions or, vice versa, companies with global headquarters in other world regions seeking to manage their UK or European operations in London;
- **Depth of service** – one of the key messages from the consultations in the last City Aviation Study, which has been reinforced this time, is the need for high frequency of service to the world's major business destinations. This is essential in enabling highly time sensitive individuals to use their time effectively, giving flexibility to allow peoples' plans to change at short notice and in providing resilience where flights are missed;
- **Concentration of service** – this links to the depth of service issue. Companies have expressed a preference both in 2008 and in this study for air services to be concentrated at a single airport so that the flexibility and resilience offered by high levels of frequency can be genuinely utilised;
- **Direct connections** – having to change planes to reach a destination is unpopular with users. It wastes time and adds uncertainty to a journey through the potential for missed connections. This reinforces the requirement for the breadth of connectivity;
- **Proximity to point of departure/arrival** – users want air service connectivity that is close to their starting point or destination point. For instance, London City is felt to be excellent for inbound travel to London or for trips that start or end at the office as it is so geographically close to the City and Canary Wharf. However, it is substantially less good for outbound trips starting from home, which many day trips in particular do, as the employees of many City firms primarily live in West London. Heathrow is still by far the best option for most trips from home given the current pattern of residential locations;
- **Ease of Access** – delivery of effective air services starts well before the user actually reaches the airport. Surface access is very important. Users want speed and certainty. From this perspective the Heathrow Express and DLR service to London City are increasingly popular;
- **Punctuality** – Heathrow, in particular, has become notorious for delays. The lack of capacity and hence resilience means that average delays are felt to be substantially higher than at other airports. CAA Delay Statistics to some extent bear this out but there has been improvement in the last couple of years. The City user is, as described above, highly time sensitive. Delays have a significant impact on productivity and on London's reputation as a place to do business. This is particularly an issue for short haul connections where delays can be a significant proportion of overall trip time;
- **Efficient Transit through the Airport** – security is highly valued and users generally would rather have more than less if this enhances safety. However, overall efficiency in passenger transit through the airport is important in minimising dead time;
- **Availability of Premium Class Travel** – City companies are significant purchasers of premium class air travel, particularly for medium and long haul travel. Getting staff to their destinations in a good state to work and be productive is vitally important and premium class services are very important to this goal.

Overall, these requirements have not changed significantly since the City Aviation Study 2008. The basic requirements described above were the key messages from companies and wider stakeholders then and they have been reinforced by the consultations undertaken through this study. There are, however, some recent trends that have been identified in the latest round of consultations that are worth highlighting. These are described in more detail below.

4.2 Recent Trends

Perhaps the key trend to note from our recent consultations is companies' focus on reducing and, where possible, eliminating unnecessary air travel. This has been driven by two main factors:

- Increasing awareness of sustainability and corporate social responsibility – the importance of addressing climate change issues and companies' desire to reduce their carbon footprints was picked up as a limiting factor in terms of the growth of business air travel from the City in the 2008 Study. However, it would appear that these issues have become even more important to individual companies over the last two years;
- Efforts at cost reduction and efficiency in the face of the global economic downturn – the global recession has resulted not only in a fall in demand for business air travel relating to a fall in business activity but it has also prompted a wider review of air travel in terms of what is and is not necessary as companies have sought to reduce their cost bases in reaction to falling revenues.

The key issue in this dynamic in considering the longer term is defining what is and is not necessary travel. Unsurprisingly, it is travel relating to internal company business that has seen the brunt of these reductions. In this area, companies have sought to increase their use of communications technologies, particularly video conferencing, to reduce demand for air travel.

Travel for client facing activities remains, in most cases, a necessity in the view of most companies. Face to face interactions are an important part of their service and one of the competitive elements between firms. Put simply, if one company will not travel to meet with a client another will and perhaps get the business. There is, however, some evidence to suggest that some less significant client interactions are being undertaken using communications technologies.

What this means ultimately for the total quantum of demand for air travel in the longer term is hard to predict. The recession has undoubtedly reduced demand in the short term, but most firms suggested that their demand for air travel was increasing again and, in some cases, was already back to or above pre-recession levels. Most firms still feel that their demand for air services will increase in the future simply as a result of growth in their businesses. However, the trend to eliminate unnecessary travel is felt to be likely to continue so this growth may be slower than previously expected.

One interesting point regarding the increasing use of communications technologies was made by a number of consultees. They suggested that, ultimately, improved communications technologies may in fact be a spur to air travel demand in the longer term as such technologies act as a tool to open up new geographic markets by lowering the costs of doing business in those markets, which will ultimately lead to new air transport flows.

Increased cost consciousness has not only impacted on the level of demand but also on companies' travel policies and their relationships with airlines and other transport providers. The great majority of companies consulted identified that they have sought to reduce premium class travel in some areas and that they have tried to negotiate better corporate deals with their key airline providers. This, in many ways, demonstrates that air travel remains extremely important. Even in a climate where cost is at a premium, companies have sought to adapt and continue travelling in significant numbers.

One of the key short term issues reported in the City Aviation Study 2008 was the level of disappointment with the launch of Terminal 5 at Heathrow and the significant issues that surrounded it. This situation has now almost completely reversed. With Terminal 5 now 'bedded in', it is felt to have greatly improved the passenger experience at Heathrow, with vastly smoother and more efficient passenger processing. While it is generally recognised that Terminal 5 has not and cannot address the issues around delays and resilience relating to the lack of runway capacity, it has greatly improved the overall perception of Heathrow as a gateway to London. These improved perceptions may also relate to the fact that the downturn has resulted in the introduction of a small amount of slack into the system. However, this is not likely to endure as traffic growth returns. The improvements at Terminal 5 also seem to have brought in to sharp focus the inadequacies relating to the passenger experience at some of the other terminals, particularly Terminal 3.

4.3 The Importance of Heathrow

The great constant factor in the consultations undertaken in both this Study and the previous one and that comes out from even a basic analysis of the City of London's requirements is the overwhelming importance of Heathrow in supporting the City economy.

Heathrow is the primary gateway, as is supported by the data in Section 3. This position is based on its overwhelming superiority in terms of both the breadth and depth of connectivity it offers to the world's business destinations. It also has the significant advantage of being easily accessible from the West of London, where the majority of City workers live, while also being easily accessible from the City itself via the Heathrow Express. Its primary weakness in this regard is its relative inaccessibility from the increasingly important satellite centre at Canary Wharf.

