

easyJet response to the Airports Commission consultation

Foreword

easyJet carries more passengers in and out of UK airports than any other airline. A new runway in the South East will have a significant impact on our passengers and the airline. We have carried out an extensive assessment of the options shortlisted by the Airports Commission, working with external experts to assess both how passenger demand will respond to the options and their operational and service quality aspects. We have also entered into discussions with all three of the promoters.

easyJet's views reflect what we believe to be in the best interests of our passengers, the airline and the UK economy.

In summary, our view is that expansion at Heathrow would provide the greatest passenger and economic benefits.

New capacity must be delivered sustainably. Local noise and environmental impacts need to be addressed. In the context of a decision which affects the UK as a whole, sustainability needs to include economic and social as well as environmental concerns.

Heathrow is in the best interests of passengers as it has the greatest demand. It is clear that long haul airlines want to expand at Heathrow and if they can't, they will do so not at Gatwick but at other airports such as Paris, Amsterdam and Frankfurt.

Heathrow does not currently have low cost, short haul airlines but an expanded Heathrow would allow airlines like easyJet to operate there – providing more competition which will mean new routes, more services and lower fares. easyJet's costs are on average 40% lower than legacy airlines and so we expect to be able to more than offset the increase in airport charges.

By comparison, the Gatwick proposal requires a significant increase in airport charges. This would inevitably lead to higher fares for Gatwick's passengers, the vast majority of whom are flying for leisure.

Gatwick is a much improved airport under its new owners and management team and easyJet is committed to continuing to grow our operations there. However, there is no evidence that passenger demand at Gatwick, and therefore its range of airlines and their networks, will be significantly expanded with an additional runway. Gatwick slots have been and are still readily available now which would allow long haul airlines to move to or expand at Gatwick. History shows that there is little appetite to do so and, in fact, many have left the airport.

The evidence demonstrates that fundamentally airlines, and indeed airports, respond to passenger demand; they can not force passengers to use airports they do not want to use.

The number and value of passengers who want to fly to and from Heathrow is simply greater than the equivalent number for Gatwick and this is reflected in the economic value of the two options. The Airports Commission's analysis suggests that expansion at Heathrow will create significantly more economic value than Gatwick – up to £211bn compared to up to £127bn.

The demand from passengers of all types – business and leisure, long and short haul, inbound and outbound – all make the case for Heathrow.

Carolyn McCall

Chief Executive Officer

easyJet

Executive summary

The Airports Commission's work on the siting of a new London runway is the most important issue UK aviation has faced for many years. The Commission's recommendation, and any future government decision, will have a significant impact on the UK's future connectivity. It will also have a very significant effect on the ability of passengers to use their preferred airports, the routes available at those airports and the fares they have to pay.

easyJet supports the case for an additional runway at Heathrow, reflecting the weight of evidence. Expansion at Heathrow will:

- Ensure a runway is built where there is the greatest passenger demand for one.
- Increase choice and competition, leading to lower fares and more routes.
- Ensure the UK has the long-haul links it needs.
- Maximise the economic and consumer benefits of a new runway.

The fact that Heathrow is already full, and sees much greater demand than Gatwick, is visible evidence of its need for a new runway. There is also clear evidence that more passengers would prefer to use Heathrow rather than Gatwick. The Commission's assessment of passenger demand shows that demand is significantly greater for a Heathrow runway. If a runway is built at Gatwick instead of Heathrow a significant number of passengers will either be forced out of the London airport system (17m by 2040) or be forced to use Gatwick instead of their preferred choice of Heathrow (26m by 2040).

Heathrow is particularly important for long-haul routes and passengers. It is clear that Heathrow is the preferred airport for long-haul passengers and airlines, particularly for business and premium passengers, as evidenced by its network. Expansion at Heathrow will ensure there is the capacity for the UK to have the long-haul routes it needs.

But this debate is not simply about long-haul routes or the absolute number of passengers. It is also about ensuring that the benefits of competition are maximised for all passengers. Heathrow currently has a very small number of services from low-cost airlines, due to the very high level of slot constraints at the airport. This lack of low-cost airlines limits competition at the airport and also the number of routes on offer. It is clear that in particular Heathrow lacks the short-haul routes of the other London airports, with only half the short-haul routes on offer at Gatwick.

One of the questions raised by the Commission's consultation is whether low-cost airlines would operate from Heathrow. We can say with great confidence that easyJet would operate from Heathrow if a new runway is built. Currently there simply are not the slots available at Heathrow for an easyJet operation to be viable. We have worked with the airport to confirm that the infrastructure is suitable for our operation, just like it is at the many other hub airports across Europe we operate from, including Amsterdam Schiphol and Paris Charles de Gaulle.

The operating framework document we have outlined with Heathrow summarises the discussions we have had with the airport and sets out how we could operate from Heathrow.

When we enter an airport with limited low-cost airline presence, we typically provide fares 40% below those of the legacy network airlines. We also bring a wider range of destinations. We have developed an indicative network for Heathrow, and it contains 19 destinations new to the airport, including 3 within the UK.

It is also clear from the Commission's assessment that the economic and consumer benefits of a new runway will be greatest at Heathrow. Under all the scenarios developed by the Commission Heathrow provides the greatest economic benefit. But Heathrow is not just about business passengers and economic outcomes. More leisure passengers use Heathrow than Gatwick, and the Commission's evidence shows that a new runway at Heathrow will also bring the greatest benefits for consumers, due to the increased competition and choice for passengers.

The cost of any new runway must be taken into account. The proposal for Gatwick would lead to a very large increase in its airport charges for passengers, potentially more than doubling, with the increase applying ahead of the runway opening. It would be levied on passengers who are predominantly flying short-haul and 85% of whom are travelling for leisure. The impact will be much greater than at Heathrow, where the increase in charges is much lower, and where the burden will be shared more with long-haul and premium passengers.

There has also been a debate about which airline business models may prevail in the future. We think the Commission's recommendation should ensure that any expansion can cater for all business models. Heathrow is best placed to do this, being able to cater for both network and low-cost airlines.

It is important to note that our support for a new runway at Heathrow is not a vote against Gatwick. We will continue to grow our presence at Gatwick, and any operations at Heathrow would be additional to our services at Gatwick. The Commission has made it clear it is only considering one new runway, and we have been asked which option we think is preferable. We believe the case for Heathrow is superior to the case for Gatwick.

Finally, we know there are significant environmental issues that will need to be addressed for any new runway. The next generation of aircraft are significantly quieter than current aircraft; by 2025 half of easyJet's fleet will be made up of next generation short-haul aircraft. We will respect the judgement of the Commission on these issues and our support for a runway at Heathrow is conditional on it meeting the relevant environmental conditions.

Introduction

1. easyJet is the UK's largest airline, and carries more passengers in and out of UK airports than any other airline. Our focus is on making travel easy and affordable. Our strategy is to fly from primary airports. We operate across Europe's hub airports, with bases at many of them.
2. A new runway in the South East will have a significant impact on our passengers and the airline. We have carried out an extensive assessment of the options, working with external experts to assess both how passenger demand will respond to the options, and their operational and service quality aspects. As part of this we commissioned reports from Seabury, an aviation consultancy, on passenger demand (attached as Annex B) and from Atkins, an engineering advisory firm, on the proposed designs. The Atkins work is subject to confidentiality agreements with the airports.
3. We have also entered into discussions with all three of the promoters, both to better understand their proposals and to explore opportunities for easyJet to operate from an expanded Gatwick and Heathrow. These discussions have taken place since Spring 2014, and have involved easyJet's CEO. With Gatwick we have had a series of meetings, many with our CFO, on both the passenger experience aspects of the proposals and the business case issues around the charge increase Gatwick is planning.
4. We have considered the proposals on the basis of what we believe to be in the best interest of our current passengers, potential future passengers, the airline and the UK economy.
5. Our assessment has been based on three main principles.
 - A new runway should be developed where passengers most want to fly from.
 - The design of new infrastructure should deliver a good passenger experience.
 - The cost of expansion should not place an unreasonable burden on passengers.
6. Alongside this we have also considered which proposal offers the best opportunities for easyJet, and considered their economic and social impacts.
7. It is also important that the proposals meet environmental standards, and we would not support any proposal that does not satisfy the requirements set out by the Airports Commission.
8. This response is structured around each of the questions asked by the Commission in its main consultation document. We have also structured our response in line with the Commission's recommendation that one new runway should be built in the South East. Consequently we have not considered whether two or more should be developed. The analysis is therefore a relative one, of whether a new Heathrow or Gatwick runway is preferable.