For many City businesses, any consideration of London's air service connectivity is fundamentally a consideration of the strengths and weaknesses of Heathrow. This discussion, in turn, is often an interesting balance between 'moans' about delays, lack of resilience, passenger processing and surface access, and the essential benefits of the extraordinary level of connectivity. In some ways, it seems that Heathrow has been Europe's premier airport for so long that its position in this regard is almost taken for granted. It is undoubtedly, and is viewed as, an excellent connectivity tool for the City but the fact that there are dynamics at work that could threaten this position in the medium to long term is perhaps not always fully recognised by City businesses or it is subsidiary to other concerns, such as regulation or taxation.

Despite the pre-eminence of Heathrow, the niche role played by London City is highly valued by users, particularly in Canary Wharf. Consultees felt it to be particularly important for inbound trips to either the City or Canary Wharf as it offers significant access time advantages and the streamlined passenger processing at the Airport allows maximum time 'on-site' during the day. For the same reasons, it is also valued as a tool for trips from the office to Europe, and has allowed some businesses to consolidate European operations or specialist functions into their London offices to improve efficiency. The new business class only New York service is also used with some frequency by City businesses and is genuinely liked.

The extent to which London City could act as a true 'relief valve' for Heathrow is, however, limited by its location away from the areas in the West of London where most City workers currently live. Companies feel that London City can be 'a real trek' from areas West of the CLBD. London's residential population centre is moving East but it would need a truly seismic shift for this to change the overall pattern of demand from the City.

London's other airports are largely used on an 'as needs dictate' basis. Gatwick facilitates some US travel particularly but is substantially subsidiary to Heathrow. There is some use of Stansted for staff living to the East of London and for some firms that have back office functions in the area but this is not significant. Luton Airport is rarely used.

4.4 The Value of the Heathrow 'Hub'

One area in relation to Heathrow that is worthy of further consideration is what Heathrow's function as a major 'hub' brings to the City of London economy. At first glance, the answer would appear to be very little. Self evidently companies in the City are based in London and consequently their requirement of Heathrow is to provide a starting point or end point for journeys. The Airport's ability to move passengers between two different points (domestic or international) via Heathrow would seem to be of limited concern, particularly if, as has been argued, the strength of demand from London and the South East is strong enough to support the viability of any likely route required.

The reality is, however, that Heathrow's 'hub' status does make a contribution to the City economy but the relationship is subtle and comes back to the particular requirements of City businesses in relation to air connectivity. Simplifying for the purposes of this argument, the City wants high frequencies to its major world destinations, primarily the world's other major financial centres both European and intercontinental, but some functions, particularly within the broader business services firms, also require a breadth of connectivity that means that secondary and emerging centres can be reached directly.

The Heathrow 'hub' is key in enabling the Airport to meet these specific connectivity needs, particularly in relation to long haul destinations. On the key routes, such as New York, Singapore or Hong Kong, the point to point demand is more than adequate to secure the viability of these routes at a reasonable level of frequency but what the additional demand provided by the transfer traffic at Heathrow does is to support the high levels of frequency that the Airport offers to these points which is so important in providing the flexibility and resilience that the City economy requires. In relation to secondary and emerging centres, transfer traffic plays the more traditional role of making these points viable at a reasonable level of frequency.

This argument is borne out by evidence from the CAA Departing Passenger Survey. Table 4.1 shows the numbers of passengers travelling between Heathrow and a number of world financial centres and their classifications taken from the Global Financial Centres Index. Passenger demand is split between those travelling point to point between London and the destination and those that have changed planes at Heathrow to get to the destination[8].

Table 4.1: Transfer Passengers at Heathrow on Routes to Financial Centres

	Point to Point	Domestic Transfer	International Transfer	Total	% Transfer
Global Leaders					
New York	2,011,178	134,551	859,211	3,004,940	33%
Hong Kong	678,810	113,527	171,612	963,949	30%
Singapore	295,637	18,047	75,478	389,162	24%
Chicago	317,253	27,698	312,875	657,826	52%
Global Contenders/Specialists					
Beijing	160,956	22,792	54,791	238,539	33%
Dubai	673,093	53,362	235,043	961,498	30%
Moscow	391,446	33,449	67,549	492,443	21%
Shanghai	133,929	27,524	48,943	210,397	36%
Established Transnational					
Tokyo	414,858	45,758	169,882	630,498	34%
Boston	447,612	59,171	303,346	810,129	45%
Vancouver	192,827	38,373	191,725	422,925	54%
Transnational Contenders					
Bangkok	335,288	11,833	32,656	379,778	12%
Mumbai	252,665	58,163	238,446	549,275	54%

Source: York Aviation analysis of CAA Departing Passenger Survey 2009.

The main point to note in this data is, in many ways, the lack of variety. All the routes shown, with the exception of Bangkok, which has significant traffic travelling onward beyond Bangkok[9], have significant transfer passenger components within their demand. In other words, however significant the point to point volume to a particular destination, transfer traffic is still either important in making it viable or in boosting the frequency that can be offered on the route. New York is a particularly good example and perhaps the key long haul route for the City. With point to point demand in excess of 2 million passengers a year, the route will always be well served and yet airlines are handling nearly one million additional transfer passengers, significantly increasing the capacity and frequency offered, thereby improving flexibility and resilience for the City.

A further factor underpinning the importance of the hub is London's role as the main European gateway for global financial services firms. In these cases, visitors to the London office from the US, Asia or the Far East may then travel on to visit other European centres. On their return journey, they will want to use Heathrow as a hub

[8] Passengers travelling beyond the destination airport have been excluded.
[9] The same is true of Singapore to a lesser extent which is why the transfer passengers to Singapore may appear lower than might be expected.

(or vice versa). Hence, Heathrow's hub role underpins, to some extent, London's role as a financial services hub for Europe.