Consultation question 1. What conclusions, if any, do you draw in respect of the three short-listed options? In answering this question please take into account the Commission's consultation documents and any other information you consider relevant.

9. easyJet believes the Commission should recommend a new runway be built at Heathrow.
10. The evidence clearly shows that an additional runway at Heathrow provides the greatest benefit to passengers, by increasing choice, reducing fares and boosting connectivity. It would also bring the greatest benefit for the UK economy. Finally, it provides the greatest opportunity for easyJet, allowing us to operate from a new market by making it viable for easyJet to enter Heathrow on a significant scale.

Passenger demand

The drivers of passenger demand

11. The drivers of passenger demand and how airlines respond to them are addressed more fully in paragraphs 89 to 95. This section provides a brief summary of the issues, to inform the discussion of demand at Heathrow and Gatwick.
12. The underlying passenger demand for services and routes is the deep current that drives airline supply responses. There are several drivers of this underlying demand:
 - The demand for flights is derived demand, and is often derived from a desire to travel to a specific destination, whether for business, leisure or to visit friends and family.
 - Passengers value using their local airport. There is clear evidence of this (see paragraph 18). This means that passenger demand can not easily be 'dragged' to a less desirable airport if a service is on offer from their preferred airport.
 - Passengers value direct flights, and will only connect if it is unavoidable or significantly more cost effective.
 - The underlying growth of passenger demand is driven by GDP. While other factors, in particular price can drive step changes in demand.
 - There are very low barriers to entry at route level¹ for airlines that already have a presence² at an airport. Airlines can start a new route quickly and easily, using available capacity and resources. This means any excess passenger demand can quickly be satisfied.
13. The combined effect of these factors is that airlines can not 'force' passengers to accept routings or airports they do not value, if a preferred alternative can be supplied by competing airlines.

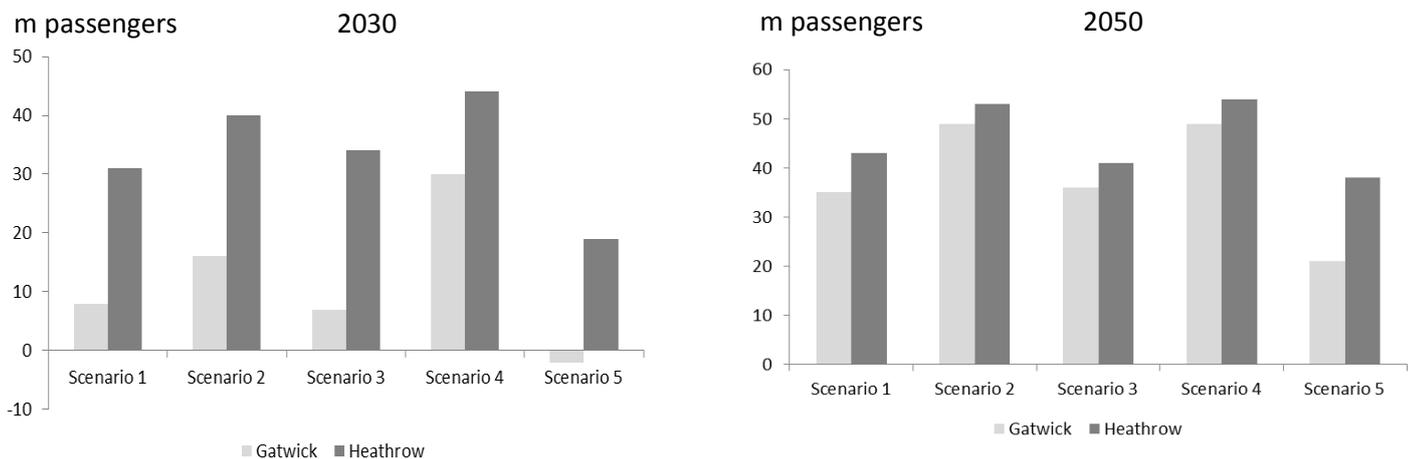
¹ The exception is that some long-haul routes are restricted by regulatory constraints.

² This includes the resources to provide services, such as slots, but also a marketing/brand presence.

Passenger demand is greatest for Heathrow

14. There is significantly greater passenger demand for a new runway at Heathrow. Heathrow currently serves almost twice as many passengers as Gatwick, 73 million compared to 38 million³. Heathrow is also completely full, operating at 98% capacity, unlike Gatwick, which operates at 85% capacity⁴. The market is clearly indicating there is more pressure for a new runway at Heathrow.
15. The forecasts for future passenger numbers for each of the options show that the greatest additional number of passengers will be served by a new runway at Heathrow. The charts below set out the incremental passengers forecast for Heathrow and Gatwick under the five scenarios set out by the Commission for 2030 and 2050. They particularly show the level of pent-up demand at Heathrow, with incremental passenger numbers at Heathrow being much greater than at Gatwick in 2030.

Figure 1: Incremental passengers forecast for each of Gatwick and Heathrow⁵



Source: Airports Commission, 2014

³ CAA airport passenger statistics, year to November 2014

⁴ Airports Commission, 2014

⁵ The five scenarios are those used by the Airports Commission. For Heathrow the table reflects the forecast for the HAL proposal for Heathrow, for the carbon traded forecasts

16. easyJet commissioned passenger forecasts from Seabury⁶. These forecasts are consistent with the Commission's Assessment of Need scenario, reflecting central case future GDP assumptions. The table below sets out the forecasts provided by Seabury.

Figure 2: Passenger forecasts for 2030

	No additional runway at either airport		Additional runway built	
	Seabury	Airports Commission ⁷	Seabury	Airports Commission ⁸
Gatwick	42m	42m	57m	50m
Heathrow	82m	85m	112m	116m

Source: Seabury for easyJet and Airports Commission

17. As part of Seabury's analysis, they also assessed the underlying passenger flows in each of the London airport's catchment areas. This is an important part of our assessment, evidence shows that passengers have a strong preference for using their local airport.
18. Analysis of easyJet's passengers by Frontier Economics⁹, as well as broader analysis by the Competition Commission¹⁰ and the CAA¹¹ shows that passengers value using their local airport. If they are unable to use their local airport, either because the route they want to fly is unavailable or fares are too high, they are either forced to use another airport, or they will choose not to fly.
19. Airports each have their own catchments. While the catchments for the London airports often overlap, many passengers within these overlapping catchments will still have strong preferences for one airport or another as relatively few passengers are truly equidistant from more than one airport in terms of travel time and travel cost.

⁶ Seabury provide consulting services, mainly for aviation clients

⁷ Airports Commission Assessment of Need forecast

⁸ Airports Commission Assessment of Need forecast

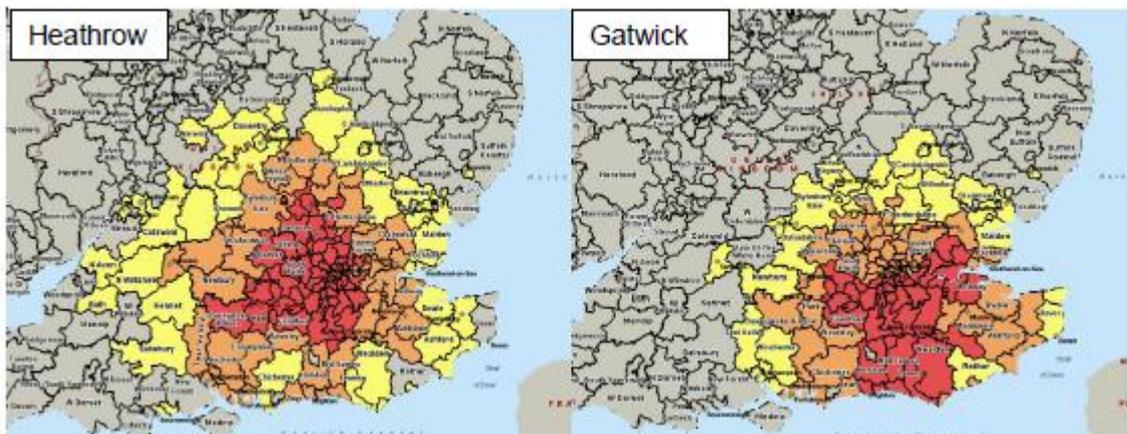
⁹ Frontier Economics, The de-designation of Stansted airport, 2007

¹⁰ Competition Commission, BAA Airports Market Investigation, 2009

¹¹ CAA, Market power determination in relation to Gatwick Airport, 2014

20. Heathrow has the largest catchment of London's six airports, and analysis by the CAA¹² shows it is also often the preferred alternative choice for passengers in the catchments of the north London airports.
21. The catchment area for an airport's long-haul flights is larger than for short-haul flights. The CAA suggests that the areas within a two hour drive of an airport make up its catchment area for long-haul flights¹³. The two-hour drive time catchment for Heathrow is 25% larger than Gatwick's and contains an additional 6 million people¹⁴. The maps below show the difference between the Gatwick and Heathrow two-hour drive time catchments.

Figure 3: Airport catchment areas



Note: the red areas are 60 minute drive time, orange 90 minutes and yellow 120 minutes.

Source: CAA, Catchment Area Analysis Working Paper, 2011

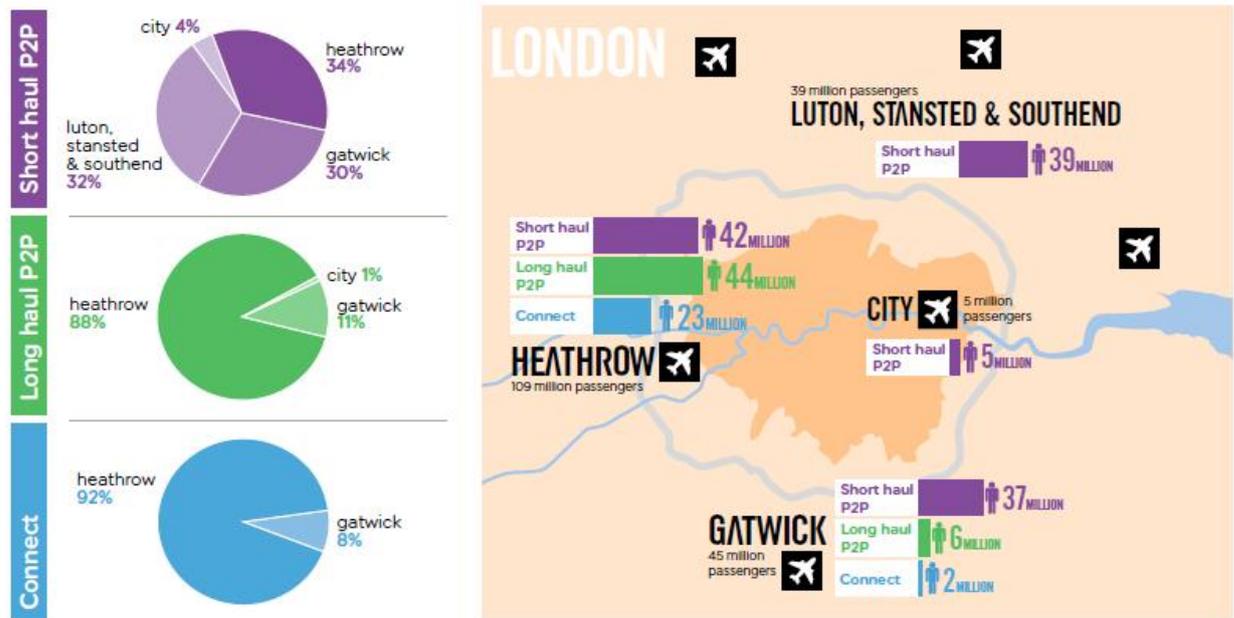
¹² CAA, Catchment Area Analysis Working Paper, 2011

¹³ CAA, Catchment Area Analysis Working Paper, 2011

¹⁴ Source, Map point

22. Seabury also looked at where passengers want to fly from, and by type of journey. The chart below shows the unconstrained demand for the London airports in 2030, by type of journey. Unconstrained demand is a measure of where people *want* to fly from, before capacity constraints.

Figure 4: Unconstrained passenger demand by journey type



Source: Seabury forecast. P2P stands for point-to-point, passengers who start or finish their journey at that airport

23. If Heathrow remains a two-runway airport increasing numbers of passengers will be forced to use an airport that is not their first (or potentially second) choice. Seabury estimate that by 2040 there would be 26m passengers using Gatwick who would have preferred to use Heathrow if an additional runway is built at Gatwick instead of Heathrow. In addition there are 17m passengers who would be lost to the London airport system, either choosing not to fly, or choosing to fly from alternative airports (e.g., the major European hubs Frankfurt, Amsterdam and Paris).
24. The spill of passengers from Heathrow to Gatwick not only means that people are inconvenienced by not being able to use their preferred airports. It also means they will have to take longer journeys, with additional environmental impacts.

Long-haul passengers clearly favour Heathrow

25. It is clear that currently the vast majority of long-haul passengers use Heathrow, with 38m million long-haul passengers at Heathrow compared to 7 million at Gatwick in 2011¹⁵. This outcome is market determined. The barriers to entry at Gatwick are significantly lower than Heathrow, with slots either obtainable for free, or for relatively small sums compared to Heathrow slots. There is no suggestion from any party that there is a lack of long-haul flights at Gatwick due to a shortage of slots.
26. The long-haul flights on offer from Gatwick are mainly to leisure destinations, with a very limited number of flights to non-leisure destinations. The only destinations in the USA (the most popular long-haul country destination from London) offered from Gatwick are either leisure destinations¹⁶ or are served less than daily despite there being multiple daily services from Heathrow. Both New York and Los Angeles were begun from Gatwick in 2014. New York will be flown six times a week in Summer 2015 and Los Angeles four a week, compared to respectively 29 and nine daily services offered from Heathrow¹⁷.
27. There is very little overlap of long-haul routes between Heathrow and Gatwick, with 14% of the long-haul routes on offer at Heathrow also served at Gatwick¹⁸. However, this is unlike short-haul destinations, where 89% of the routes on offer at Heathrow are also served from Gatwick.
28. It also appears that there is not a significant untapped level of demand for long-haul flights at Gatwick. In other words it is both passengers and airlines that want to use Heathrow, not just that airlines are somehow forcing passengers to use Heathrow. There are several pieces of evidence that support this conclusion.
29. **First**, due to now removed regulatory restrictions Gatwick has in the past had services to a range of destinations now served as thick routes (routes with significant capacity) from Heathrow¹⁹, as well as thinner routes to US destinations. Airlines have significant evidence of demand on which to base their network choices, and they have invariably chosen Heathrow.
30. **Second**, the two largest long-haul carriers at Heathrow (British Airways and Virgin Atlantic) both have long-haul operations at Gatwick and have the flexibility to move routes across the airports. In the case of British Airways, it used to run a hub operation at Gatwick with services to a wide range of long-haul destinations. We can assume both airlines have designed their long-haul networks to best reflect passenger demand, rather than any operational need to combine operations at Heathrow.
31. **Third**, despite the high value of Heathrow slots, no long-haul carriers have sold Heathrow slots to move their services to Gatwick. The value of slots at Heathrow provides considerable incentives for airlines to find alternative viable airports for

¹⁵ Airports Commission, 2014

¹⁶ Orlando; Fort Lauderdale; Tampa; Las Vegas

¹⁷ Source, airline websites

¹⁸ On a city pair basis, source: OAG

¹⁹ New York; Atlanta; Philadelphia; Dallas; Hong Kong; Miami

their services to London²⁰. Slots suitable for long-haul operations at Heathrow are in particular demand, see below. The sustained value of these slots, and the lack of airlines choosing to sell their Heathrow slots and move services to Gatwick, suggests that airlines and passengers place considerable value on Heathrow long-haul services.