This relationship between the City economy and the hub brings in to sharp focus the current market dynamic caused by the lack of runway capacity that is damaging Heathrow's ability to function as a 'hub' airport. The lack of available slots has seen a trend in recent years whereby airlines have sought to refocus away from short haul services, which by their nature are less revenue intensive, towards more and more long haul services, particularly focussing on high yielding business routes. The result has been a contraction of Heathrow's route network, particularly to domestic and short haul destinations. From the perspective of the City this could be in some ways be said to be a non-issue. The City economy is getting what it wants to some degree, more and more frequency on major intercontinental trunk routes. However, this is a somewhat narrow view of the world and it is important to go back to the basic requirements in the round to consider the issue. The current situation is:

- Damaging the European network – this is undoubtedly bad for London as a European headquarters location for overseas companies. London is the financial hub for Europe. It needs a broad and deep European air network to play this role as well as excellent links to companies' home bases. For similar reasons, it is bad for UK firms with significant European operations. Prior to the recession, there had been an observable trend of some short haul frequencies and destinations shifting out of Heathrow to London City. This will no doubt re-emerge in the future. This is undoubtedly better than them disappearing but it is only a partial replacement. Often the destinations continued to be served by Heathrow but frequencies were shifted to London City. By splitting the service across two airports much of the advantage of high frequencies in terms of flexibility and resilience was lost;
- Potentially damaging to the second order intercontinental network – as we have described it is unlikely that the dynamic will affect tier 1 major business destinations such as New York, Hong Kong or Singapore. However, the UK and European network is essential to providing feeder traffic that supports higher frequencies on second tier destinations and potentially, in extreme cases, makes these routes viable. This will be bad for the breadth and depth of the intercontinental network. This is likely to affect companies that use London as a base to sell specialist services to clients around the world, services that are not offered by regional or local offices within home countries. Economically speaking, these services are often particularly important to the City of London cluster as they tend to be particularly high value-added;
- Making it more difficult to serve emerging economic centres – as erosion of the European network limits the feeder traffic available, then airlines become reliant on point to point demand to develop new services at a reasonable level of frequency. This is particularly an issue if the other European hubs continue to develop. These airports will be able to compete more effectively for the feeder traffic to these points. The failure to bring on stream routes to such emerging centres will be damaging for current London based businesses seeking to exploit new markets, particularly within the supporting business services cluster. However, it also makes London a less attractive proposition for potential inward investors from emerging

markets. They will simply locate their European base elsewhere, perhaps Frankfurt, which is also rated as a Global Leader by the Global Financial Centres Index and has a growing and less constrained major hub airport.

These problems are essentially runway capacity driven. Heathrow is essentially 'cannibalising' its own network because airlines are unable to grow as they would like within the constrained environment. Rather than 'true' growth to meet demand, they are being forced to make choices that enable incremental growth to maximise revenue rather than reflecting the needs and requirements of the underlying market.

4.5 Strengths, Weaknesses, Opportunities and Threats

In Table 4.2, we have sought to summarise the current strengths and weaknesses of London's air service offer from the perspective of the City of London and to identify future opportunities and threats. In terms of opportunities, we have focussed here on those that are currently viable, in other words they have not been ruled out by recent Government announcements. We focus on broader options in Section 6.

What is immediately clear is that London does currently have a very strong airport proposition that effectively supports the City economy. However, as has been the case for some time, the system and Heathrow, in particular, is very full and capacity related weaknesses are clearly observable. Looking to the future there are significant threats to London's connectivity and few remaining opportunities to meet demand in the future. There are some opportunities that have the potential to reduce elements of air transport demand but these need to be seen in a realistic light.

In the following sections, we consider the opportunity offered by the South East Airports Task Force to address the current weaknesses and future threats, before moving on to examine other broader options for meeting the City of London's needs.

Table 4.2: Strengths, Weaknesses, Opportunities and Threats

Strengths	**Weaknesses**
• Unsurpassed position of Heathrow as a global connector • Depth of connectivity to major intercontinental destinations at LHR • Breadth of direct connectivity at LHR • the Heathrow 'Hub' • Niche services provided by LCY, particularly for inbound passengers • Current concentration of service at LHR • Growing network and frequency at LCY • Location of LHR relative to residential areas of City workers • Surface access to LCY and LHR (Heathrow Express) from the City • British Airways position as high quality, full service, based airline at Heathrow • Business focussed, fast and efficient passenger experience at LCY • Terminal 5 passenger experience at LHR	• Lack of runway capacity and room for growth both specifically at Heathrow and across the system as a whole • Delays at Heathrow • Lack of operational resilience at Heathrow • Splitting of air service offer across London's airports • Shrinking European network at Heathrow • Road access to Heathrow and public transport access other than from the CLBD, including from Canary Wharf • Access to London City from residential areas in West London • Passenger experience away from LCY and Terminal 5
Opportunities	**Threats**
• South East Airports Task Force • Future airports policy review • Crossrail has the potential to significantly improve access to both Heathrow and London City • Exploitation of available runway capacity at LCY • Improving operational efficiency at Heathrow • High Speed Rail access to the rest of the UK and near Europe as an alternate to air travel • Increased use of communication technologies to reduce demand for non essential air travel	• Continuing constraint at Heathrow leading to further 'cannibalisation' of the route network • Failure to lift movement limit at LCY leading to limited runway utilization • Failure to provide capacity more generally across the London system to relieve pressure on Heathrow • Further growth at Frankfurt in particular undermining London's competitive position as Europe's leading financial centre • Failure to deliver planned surface access improvements • International Airlines Group (new merged BA/Iberia) refocusing hub operations to Madrid • Rising APD increasing user costs • Constraint of supply leading to rising fares • Continued uncertainty and inertia around future development

Source: York Aviation.

5 The South East Airports Task Force

In this section, we consider the work currently being undertaken by the South East Airports Task Force and the extent to which the possible outputs have the potential to be able to meet the needs of the City of London economy moving in to the future. Fundamentally, it examines the extent to which the Task Force will address the Weaknesses and Threats and open up the Opportunities identified in Section 4.

5.1 Remit of the Task Force

On 15th June 2010, following on from the new Coalition Government's announcements regarding the cancellation of the third runway at Heathrow and the second runway at Stansted, the Secretary of State for Transport announced the establishment of the South East Airports Task Force.

The South East Airports Task Force is concentrating on quick wins at the three main London Airports; Heathrow, Gatwick and Stansted, against the slogan '*Better not Bigger'*. The focus is very much on improving the passenger experience in the short term.

The Task Force is examining seven key themes for improvement:

- **Resilience, Delay and Punctuality** - examining what improvements to reliability might be made through changes to airspace or other aspects of airport capacity but without the introduction of mixed mode use of the existing runways at Heathrow;
- **Airport Security** - looking at how processes can be speeded up;
- **Border Controls** - to examine the scope for reducing queues;
- **Regulatory Changes** – considering where regulatory changes could be made to reduce bureaucracy and improve passenger service;
- **Surface Access** – examining the scope for Government action such as improved ticketing for public transport but without considering major investment schemes;
- **Passenger Views** – how well do airports capture the views of passengers and act on them to improve service;
- **Performance Monitoring** – what action could the Government take to improve the monitoring of airport performance and publication of information to help passengers.

5.2 Addressing the 'Right' Areas

In the main, City firms and stakeholders have welcomed the remit set for the Task Force in as far as it goes. The themes set are felt to be relevant to improving overall service quality at London's airports, particularly Heathrow, and to addressing some of the key weaknesses in the current London air service offer.

The themes that have proved to be of particular interest are perhaps unsurprising given the City's requirements as described above:

- Resilience, Delay and Punctuality – action in this area would be universally welcomed as it is perhaps the primary area of concern in the short to medium term;
- Airport Security – most consultees were at pains to stress that the need for high levels of security is accepted and that for many it is now 'just a part of

travelling'. However, equally if there are areas that could be streamlined and the overall process speeded up this would be welcomed;

- Border Controls – speeding up immigration processes again would be welcomed, although a number of consultees did note that the experience of arriving in the UK was still significantly better than in some other countries. It was also noted that improving border control processing would need to go hand in hand with other improvements in inbound passenger handling, notably the speed of baggage reclaim, if any real improvements are to be achieved;
- Surface Access – there was also some specific, if more limited, interest in improving surface access integration through improved ticketing and similar.

Improvements in the other themes identified for the Task Force would be welcomed but were generally of subsidiary interest.

Despite this generally positive view of the remit set out for the Task Force, consultees did on the whole have considerable concerns about the Task Force from two perspectives:

- Can it deliver? Consultees noted that the Task Force's focus is short term and that it is specifically about what can be achieved without major infrastructure developments and significant investment. Many questioned whether, given the challenges faced at Heathrow particularly, the Task Force can actually deliver genuine, lasting improvements;
- Is it anymore than 'tinkering round the edges'? Linked to the general concerns regarding the Task Force's ability to deliver, there have been questions raised as to why the Task Force is not looking at the fundamental issue of runway capacity in the London system. There is a general recognition that London's connectivity currently is exceptional and that this is not likely to change overnight, but there is a need to plan for the longer term if London as a city is going to maintain its current competitive advantage over other European centres. Ultimately, there is a feeling that the Task Force is not addressing the underlying causes of the current weaknesses and does not have the remit to address the threats looking forward.

5.3 Delivering Against Its Remit

We have discussed the work of the Task Force with key task force members and other industry representatives. Most Task Force members welcomed the focus by the Government on improving the quality of service for passengers but felt that the terms of reference of the Task Force were too constrained. There is some doubt as to whether London's airports can be made significantly 'better' without addressing the inevitable need for more capacity. We return to this theme later in the report.

In terms of those areas under review, there was optimism that progress could be made in terms of improving resilience and reducing delays, in security processing and in streamlining immigration processing. It was felt that these improvements would be worth achieving, albeit they would not make a significant long run difference and that other action would be necessary to address the need for more capacity and competition in the London airport system. There was less confidence that a material difference was possible in terms of surface access issues, without funding being available, or of the ability of minor regulatory changes to make a material difference. We deal with the economic regulation of airports below.

- **Resilience, Delay and Punctuality** – this work stream is being led by the Civil Aviation Authority and we have not yet seen any output from the work. We understand that it is examining the extent to which operations could be made more efficient allowing more aircraft to be handled using Heathrow's existing runways and/or ways in which more productive use can be made of existing slots. This work falls short of examining the scope for mixed mode as a means to increase the number of flights using Heathrow, although we understand that part of the work may be to examine how tactical use of mixed mode might be achieved as a short term measure in periods when there is a build up of delay in the system;
- **Airport Security** – this is the area where there is most optimism that some improvements to service can be made, not least as the Department for Transport is directly responsible for this area in the UK. There is scope for the introduction of new technologies to speed up passenger processing. Proposals to reform aviation security regulation are expected in January 2011;
- **Border Controls** – this area has been a priority area for action by the Task Force. However, there is some uncertainty as to the extent to which the Home Office will be able to respond to concerns in this area in the short term.

To the extent that improvements can be made in these areas, this would be universally welcomed as making a contribution to improving the passenger experience but all industry commentators were at great pains to stress that this would not address the fundamental issues being faced at London's airports in terms of meeting increasing demand for air travel.

It is expected that the Task Force will make recommendations on the scope for operational improvements by July 2011.

The airlines, in particular, remain concerned that the work of the Task Force is not going far enough and will not ensure that there is a competitive network of airports, with capacity available, serving the needs of London for the future.

5.4 Addressing the Longer Term Issues

More recently, in October 2010, the Government has announced that it will embark on a more wide ranging review of Aviation Policy, with a view to producing a framework for the sustainable development of aviation in the UK. The timescale for this is set out in the Department for Transport's Business Plan, recently published by No. 10 Downing Street:

- **Scoping Report** – March 2011;
- **Consultation Document** – March 2012;
- **Policy Framework Announced** – March 2013.

It is envisaged that the resulting policy will be less prescriptive than that set out in the Future of Air Transport White Paper, focussing more on the criteria by which development proposals will be judged and not on specific proposals. It is suggested that it may follow the form of the draft National Policy Statement on Ports recently consulted upon.

This longer term policy review provides a platform to consider some of the longer term options for addressing the City’s aviation needs, albeit that it appears unlikely that there will be immediate change in the Government’s position towards the provision of additional runway capacity at the London airports.

Until such time as additional runway capacity can be provided in the London airport system, the airlines are calling for the introduction of greater competition into the market, following the recommendations of the Competition Commission in 2009. Whilst the sale of Gatwick to GIP has introduced a degree of competition into the market, there is a view that more could be done to make airports more competitive by, for example, allowing airlines or other third parties to develop or operate competing terminals at airports. In this way, the costs of using airport terminals might be lowered, with competition producing higher standards of service for passengers.