32. It is possible to compare the slot values at Heathrow and Gatwick from information available on slot trades at the airports. At Gatwick easyJet purchased 25 slot pairs²¹ from Flybe for £20m in 2013. These included slots at peak times suitable for long-haul flights. We note that Virgin's entire long-haul network at Heathrow requires 22 slot pairs²². There have been several slot sales at Heathrow where the value of a single slot has been at least £20m, most recently American Airlines purchased a single slot pair from Cyprus Airlines²³ in 2014 for £20m.
33. **Fourth**, most of the long-haul routes to Asia started at Gatwick in the last few years have not sustained operations. Routes to Seoul and Beijing were opened alongside Heathrow services in 2012, but were closed in 2013 and 2014. Flights to Vietnam began in 2011 and were moved to Heathrow at the start of 2015. We also note that Philippines Airlines chose to begin services to Heathrow in 2013.
34. **Fifth**, the preference for long-haul services at Heathrow applies to both inbound (passengers who begin their journeys outside the UK) and outbound passengers. If anything inbound passengers prefer Heathrow even more, as Gatwick's passengers are more likely to be resident in the UK than those at Heathrow. At Gatwick 65% of the passengers on international flights (those to destinations outside the UK) are resident in the UK, as opposed to 53% of those at Heathrow²⁴.
35. Evidence suggests that Gatwick is not currently an alternative to Heathrow for long-haul flights. If long-haul airlines are unable to get slots at Heathrow they do not use Gatwick as an alternative airport for London. Instead they deploy their capacity elsewhere. There are also a significant number of airlines that want to operate from Heathrow and can not because they are unable to acquire slots. Heathrow has said that 30 airlines would like to enter the airport or add additional services.

Passenger demand is important as it reflects the social value of aviation

36. The majority of passengers are travelling for leisure, whether it is to go on holiday or visit friends and family. This is the case at both Heathrow (68%) and Gatwick (85%)²⁵. If we only focus on economic benefits we risk losing sight of the important role that aviation has in bringing social benefits.
37. This underpins our focus on passenger demand and the importance of new capacity providing the best match for passenger demand.

²⁰ There have been sales of slots used for short-haul routes by Cyprus Airways; Malev; Alitalia and bmi.

²¹ A single slot pair allows an airline to depart and land an aircraft at a specific time. So one slot pair is suitable for a single service.

²² Virgin Atlantic website, For August Summer 2014,

²³ Flight Global, 2014

²⁴ CAA passenger survey, 2013, UK terminating passengers

²⁵ CAA passenger survey, 2013, UK terminating passengers

Airline competition, connectivity and air fare benefits

The competition impacts of a new runway

38. There are significant barriers to entry at Heathrow for airlines. Slots are not available at times of the day that are valuable to airlines, and the secondary slot market shows that Heathrow slots carry significant value. This is not the case at Gatwick. Although the airport is slot constrained at peak times, slots do not carry the value of Heathrow slots. This is consistent with the Commission's analysis²⁶.
39. An additional runway at Heathrow will therefore carry a greater potential competitive impact, as it will create slots at an airport where they have significant value. This impact will be particularly significant for short-haul passengers if low-cost airlines enter Heathrow. The average fares of low-cost airlines are significantly lower than those of legacy network carriers. easyJet's experience suggests that when we enter a route that is only flown by legacy network airlines, our average fares will be 40% lower than that of the legacy airlines.
40. The entry of low-cost airlines on a route leads to lower fares for everyone, as competing airlines also lower their fares.
41. If there is a new runway at Heathrow easyJet would expect to base a significant number of aircraft at the airport. Our internal analysis suggests that a Heathrow operation could sustain a base of 30 aircraft on top of our existing operations at London airports (Gatwick, Luton, Stansted and Southend).

Potential easyJet operations at Heathrow

42. We have carried out extensive analysis of the potential for an easyJet operation at Heathrow with Heathrow Airport Limited (HAL). This has included in-depth discussions with HAL; a functional assessment by easyJet's operations team of potential Heathrow operations; and visits by HAL to easyJet's operation at Amsterdam Schiphol to see how we operate at a large hub airport. The discussions between easyJet and HAL have led to an easyJet/HAL Indicative Operating Framework, attached at Annex A.
43. The easyJet and HAL assessment of potential operations at Heathrow shows that:
 - A Heathrow operation could deliver equivalent levels of operational efficiency to those of our bases at other hub airports, such as Amsterdam Schiphol and Paris Charles de Gaulle.
 - The existing Heathrow infrastructure offers check-in, terminal, gate and stand facilities that are consistent with easyJet's efficient operating model and our service standards. This includes the ability to operate walk-in-walk-out²⁷ services and closed gates²⁸.

²⁶ Airports Commission, business case assessment of the Gatwick proposal, 2014

²⁷ Where aircraft are boarded at both the front and rear doors, facilitating turnaround efficiency

²⁸ Where passenger gates are closed, allowing passengers to be processed ahead of boarding, facilitating turnaround efficiency

- There is sufficient stand capacity to support an easyJet base of 30 aircraft at Terminal 4, additional to our operations at the other London airports.
 - easyJet would not be subject to any greater operational complexity/inefficiency than we experience at our other bases at hub airports²⁹.
 - Heathrow's noise curfews are similar to other airports we successfully operate from, including Paris Orly.
44. We note the current main operational inefficiency at Heathrow is airborne holding, due to pressure on the arriving runway. Ground holding times for departures are not significantly different from Gatwick, with shorter queues at Heathrow in the morning and longer in the afternoon³⁰. A new runway would remove the airborne holding constraint at Heathrow and ensure that Heathrow is not subject to excessive operational inefficiency.
45. The Commission's analysis and the evidence provided by the International Transport Forum³¹ suggest that low-cost entry at Heathrow is relatively unlikely. We believe this is incorrect. Low-cost airlines operate at hub airports across Europe, including Paris CDG, Amsterdam Schiphol, Madrid, Rome Fiumicino, Copenhagen, Brussels and Lisbon. This is consistent across all Europe's main low-cost airlines, with easyJet, Ryanair, Vueling and Norwegian all operating from hub airports.
46. We suggest that instead the presumption must be that a new runway at Heathrow would lead to the entry of low-cost airlines on short-haul routes.

Connectivity benefits from new capacity

47. The Commission's analysis shows a significant increase in the number of routes available at Heathrow if it received a new runway³². This is particularly true if low-cost airlines enter Heathrow, which we believe is highly likely.