The sale of Stansted Airport by BAA is currently on hold until such time as the Competition Commission confirms its remedies, although BAA still has sought leave to appeal to the Supreme Court regarding the recent ruling of the Appeal Court, upholding the Commission’s original decision. In the meantime, the Government has confirmed the intention to introduce a bill to reform the Economic Regulation of Airports with the aim of making the sector more competitive. However, the precise timetable for this bill is not yet entirely clear.

Whilst welcome, the introduction of further competition into the airports market is unlikely, of itself, to address the long term requirement to ensure that the route network to/from the London airports can keep pace with the changing and growing requirements of the financial services sector in the global marketplace.

6 Long Term Options for the London Airports

In this section, we set out some potential options for longer term airport capacity development and examine the extent to which these would support the needs of the City of London by addressing the Weaknesses and Threats identified and enabling the Opportunities. In the light of more recent announcements by the Secretary of State for Transport, we believe that it will be important for the City of London Corporation to highlight its longer term requirements to Government as an input to the review of Aviation Policy. This appears to us more important even than inputting to the work of the South East Airports Task Force, which formed the initial focus of our study.

6.1 Defining Options for Development

To a large extent the Future of Air Transport White Paper and more recent developments have defined the main options to be considered. No particularly new or radical ideas have been brought forward recently and certainly none since the 2008 City Aviation Study.

In broad terms the options can be divided in to two groups:

- developments that will increase the overall capacity of the London system airports;
- developments that will assist in making best use of the existing capacity within the system and improving the overall 'usability' of London's airports.

Perhaps unsurprisingly the second group tend to be less investment intensive in terms of airport development and perhaps less controversial.

In terms of developments that would significantly increase overall airport capacity, we have identified the following options:

- Revisiting a Third Runway at Heathrow;
- Second Runways at Stansted or Gatwick;
- Development of a major new Airport either in the Thames Estuary or elsewhere.

In relation to the second group, developments that would maximise the use of existing capacity and improve usability, we have identified the following options:

- Expansion of the role of London City Airport;
- Mixed mode operations at Heathrow;
- Development of High Speed Rail to relieve pressure;
- Surface Access Projects.

We now consider each of these options in turn and the extent to which each one would, individually or in combination with others, meet the long term needs of the City of London economy. In doing so, we take into account the downturn in demand during the recession and the likely slower rates of growth in future as aviation is subject to an increasing tax burden. This has implications for the timing when additional capacity or other solutions may be needed at individual airports.

A further solution which the Government may seek to adopt is to continue to use taxation as a mechanism to ration the use of scarce airport capacity. We deal with this as a further 'development' option at the end of this section.

6.2 Revisiting a Third Runway at Heathrow

The City Aviation Study 2008 demonstrated City support for the addition of a third runway at Heathrow as a long term solution to London's airport capacity needs from the perspective of the City economy. Notwithstanding the difficulties now facing such a development, it remains in our view the optimal solution for the City economy in the longer term. It should be noted that most consultees do not see Heathrow being bigger as an important end in itself but they do see it being better in terms of the range and frequency of business oriented air services it supports and in terms of service quality as important. It is, however, very difficult to see in the longer term how the latter can be achieved without the former.

Consultees in this process have noted the improvements that have been made at Heathrow in the last two years, primarily through the opening of Terminal 5, and there also appears to have been some progress made in relation to delays and resilience. However, ultimately, as growth returns to the market, the fundamental runway constraint will lead to the re-emergence of the service quality and resilience issues that have dogged the Airport in the past, albeit ongoing terminal enhancements will continue to improve the passenger experience at the Airport.

Similarly, while the recession may have reduced the pressure on slots at Heathrow in the short run, and hence slowed the damage to the route network described above, ultimately these pressures will return. Heathrow is showing recovery from the recession ahead of the other main UK airports. The short-haul network will continue to decline:

- impacting on European connectivity and hence damaging London's position as base for companies' European headquarters;
- reducing Heathrow's ability to service feeder traffic and therefore to support frequency to second order long-haul business destinations and the new connections to emerging business centres. This will impact on London's ability to act as a hub for specialist financial and business services and as a location for overseas companies from emerging markets.

The addition of a third runway would provide the capacity required to protect service quality and the network in the longer term.

We believe a third runway would address the following key weaknesses:

- lack of runway capacity and room for growth at Heathrow and within the broader London system;
- delays at Heathrow;
- lack of operational resilience at Heathrow;
- splitting of air services across the London airports;
- shrinking European network at Heathrow.

We believe that a third runway would counter the following key threats:

- continuing constraint at Heathrow leading to ongoing 'cannibalisation' of the route network at Heathrow;

- failure to provide capacity more generally across the London system;
- International Airlines Group (merged BA/Iberia) refocusing hub operations to Madrid;
- constraint of supply leading to rising air fares;
- continued uncertainty and inertia around future development.

It should however be remembered that a third runway is in itself a temporary, albeit relatively long term temporary, solution. Ultimately, a third runway will be filled and runway capacity issues could re-emerge. At this point the debate about London's airport capacity will reopen. This could focus on how to further expand Heathrow, building a new airport (although many of the issues around this would remain as now), or it may be that the market has developed sufficiently that a second major hub may be viable at one of London's other airports. A third runway at Heathrow is therefore in our view the best long term solution at present for the City economy as it addresses the problems faced now but it is not an indefinite solution.

6.3 Second Runways at Stansted or Gatwick

The addition of further runway capacity at either Stansted or Gatwick would in our view be helpful in adding capacity to the London system as whole but will ultimately have little impact on the City of London's primary gateway, Heathrow. This view was in the main shared by consultees. The other airports are not heavily used by City users and consequently are not seen as a priority other than their ability to provide alternates for more leisure focussed services. The need for additional capacity at either of these airports is less urgent than was foreseen in our 2008 study as they have seen a greater downturn in demand during the recession, with Stansted in particular showing little sign of recovery as yet.

The Stansted G2 project envisaged significant growth at Stansted with addition of a second runway enabling up to 68 million passengers per annum. Precisely what Stansted might look like with a second runway if such a proposal is brought forward again would at least partly depend on what other developments might come forward. If a second runway were to be developed in conjunction with a third runway at Heathrow, we believe that the Airport would most likely become a bigger version of what it is now, a primarily low fares, leisured focussed airport albeit with some leisure focussed long-haul emerging in later years. However, without a third runway at Heathrow, we would envisage Stansted evolving to be more like Gatwick, with the focus still primarily on low fares, but with some full service short haul and a greater proportion of second tier long haul destinations as these are forced out of Heathrow.