²⁹ Paris CDG; Amsterdam Schiphol; Rome Fiumicino; Lisbon

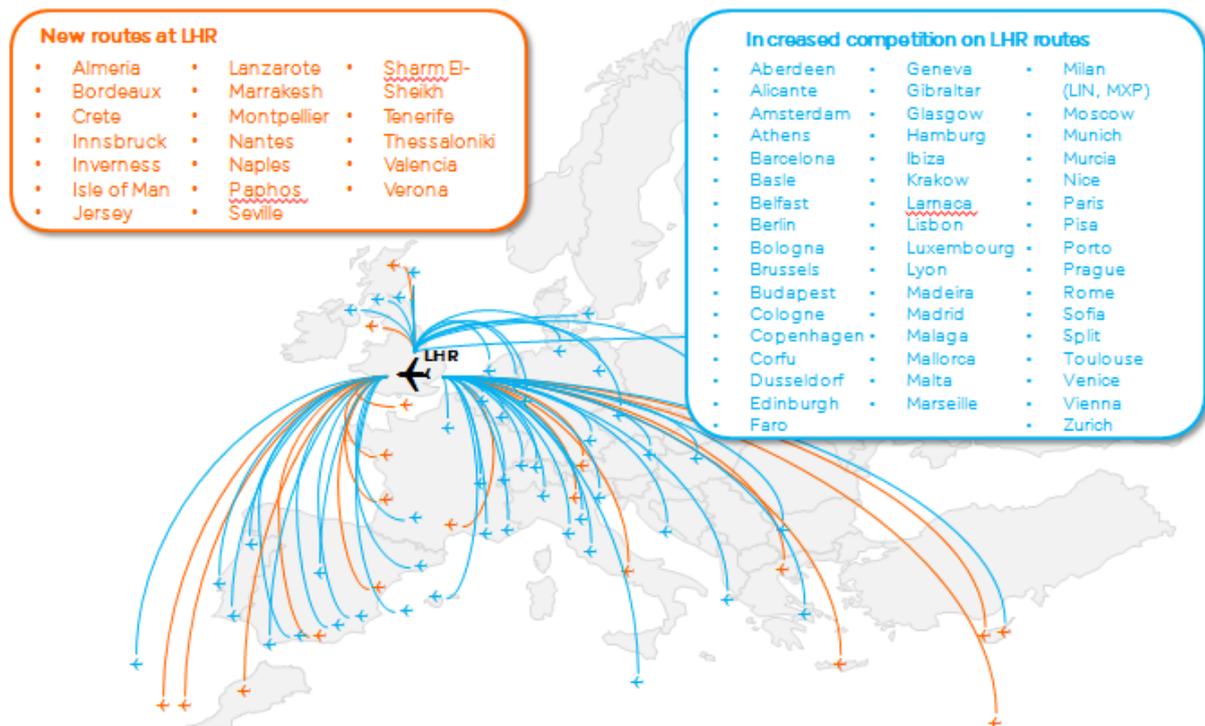
³⁰ Helios, UK CAA runway resilience study, 2008

³¹ International Transport Forum, Expanding airport capacity: competition and connectivity, 2014

³² Airports Commission, 2014

48. The entry of low-cost airlines would bring a wider range of routes as their lower cost bases and more efficient operations allow them to serve a wider range of destinations. easyJet has carried out an initial assessment of the route network we would offer at Heathrow, based on our existing London network. The map below sets out this network. easyJet would fly 19 routes that are currently unserved, including 3 domestic routes.

Figure 5: Indicative easyJet network from Heathrow



49. We are confident that the combination of Heathrow's large catchment area and strong inbound strength would successfully support an easyJet operation. We have shown at primary airports across Europe that we can successfully compete with network carriers. We operate from other high cost airports across Europe and in line with our strategy of using primary airports we do not solely base our network on accessing airports with low airport charges. Over 90% of our services touch primary airports. Across our network approaching 20% of our passengers are flying on business. Finally, we note that British Airways have begun flying to traditional holiday destinations³³ from Heathrow, showing there is a market for a range of flights at the airport.

³³ British Airways is flying to Malaga, Palma, Santorini, Mykonos and Corfu from Heathrow in Summer 2015.

The fare benefits for passengers from increased competition

50. The Commission has noted the relative lack of competition on routes from Heathrow³⁴. In particular fare levels at Heathrow are high due to the lack of competition from low-cost airlines. We have consistently seen across our network that where low-cost airlines enter markets previously only served by network airlines there are significant reductions in average fares across all airlines.
51. We would expect our entry, and that of other low-cost airlines, to lead to a reduction in fares at Heathrow. This would come despite the increase in airport charges caused by the investment in new capacity.

The impact of airport charge increases

52. It is clear that either runway option will lead to higher airport charges. A new runway at Gatwick would involve a very significant increase in charges. This increase would be placed predominately on leisure short-haul passengers, having a significant impact on fares. The Commission has suggested that airport charges could increase at Gatwick from £9 to a peak of £23, an increase of 150%. The Commission has also suggested that sustained higher charges of £15 to £18 could be seen, an increase of up to 100%. This would imply an increase of up to 20% on easyJet's average return fares, or up to 40% on one-way fares from Gatwick. Even with Gatwick's proposed cap of £15 this would be an increase of 9% on easyJet's average return fares and 17% on one way fares from Gatwick.
53. Of particular concern to us is that Gatwick's proposal is based on applying the higher charges ahead of any new capacity actually being delivered. This is known as pre-funding, where the regulator allows charges to increase to pay for future capacity. This is in effect a tax on passengers, requiring them to pay for infrastructure they are not using. Pre-funding does not occur in commercial markets and is a product of airports having significant market power. We urge the Commission to ensure the expansion proposals are not reliant on raising funds from passengers paying in advance.
54. The increase in Heathrow charges is proportionately much smaller than Gatwick's, up to 40% at peak. It would also be charged to a passenger base with much higher proportions of premium and long-haul passengers, for whom the increase will have a much smaller impact on fares.
55. The required charge increase at Gatwick on its predominantly price sensitive passengers, alone supports the case for additional capacity being built at Heathrow.

Competition, fare and connectivity benefits of a Gatwick runway

56. The Commission's analysis shows that a Gatwick runway would only lead to significant connectivity benefits if it results in a very significant expansion of long-haul flights at the airport. This is because Gatwick already has high levels of connectivity on short-haul routes, unlike Heathrow, with around 140 short-haul

³⁴ Airports Commission, 2014

routes at Gatwick compared to around 80 at Heathrow³⁵. We have outlined in paragraphs 25 to 35 why there is little evidence to suggest there would be a significant expansion of long-haul routes.

57. Gatwick already has high levels of low-cost airline penetration, with 70% of short-haul flights offered by low-cost airlines. Consequently the potential competition benefits from an additional Gatwick runway are much lower than at Heathrow.
58. Unlike at Heathrow, where we expect a new runway to lead to lower fares, at Gatwick we would expect them to increase significantly. The increase in the airport charge required at Gatwick will need to be recovered through fares, and there will be no room for increased competition to reduce fares due to the already high presence of low-cost airlines at the airport. We would expect easyJet's fares at Gatwick to have to rise by up to 20% for passengers booking a return journey and up to 40% for one-way trips.
59. The factors outlined above are why Gatwick offers less opportunity for easyJet than Heathrow. The lower underlying demand means there will be less passenger demand than at Heathrow. Gatwick has already seen the benefits of low-cost competition, with low-cost airlines having added a broader route network and driven down fares. The increase in airport charges will instead weaken passenger demand. This does not mean we are trying to 'avoid' competition at Gatwick. Gatwick could hardly become more competitive, given that 70% of its short-haul capacity is already provided by low-cost carriers, and there are competing carriers on two thirds of our routes. These are amongst the highest levels of competition across our network. Over the last few years we have seen Norwegian establish a significant presence at the airport, and its short-haul operations have steadily grown on our routes.

Long-haul low-cost is an unproven model

60. The Commission's assessment suggests that the economic and connectivity benefits of an additional runway at Gatwick only approach those of Heathrow if long-haul low-cost airlines provide a significant number of routes at Gatwick.
61. There are several reasons why it is unlikely that low-cost long-haul airlines will develop large numbers of routes.
62. **First**, the potential cost advantage for a low-cost airline operating long-haul flights compared to a network legacy airline is much narrower than it is for short-haul flights as:
 - There is limited potential for efficiency gains on fleet utilisation as network airlines already have high utilisation rates on their long-haul fleets, as they fly overnight.
 - There are limited gains from higher seat densities. Network carriers already have dense seating configurations in economy, with British Airways offering the same number of seats per row on a Boeing 787 and the same seat pitch as

³⁵ Airports Commission, 2014

Norwegian³⁶. In addition the premium cabins of network airlines' long-haul flights retain strong-demand, unlike short-haul premium cabins, so there is no benefit in moving to aircraft with a limited or no premium cabin.