The addition of a second runway at Gatwick could result in growth to around 76 million passengers per annum by 2030 according to DfT forecasts. As with Stansted, the Airport is likely to develop differently depending on developments elsewhere. With a third runway at Heathrow, Gatwick is likely to continue to develop as it is now, largely low fares and charter focussed with some full service short haul and a range of long-haul destinations, primarily second tier and leisure focussed. Without a third runway at Heathrow, Gatwick is likely to acquire a higher proportion of full service short haul and long haul destinations as these are forced out of Heathrow. It might also become an alternate option for additional frequencies to major destinations, as even these services start to suffer from restrictions at Heathrow.

The extent to which either of these developments would address current weaknesses is limited. In terms of the weaknesses identified in Section 4, they would only address the lack of capacity across the airport system but not at Heathrow and they might have some limited impact on service quality at Heathrow. They would, however, in all likelihood worsen the problem of London's air service offer being split across the different London airports.

In terms of threats, again either development would relieve pressure on Heathrow by providing more capacity in the London system but it would not fundamentally address issues around the 'cannibalisation' of the route network at Heathrow or the potential for International Airlines Group to shift or refocus hub operations to Madrid.

6.4 Development of a major new Airport in the Thames Estuary

The development of a major new airport with three or more runways to be built in the Thames Estuary as a replacement for Heathrow is not a new one. Schemes of this nature have been around for at least 30 years. We understand that the Mayor of London intends to come forward with further details on how such a development might be brought forward in due course, although the Government has ruled out such a development as with the proposals for new runways at Heathrow and Stansted.

Prima-facie and assuming that it were to come with appropriate surface access infrastructure that would make it easily accessible from both the City and the key residential areas in the West of London, such a plan could have some merits. Particularly, it could be developed with an eye on the much longer term, allowing for the development of additional runway capacity long in to the future. In this respect the development of such an airport would be preferable to a third runway at Heathrow.

It would give the City a modern, unconstrained airport which would be easily accessible (assuming the aforementioned surface access), offer the breadth and depth of services associated with a growing hub airport and would potentially offer a concentration of services in one place that no other development scheme could match. Its surfeit of capacity and modern, planned nature would in all likelihood mean that the service quality concerns that afflict Heathrow could be designed out. However, there are significant issues in relation to the deliverability of such a project that would raise questions as to its potential as an option for future development:

- The cost of building such a facility and the necessary surface access infrastructure is likely to be prohibitive. It is also far from clear how such surface infrastructure could be developed, particularly in terms of serving the key population bases to the West of London. This would be a key issue for City businesses;
- It is far from clear how simply moving Heathrow's operations to a new airport could be achieved. The only practical method would appear to be to buy Heathrow from BAA and close it. This in itself would be fraught with difficulty and hugely expensive;
- Would airlines, particularly British Airways, be prepared to move their operations to a new unproven airport without massive incentives;
- A new airport in the Thames Estuary would avoid some of the environmental difficulties facing a third runway at Heathrow in terms of noise and air

quality but it would cause significant environmental damage to habitats in the Thames Estuary;

- A major airport in such a location, close to the edge of UK airspace, could give rise to significant difficulties in the interface between UK, Dutch, Belgian and French airspace and could create a complex interaction with approaches to Amsterdam Airport Schiphol. It would, in all probability, require the closure of London City Airport and could impede use of Biggin Hill, Manston and Southend;
- The development of such an airport would also take a significant amount of time. This would leave London suffering from all of the weaknesses identified and Heathrow open to continued erosion of its network for some considerable time. Ultimately, delivery of such a facility may simply be too late for London and significant competitiveness and business will be lost in the meantime.

Overall, the Thames Estuary plan has had a mixed reception from stakeholders consulted as part of this study.

6.5 Expansion of the role of London City Airport

London City Airport is a key provider of niche services to the financial and business services cluster in and around the City of London. Currently, it is often the preferred option for short-haul travel inbound to London and for trips from the office to Europe because of its proximity to the City and Canary Wharf. Expansion of London City Airport would be strongly welcomed by City users either with or without a third runway or other measures at Heathrow.

In 2008, Newham Council approved a planning application from the Airport to increase its current movement annual movement cap from 80,000 to 120,000 to facilitate growth. This has recently been subject to judicial review following a legal challenge from a local residents group, which was rejected, although the residents plan to appeal. Delivery of this increase in the movement limit would be an important initial step in expanding the role of London City. The Airport's Master Plan suggests that the Airport could handle around 8 million passengers by 2030 without significant physical changes to the Airport infrastructure.

Without a third runway at Heathrow, expansion of London City Airport is of particular importance to the City economy as it offers an alternative, 'business friendly' home for short haul connectivity to major European business centres. This is something that was beginning to happen prior to the recession with airlines moving some destinations and frequencies to short haul destinations away from Heathrow to London City. Expansion of London City Airport in these circumstances would remain a second best solution to a third runway at Heathrow as:

- it would mean an ongoing decrease in the concentration of services as the service offer would be split between Heathrow and London City, with the corresponding issues for users in terms of flexibility described above;
- the route network at Heathrow would continue to suffer and its ability to function as a hub would continue to reduce;
- it is unlikely to resolve delay, resilience and other service quality issues at Heathrow.

The value of London City to the City economy as an alternate to Heathrow for short haul connectivity would be greatly enhanced if surface access to the Airport from the West of London could be improved. The key project from this perspective, which we discuss below, is Crossrail.

If a third runway were to be delivered at Heathrow in the future, expansion of London City would still be welcomed. The sheer convenience of the Airport for inbound visitors and those based at Canary Wharf has been an important driver of productivity and has been central to companies being able to run European operations effectively and efficiently. Further growth at the Airport will enable it to continue in this role and make the broader City an even more attractive place in which to locate regional headquarters operations.

In terms of the weaknesses and threats identified in Section 4, we believe that expansion of London City would:

- introduce some additional capacity in to the London system and, importantly, it would be capacity at one of the City's preferred airports with benefits to the range of services offered to City and Canary Wharf businesses;
- counteract to some degree the shrinking of the European network at Heathrow by providing an alternative, business friendly home for such services;
- eliminate the threat of limiting utilisation of the runway asset at London City.

6.6 Mixed mode operations at Heathrow

One potential method for increasing runway capacity at Heathrow without the addition of a third runway would be the introduction of mixed mode operation on the existing two runways. Previous estimates have suggested that the introduction could increase the current movement capacity of Heathrow from around 480,000 to around 525,000 (an increase of around 9%) and passenger capacity by around 10 million passengers per annum.

This has been the subject of some debate and the new Government does not support this option and the South East Task Force remit specifically excludes consideration of mixed mode operations. However, in a broader review of the medium to long term options that might support the City economy in the future, consideration of this option is prudent.

The impact of mixed mode operations would depend to some degree on how any additional capacity released was to be used. One option would be for the additional capacity to be used purely to improve operational resilience at the Airport. This could have a significant impact on delays and recovery time from operational shocks. This would offer considerable improvements in terms of the ongoing service quality gripes of City users and assist in ensuring that the problems that have been seen in recent times do not return in the medium term.

Alternatively, the additional capacity could simply be used to create more slots at the Airport and allow growth. This would assist in protecting the breadth of the Heathrow network in the medium term as it would reduce pressure on the European short haul network, protecting connectivity for City users and feeder traffic for the hub from the perspective of airlines. However, using capacity in this fashion would mean that delays and other service quality issues relating to runway capacity would go largely unaddressed.

In both cases it should also be noted that mixed mode is really only a short to medium term solution. Relatively quickly, Heathrow will once again become stretched as demand grows and the issue of a 'real' increase in runway capacity will resurface.

6.7 Development of High Speed Rail to relieve pressure

The development of High Speed Rail to provide enhanced surface connectivity to UK and European destinations was strongly supported by consultees. Rail was in many ways regarded as the better option for travel where available for shorter journeys. It was, however, noted that such developments are still a very long way off.

It also seems reasonable to say that High Speed Rail does have the potential to reduce pressure on London's airports and Heathrow in particular. However, there does need to be a certain degree of realism as to what extent rail travel can replace air travel. Based on an assessment of the current air passenger journeys involving Heathrow that might be substitutable given the development of HS2 and further developments on the continent, we estimate that the total market subject to competition from rail would be around 10% to 15% of Heathrow's passenger traffic. Building on research by Greengauge21 in to air rail substitution, we estimate that ultimately the actual impact on passenger numbers at Heathrow from the development of a significant High Speed Rail network would be a reduction of around 7% to 9%. In terms of capacity at Heathrow, this would probably only reduce current capacity pressures for around three years allowing for market growth.

There must also be some question as to whether any meaningful developments in high speed rail can be delivered sufficiently quickly as to offer an alternative to some development in London's overall airport capacity in the short to medium term.

6.8 Surface Access Projects

Surface access to the City's key gateway airports, Heathrow and London City, is a central concern for City businesses. The ability to get to the Airport quickly, easily and consistently is highly valued. Currently, experiences differ considerably for each Airport depending on the starting point for the journey.

If starting from the City, the Heathrow Express and the DLR to London City are popular and quick. However, using the Heathrow Express does mean having to get to Paddington Station in the first place, which is not ideal. Road access to Heathrow is a substantial issue primarily because of the lack of consistency in journey times. On an average day, the journey can take anything between 30 and 90 minutes. This makes planning time in London difficult and planning for the worst case often leads to significant dead time. Road journey times to London City are generally considerably less, around 15 to 20 minutes, but congestion can be an issue at peak times.

Access from the key residential areas for City workers in the West of London is slightly different. Access to Heathrow via public transport is felt to be slow in general and road access suffers from the general congestion issues on the roads around the Airport. London City is for many a remote option from home via either road or public transport. Journey times are generally quite long and routes can be complex.

Specifically addressing surface access issues in relation to London's airports in isolation from London's broader transport issues is not realistically possible. However, there are a number of transport projects that do have the potential to improve the overall airport experience from the perspective of City users and hence benefit the City economy:

- Crossrail will provide direct links from the City to both Heathrow and London City Airports from Farringdon and Liverpool Street stations. It will also provide a direct link (no changes) from Canary Wharf to both airports. It may also open up use of London City from residential areas in the West of London. The scheme has the potential to address a number of the surface access related weaknesses identified above;
- Airtrack aims to create a new direct link between Heathrow and the mainline rail network to the South and West. It would provide services between Waterloo, Guildford and Bracknell, and Terminal 5. This would help address concerns weaknesses regarding public transport access from City users main residential areas in the West of London. The public inquiry in to Airtrack is currently on hold while the implications of the Government Spending Review for the project are assessed;
- The ongoing Thameslink Programme will improve the quality of access to the secondary City gateway at Gatwick Airport and also to the rarely used Luton Airport.

Overall, key surface access projects do offer an opportunity to improve the overall experience for City users of London's Airports and, to some extent, Crossrail may enable London City Airport to play a greater role as a substitute for Heathrow as a short haul gateway for journeys starting from home. However, ultimately, these projects will not address the runway capacity weaknesses and threats identified to a significant degree.

6.9 Taxation or Price Increases to Ration Demand

A failure to address the need for more runway capacity in the longer term would leave the Government with the challenge of matching demand to available capacity. This could be achieved through further taxation, changing the regulatory regime to allow airports to charge market clearing prices or allowing the slot market to ration the available capacity. Whatever the mechanism, the impact of continuing capacity constraint is likely to be higher air fares as well as a restricted range and frequency of destinations.

Although business travel is less sensitive to price than leisure travel, increases in the price of air travel would impact on the City's competitiveness and could have implications for the choice to locate client facing functions generating substantial amounts of air travel in London.

7 Conclusions and Recommendations

The financial and business services cluster in the City of London and the wider CLBD is one of the most important drivers of the UK economy. The scale and importance of the City is derived from London's pre-eminence as a global financial centre. The high levels of integration with the global economy inherent with such a position have driven and continue to drive the City's need for international connectivity.