- Legacy network airlines already have high load-factors for long-haul, so there are limited potential gains from increasing passenger loads.
- Legacy network carriers are able to invest in next generation aircraft because their long-haul operations are profitable, whilst their short-haul services are not. Air France-KLM demonstrated this during their Investor Day in September 2014, with their long haul operations generating an €800m operating profit, whilst all short/medium-haul sub-divisions delivered a loss; a €400m loss for hub feeding, a €220m loss for short haul point-to-point services and a €23m loss for their LCC subsidiary Transavia³⁷. Accordingly, all of Europe's network airlines have orders for next generation long-haul aircraft. This is in contrast to the situation seen for short-haul, where it is much more difficult for legacy carriers to justify orders for next generation short-haul aircraft. We note that only 160 next generation short-haul aircraft are on order by EU legacy airlines³⁸, compared to 700 for EU low-cost airlines³⁹.
- Fuel makes up a much greater cost of a long-haul flight, and there is limited potential advantage on this cost item once next generation long-haul aircraft arrive in the fleets of legacy airlines.

63. **Second**, we note there is currently no successful 'new' long-haul low-cost model. Air AsiaX pulled out of its long-haul routes to Europe⁴⁰ and instead now flies medium-haul routes in Asia. There is only one long-haul low-cost operator in Europe, Norwegian, which has seven long-haul aircraft. Norwegian does not report on whether its long-haul operation is profitable, but we note that since it began Norwegian's profits have fallen, unlike those of competing EU short-haul low-cost airlines. Norwegian's long haul operations began at the start of Summer 2013. For the nine months to September 2013 Norwegian reported a net profit of 515.5m NOK, whereas for the nine months to September 2014 (the last reported data), Norwegian reported a net loss of 91.4m NOK⁴¹.

64. **Third**, many long-haul routes rely on premium cabins to ensure profitability. The premise of long-haul low-cost flying is that they will not replicate the types of premium cabins seen on legacy airlines.

³⁶ Seatguru.com website

³⁷ Air France-KLM investor day presentation, 11 September 2014

³⁸ British Airways, Iberia, Lufthansa, Swiss, Austrian, Brussels, Air France, KLM, HOP!

³⁹ easyJet, Ryanair, Norwegian, Wizz, Vueling

⁴⁰ Flown for four years from Kuala Lumpur to London (Stansted and then Gatwick) and also to Paris.

⁴¹ Interim Report, Norwegian Air Shuttle ASA – third quarter 2014

65. **Fourth**, there already are extensive long-haul operations focussed on leisure passengers. The vast majority of Gatwick's current long-haul flights are by airlines flying leisure routes with aircraft that have cabins with limited premium offerings. Virgin's flights at Gatwick use aircraft configured differently from their Heathrow operation, with 455 seats on a Gatwick based Boeing 747 compared to 367 seats on their Heathrow based Boeing 747's. Similarly the leisure airlines, Tui and Thomas Cook, have profitable long-haul operations. Consequently it is unclear what market change a new type of carrier will be able to bring.
66. Finally, we should address the claims that have been made that new generation long-haul aircraft (Airbus A350s and Boeing B787s) will be 'hub-busters' changing the dynamics of long-haul flying. We note the vast majority of Boeing 787's are flown on routes to or from a hub airport⁴², 10 airlines⁴³ are flying Boeing 787's to Heathrow, compared to two⁴⁴ flying them to Gatwick. Also, as we noted earlier, legacy carriers are ordering these aircraft in significant numbers, so there is limited potential advantage for a low-cost operator.
67. It is of course possible that we are incorrect and long-haul low-cost operations will be successful. However, even if they are, it is unclear why they would need to rely on Gatwick to succeed and could not instead operate from Heathrow. In other words, even if low-cost long-haul does turn out to be the only source of additional long-haul routes, an additional runway at Gatwick would not be a condition for this to occur. We note that Norwegian operate long-haul services from Copenhagen, Oslo and Stockholm, all primary airports.

⁴² Flightglobal, 3 December 2014

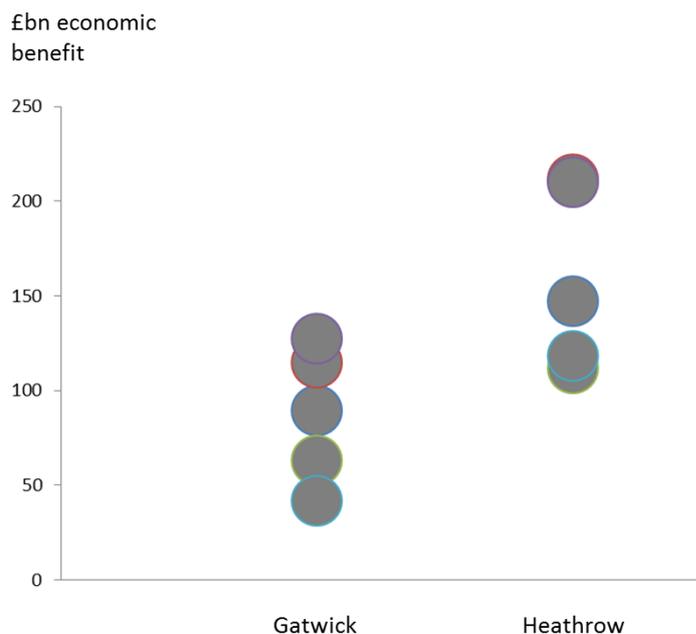
⁴³ British Airways; Virgin Atlantic; Air India; United; Air Canada; Ethiopian; Royal Brunei; Royal Jordanian; Aeromexico; China Southern. Vietnam Airlines will also operate B787 aircraft to Heathrow from Summer 2015

⁴⁴ Tui and Norwegian

Economic impacts

68. The Commission's analysis is clear. It shows that Heathrow creates significantly more economic value than Gatwick. The chart below sets out the economic benefits of an additional Heathrow and Gatwick runway under the five scenarios developed by the Commission⁴⁵.

Figure 6: The economic impact of a Heathrow and Gatwick runway under different scenarios



Source: Airports Commission, 2014

69. The only scenarios where the economic benefit of an additional runway at Gatwick would match the lower range estimate of the benefits of an additional Heathrow runway are where there is very strong global growth and airlines are able to put in place significant long-haul route networks at Gatwick. We do not think this is likely, for the reasons outlined above.
70. Under the four remaining scenarios the economic benefits of an additional Gatwick runway are between 40% and 65% lower than a runway at Heathrow. This includes the Assessment of Need scenario, which uses central case growth forecasts.
71. The Commission's analysis suggests that if the new capacity is successfully utilised by low-cost airlines the economic benefits of new capacity are likely to be higher, whichever airport is expanded.
72. We note that under the Low Cost is King scenario, which combines high growth rates and low-cost airlines successfully utilising much of the new capacity, the

⁴⁵ For simplicity we have only shown the economic benefits of the HAL proposal, as these are similar to that of Heathrow Hub. We have used the economic benefits arriving under the Commission's carbon traded assessment

economic benefits of an additional Heathrow runway are particularly high. This is due to both the high economic growth rates in the scenario, and the presence of efficient low-cost airlines.

73. We have outlined above (paragraph 45) our belief that a new runway at Heathrow will lead to significant entry by low-cost short-haul airlines, including easyJet. This suggests that the Commission should reconsider the economic benefits of Heathrow, and in particular:
- Airfare assumptions, as greater low-cost airline entry will lead to lower fares at Heathrow, increasing consumer and economic benefits.
 - Connectivity outcomes, as greater low-cost entry will lead to a wider range of routes offered at Heathrow.

Sustainability and noise issues

74. Addressing environmental impacts is clearly part of the responsibility of an airline. easyJet also considers it a business imperative. Environmental concerns have a significant impact on public policy towards aviation, from restrictions on airport expansion to passenger taxes. It is therefore in the Company's interest to ensure that both easyJet and the wider industry properly address environmental concerns.
75. We are committed to operating sustainably at the airports we fly to. We operate new aircraft, and have on order next generation short-haul aircraft that will be significantly quieter than the current fleet. By 2025 half of easyJet's fleet will be made up of next generation aircraft.
76. The Commission has rightly developed extensive analysis of the sustainability and noise impacts of the proposals. Sustainability is about economic, social and environmental outcomes. We believe it is important that these three are considered in balance.
77. The issues and potential trade-offs involved with sustainability and noise issues are best addressed through a public consultation approach, ensuring the views of communities are properly reflected. We will respect any conclusions the Commission reaches in this area.

Summary

78. The Commission and easyJet's analysis shows that:
- Heathrow has greater economic benefits.
 - Heathrow better matches passenger demand.
 - Low-cost airlines will enter Heathrow – bringing significant competitive benefits to the airport.
 - The entry of low-cost airlines at Heathrow will lead to significant connectivity improvements.

79. The Commission's analysis also shows that to conclude Gatwick offers more value than Heathrow, two critical conditions would have to occur. First, that there is significantly stronger economic growth over the next 30 years than is forecast, and second that long-haul low-cost flying grows to such an extent that it carries almost as many long-haul passengers at Gatwick as use Heathrow today.
80. We think it is unlikely that both these factors would occur together, and that there is a clear case that an additional runway at Heathrow offers greater benefits than one at Gatwick. Alongside this a Heathrow runway is the most robust choice against the range of potential future outcomes. Whichever airline models there are in the future, or passenger demand for different types of flights, Heathrow will be better placed to cater for potential outcomes.
81. We have considered each of the proposals for Heathrow expansion. There are significant attractions of the Heathrow Hub proposal, in particular its cost effectiveness. However, overall we believe the Heathrow Airport Limited proposal is a more viable solution to the development of Heathrow, in particular as it offers a clear delivery path.

Consultation question 2. Do you have any suggestions for how the short-listed options could be improved, i.e. their benefits enhanced or negative impacts mitigated?

82. We have commented on the merits of each proposal in response to question 7 and will not repeat the detail here. In summary we believe:
- The Heathrow Hub proposal should address the reported lower number of ATM's (700,000) compared to the HAL proposal (740,000).
 - The HAL proposal involves significantly more expensive terminal developments, reflecting the relatively high cost existing terminals at Heathrow. We would urge that a more cost efficient design is adopted.
 - The passenger experience risks of the initial Gatwick proposal now appear to have been addressed, following questions raised by airlines and the Commission. These improvements will however have a cost impact. We urge the Commission to verify that the new proposal addresses the concerns raised.

Consultation question 3. Do you have any comments on how the Commission has carried out its appraisal?

83. The Commission has developed a significant amount of evidence on each of the proposals. There are lots of interconnecting issues and of a significant scale requiring considerable Commission work. However, there is a risk this has meant the Commission has been unable to discuss specific issues with stakeholders. We urge the Commission as part of its consideration of consultation responses to look at carrying out regular stakeholder sessions with interested parties.

Consultation question 4. In your view are there any relevant factors that have not been fully addressed by the Commission to date?

84. We urge the Commission to further investigate the factors of passenger demand that have led to long-haul routes mainly being flown out of Heathrow and the pattern of short-haul routes at Gatwick compared to Heathrow.

Consultation question 5. Do you have any comments on how the Commission has carried out its appraisal of specific topics (as defined by the Commission's 16 appraisal modules), including methodology and results?

85. We have structured our response in this section under each of the key issues we have addressed.

Scenario development and assessments

86. The Commission's approach has included developing five scenarios that the proposal business cases have been assessed against. We support the use of scenario analysis, and we agree it is helpful to have a range of scenario outcomes to test the resilience of the proposals to potential outcomes.
87. However, we believe that some of the scenarios conflate demand responses with airline business model supply choices and this risks leading to implausible conclusions. In particular we disagree with the implication within some of the scenarios that airline supply choices can influence or steer passenger demand.
88. For example, the Global Fragmentation scenario has two parts to it: (1) slow growth rates in Europe and (2) the diversion of EU long-haul traffic through third party hubs outside the EU, such as Istanbul and the Gulf states. This scenario suggests that passengers will willingly accept the substitution of connecting services (through say Dubai) for a direct flight. We do not think it plausible that airlines can 'control' passenger demand in this way.
89. Our experience is that airlines serve underlying passenger demand, and that as long as there are not barriers to entry on a route or at an airport, airlines can not influence the pattern of, or move, demand in any meaningful way. The emergence of regional routes following the liberalisation of EU aviation is an example of this. Before deregulation the prevailing model was scheduled carriers forcing passengers to make connections through their hubs. Deregulation allowed low-cost airlines to provide direct services for routes where there was sufficient demand.
90. The underlying passenger demand for services and routes is the deep current that drives airline supply responses. There are several drivers of this underlying demand:
- The demand for flights is derived demand, and is often derived from a desire to travel to a specific destination, whether for business, leisure or to visit friends and family.

- Passengers value using their local airport. There is clear evidence of this (see paragraph 18). This means that passenger demand can not easily be 'dragged' to a less desirable airport if a service is on offer from their preferred airport.
- Passengers value direct flights, and will only connect if it is unavoidable or significantly more cost effective. For flights within Europe connecting flights are not competitive if a direct alternative is available⁴⁶.
- The underlying growth of passenger demand is driven by GDP. While other factors, in particular price can drive step changes in demand.
- There are very low barriers to entry at route level⁴⁷ for airlines that already have a presence⁴⁸ at an airport. Airlines can start a new route quickly and easily, using available capacity and resources. This means any excess passenger demand can quickly be satisfied.

91. The combined effect of these factors is that airlines can not 'force' passengers to accept routings or airports they do not value, if a preferred alternative can be supplied by a competing airline. There are many examples of this, both within the UK and globally, including:

- The rejection of a new airport built at a distance from Montreal (Mirabel) that was meant to replace Montreal's existing airport.
- The inability of Milan's planned hub airport (Malpensa) to replace its city airport (Linate), leaving a two runway airport significantly underutilised.
- A clear preference expressed for Tokyo Haneda, which is much closer to central Tokyo than Narita.
- The inability of New York JFK to sustain domestic routes by network carriers beyond those that can not be served at New York La Guardia, which is much more convenient for Manhattan, despite JFK being the main airport for long-haul flights.
- The rapid movement of US routes from Gatwick to Heathrow once the Bermuda II restrictions were removed, which both limited the number of carriers on any US routes at Heathrow to two and the destinations that could be flown from Heathrow. The number of US routes served at Gatwick fell from 12 in 2005 to six in 2014, three of which were less than daily. The number of US based airlines operating to Gatwick fell from five to zero.

92. This issue is relevant to the Commission's assessment of the proposals, as the Commission risks reaching the wrong conclusions about outcomes under certain scenarios. We believe scenarios reflecting airline responses to demand outcomes should be separate from the demand scenarios themselves. Airline responses should be an additional overlay on demand scenarios. We do not see any real interaction between demand scenarios and airline scenarios. For example low-cost

⁴⁶ The EU competition authority does not treat connecting services as a competitive constraint on short-haul routes

⁴⁷ The exception is that some long-haul routes are restricted by regulatory constraints.

⁴⁸ This includes the resources to provide services, such as slots, but also a marketing/brand presence.

airline growth has occurred in both growing and contracting passenger markets. Similarly demand weakness has often led to a retreat from secondary airports to primary airports, highlighting the strength of these primary airport catchments. And where low-cost airlines have been able to access primary airports they have grown rapidly, for example at Paris Orly; Schiphol; and Rome.