The City does, however, face challenges moving in to the future. It is operating in a competitive market, where companies, people and assets are highly mobile. Other centres around Europe and across the world are seeking to enhance their positions as financial centres, potentially at the expense of London. The recent global recession has highlighted this dynamic. London's position appears to have weakened somewhat during the downturn. The Global Financial Centres Index 7 saw New York catch London to share the top spot, although GFCI 8 sees London reclaim the top spot alone. The City therefore needs to maximise its advantages as a place to locate and do business. This includes ensuring that companies operating in London are able to connect effectively with global markets, which in turn means the provision of air service connectivity.

It is here that a dichotomy is reached. Currently, London's air service connectivity offer is exceptional. Heathrow, the City's preferred gateway, offers the highest levels of business focussed connectivity in Europe, with high frequency services to the world's major business destinations, both short and long haul. While there are issues around delays and resilience particularly, Heathrow is universally recognised as a vital resource. It is supported by the niche services offered by London's most business focussed airport, London City, which has grown to be a highly valued connectivity asset for the City and Canary Wharf. London's other airports also play a role a role in the supporting the City economy but this is more limited.

It is, however, looking to the future where concerns must be raised. As has been recognised for some time, London's airports and particularly Heathrow have extremely limited capacity for further growth. This has led to an ongoing erosion of the short haul network at Heathrow and increasing threat to second tier but still important long haul business destinations. This needs to be set against the competitive environment in which the City of London is operating. If it is to remain as the leading or one of the top two global financial centres in the long term, London needs to maximise its advantages and maintain its competitive edge. The difficulty is that this does not mean it can stand still. Other centres are growing and improving their positions. Therefore, to simply maintain its position, London must move forward.

This is reflected in its requirement for air services and international connectivity. Heathrow is a market leader in providing connectivity now but it needs to maintain that position if it is to effectively support London's competitiveness in the future. It will therefore need to increase the breadth and depth of its route network, reflecting both the City's role as a gateway to European markets for financial and business services and the emergence of new global financial centres further afield, while maintaining or enhancing overall service quality. It is very hard to see how this can be done given the current capacity position of the Airport and the London system more generally.

The establishment of the South East Airports Task Force by the new Coalition Government in June 2010 following its announcements cancelling the third runway at Heathrow and the second runway at Stansted has generally been welcomed by both the air transport industry and City businesses as a means for addressing issues around improving the passenger experience in the short term. It is also fair to say that there is some optimism that worthwhile improvements can be made in relation to delays, punctuality and resilience, security procedures and border controls. However, equally, there is also a belief that, while these issues are worth addressing, they are not addressing the fundamental problems of capacity in the system. The Task Force's guiding mantra of 'better but not bigger' is laudable and fine up to a point, but ultimately something more substantive needs to be done if the City of London is to maintain the connectivity it needs for its long term competitiveness.

The need to look longer term does appear to have been recognised by the Government. In October 2010, a wide ranging review of aviation policy was announced as part of the Department for Transport Business Plan. This process will start with an initial Scoping Report in March 2011, followed by a consultation in 2012 and the announcement of a Policy Framework in March 2013. This process will look at the longer term issues around airport capacity and would appear to be the key forum for the City of London Corporation to focus its efforts upon in seeking to influence long term airport capacity development. The Corporation needs to communicate the long term dangers to London's competitive position from ongoing constraint at London's airports in this context, in terms of network erosion, fragmentation of the air service offer and rising costs from constraint of supply or efforts to price off demand.

Through this report, we have analysed a number of potential medium and long term solutions that would be effective in supporting the City economy. The difficulty remains, however, that these are not new. Fundamentally, the long term solution lies in building more runway capacity in the London system notwithstanding the difficulties and challenges faced in doing this. In our view, the four options that provide the best way forward from the perspective of the City are:

- Revisiting the addition of a third runway at Heathrow – Heathrow is the City's most important gateway and its preferred airport for the majority of its international connectivity needs. It is also the airport that is under the most pressure and is at most risk of damage from capacity related problems. Addition of runway capacity at Heathrow would enable the Airport to evolve effectively to meet the long term needs of the City, thereby supporting long term competitiveness. It should however be recognised that a third runway at Heathrow is not a one time, final solution to London's airport capacity needs. Ultimately, further capacity is likely to be needed at some point when a three runway Heathrow reaches capacity;
- Expansion of London City Airport – London City Airport has become a highly valued part of the London airport system for City users. Its proximity to the City and Canary Wharf and its focus on the business passenger have led to significant growth at the Airport and, prior to the recession, it was becoming home to a number of destinations and frequencies pushed out of Heathrow by capacity constraints. If further capacity cannot be delivered at Heathrow expansion of London City, especially if complemented by surface access improvements such as Crossrail, would be a second best solution. If

further capacity were to be delivered at Heathrow, further at expansion at London City would still be greatly welcomed to expand the role it can play;
- Mixed mode operations at Heathrow – while in many ways only a temporary solution, mixed mode would allow some capacity relief at the City's primary gateway, either allowing improved punctuality and resilience or by providing some incremental increase in capacity;
- The development of High Speed Rail could reduce pressure on the London airports and Heathrow in particular through providing an alternative for connectivity to domestic and near European destinations. However, again this would only provide limited relief as this portion of traffic, particularly in relation to Heathrow, is relatively small.

We have also considered a number of other options:

- The addition of runway capacity at either Stansted or Gatwick would assist in so far as it would reduce overall capacity pressures in the London system. However, it is unlikely to significantly affect the situation at the City's preferred airport, Heathrow;
- The development of a new hub airport in the Thames Estuary would in theory have some merits. However, there are some major issues around the deliverability of such a project, which remains a very long term option;
- Surface access projects, notably Crossrail, do have the potential to improve the experience for passengers using London's airports and could help open up access to London City as an alternate to Heathrow for short haul travel. However, ultimately, they will not address the underlying issue of airport capacity;
- The use of demand pricing in some form would potentially be as damaging as continued constraint, resulting in reductions in the breadth and depth of the network and rising costs to users that will make London a less attractive place to locate and do business, thereby impacting on competitiveness in the longer term.

Overall, it seems clear that the relationship between the City economy and London's airports is at a crossroads. The importance of global connectivity to the City economy is abundantly clear and currently London is generally in a good position. However, the future is far from secure. The Government's recent announcements have stopped future development at London's airports at least for the time being and while this is clearly not going to lead to a mass exodus from the City of London in the short to medium term, there is a threat to London's overall competitive position from the erosion of connectivity, increased airport hassle and price pressures in the longer term that needs to be addressed.