93. We suggest the Commission test the proposals against different demand outcome scenarios, with a similar pattern of airline response assumed across these scenarios, and that they are separately tested against airline response scenarios, using the same demand outcome.
94. The relevant questions for the Commission's assessment are can passengers be 'dragged' around the London airports, in particular long-haul passengers, and what are the costs and benefits of forcing passengers to use airports which are not their first choice?
95. Our summary view on each scenario is below:
 - Assessment of Need scenario: this is a sensible base case like scenario, and is consistent with easyJet's own forecasts.
 - Global Growth scenario: this is a reasonable upside scenario.
 - Relative Decline of Europe scenario: this is a reasonable downside scenario.
 - Low Cost is King Scenario: this is not a plausible scenario. Airline business models will have limited effects on passenger demand, and in particular on passenger demand for long-haul flights at a specific airport.
 - Global Fragmentation scenario: this is not a plausible scenario. Airline business models will not be able to force passengers to connect through intermediate hubs.

Assessment of economic benefits

96. We support the approach taken to calculating economic benefit, in particular the development of wider macroeconomic effects through the use of a CGE model. We believe the HM-Treasury Green Book approach is potentially too restrictive for this type of transformative project.

Assessment of capital expenditure costs

97. We are not convinced of the Commission's approach to assessing the likely capital expenditure costs of the different schemes.
98. In particular we are unclear why the Commission has applied a consistent uplift for optimism bias across the three proposals. The Commission has used the Treasury's Green Book as the basis for its assessment. However, it is unclear whether this is the correct approach for the appraisal of privately built economically regulated infrastructure. We are not aware of this approach being used in the regulated sectors.

99. In particular we do not support the application of a consistent optimism bias across the three proposals. All three proposals have accounted for risk in their costing estimates, and the Commission has not addressed why it thinks the risk levels applied by each proposal is incorrect. It also seems unlikely that the three proposals would each underestimate risk in the same way.
100. In developing its final recommendation we urge the Commission to reopen the issue of cost risk assessment.

Business case assessment and delivery risks

101. The approach taken by the Commission will always deliver a positive financial case for the proposals, as passenger charges simply provide whatever revenue is needed to match the costs incurred by the airport and provide it with a reasonable profit margin.
102. The Commission should also assess the likelihood of the proposals going ahead, and the scale of any potential financial risks for the investing airport. Both Heathrow and Gatwick are independent private businesses, and neither a Commission recommendation nor government support will be sufficient to ensure new capacity is delivered, it will need to satisfy the airport owners that expansion brings sufficient incremental profits to justify the risk.
103. Both HAL and GAL are profitable, and there is no suggestion they will become loss making ahead of any potential investment in new capacity. However, they will only invest in that capacity if the investment is incrementally profitable, this will be assessed independently of existing profitability levels. This assessment will consider both the commercial business case and the riskiness of the project. If a project is sufficiently high risk, it is unlikely to occur.
104. We note that the commercial financing of any capacity will be based on central case forecasts for the airports, not a high global growth scenario. The Commission should consider the implications of this for the Gatwick proposal.
105. We also urge the Commission to ensure the proposals are not reliant on pre-funding (passengers being required to pay extra in advance of the delivery of any new infrastructure) for their viability.
106. We believe the Commission should consider how it uses passenger forecasts in assessing airport business cases. If it relies on airport's own passenger forecasts it risks creating an incentive for the airports to overstate their forecasts.

The financing of new capacity

107. We oppose requiring passengers to pre-fund new capacity. This is effectively a tax on passengers to support the financing of a runway option. If pre-funding is necessary to finance new capacity because the airport is unable to raise private finance to support the project, this suggests that the project is unviable.
108. We note the CAA is consulting on this issue, and easyJet has responded to the CAA's consultation.

Environmental and quality of life impacts

109. It is important that any proposal delivers on sustainability objectives and we will respect the Commission's conclusions in this area. We have commented further on this issue in paragraphs 74 to 77.

Airport and airspace operations

110. It is important that operations are viable, and that expansion does not restrict the capacity of London's other commercial airports. We welcome the Commission working with NATS to address this issue. Each proposal has shown they can operate within available airspace capacity and none of the proposals are obviously harder to implement.

Consultation question 6. Do you have any comments on the Commission's sustainability assessments, including methodology and results?

111. We support the use of the alternative carbon scenarios by the Commission. The two scenarios are plausible outcomes.

Consultation question 7. Do you have any comments on the Commission's business cases, including methodology and results?

112. This section provides comments separately on each of the three proposals.

Gatwick

Gatwick expansion business case

113. We have commented on wider issues concerning business case viability in paragraphs 101 to 106. We have several concerns about the viability and value for money for passengers of Gatwick's proposal.
114. **First**, the proposal requires a significant increase in airport charges, potentially more than doubling existing charges. This increase would be placed on predominantly price sensitive passengers and due to the planned pre-funding would apply ahead of any actual benefit from an expanded airport.
115. Gatwick charges are already [x redacted] those of the secondary London airports, the increase would lead to charges [x redacted] times those of the secondary airports. We note also that Gatwick said to the CAA in its submissions for the Q6 regulatory period that it does not have the ability currently to increase charges on airlines.

116. **Second**, Gatwick's proposal would almost quadruple the airport's asset base. The Commission also suggests it would require a ten-fold increase in Gatwick's equity base and a six-fold increase in its debt⁴⁹.
117. **Third**, Gatwick's proposal relies in part on a passenger forecast that is more positive than either easyJet's or the Commission's. Gatwick expects to have 15% more passengers by 2030 than the Commission's Assessment of Need forecast. By 2050 Gatwick expect 22% more passengers. In 2030 the Commission forecasts that Gatwick will have between 40m and 72m passengers, with Gatwick expecting 65m. In 2050 the Commission forecasts that Gatwick will have between 68m and 96m passengers, with Gatwick expecting 95m.
118. We note the range of traffic forecasts is much wider than for Heathrow, suggesting more uncertainty and risk.
119. The Commission only forecasts Gatwick will see significant long-haul traffic under one of its demand scenarios, and that it will rely on long-haul low-cost airlines to deliver this.
120. We also note the Commission has suggested the catchment area of the thickest long-haul routes currently at Heathrow could expand to include Gatwick⁵⁰. However, this is not happening currently in a meaningful way. The only incremental expansion of long-haul destinations on the very thick routes has been by the Norwegian services from Gatwick to New York and Los Angeles. In August 2014 these routes provided 2% of the seats available from Heathrow to New York and 3% of the seats available to Los Angeles. The viability of this model remains to be proven. There has been no incremental growth at Gatwick of the other thick long-haul routes at Heathrow, such as Hong Kong (8 daily from Heathrow), Chicago (9 daily), Washington (6 daily), Johannesburg (5 daily), Miami (5 daily), Mumbai (5 daily) and Singapore (6 daily).
121. Finally, the Commission says 'there is...*potential for airlines to extract higher yield at an expanded Gatwick in the future.*'⁵¹ due to increasing route density. We disagree with this. There is no evidence that route density in and of itself leads to higher yields on a route overall, although it may support yields for individual airlines. Instead route density is often a result of high yielding routes.

Gatwick's proposal design

122. We have assessed the Gatwick proposal with our expert advisers, Atkins.
123. We were concerned that the original Gatwick proposal carried significant risks for passengers. We welcome the Commission highlighting this issue. The original phasing plan would have had a detrimental impact on passengers for many years.
124. Gatwick have now developed a revised plan. We support the design framework of this plan, but have had limited time to assess it in any detail. One concern that

⁴⁹ Airports Commission, 2014

⁵⁰ Airports Commission, 2014

⁵¹ Airports Commission, 2014

remains is whether there are adequate contact (pier served) stands to cater for peak periods.

The cost of the Gatwick proposal and impact on passengers

125. We do not see any significant potential cost saving options for the proposal. The proposal would require a significant increase in airport charges for Gatwick's passengers. Gatwick's own forecasts suggest an increase of up to 70%, the Commission has suggested this could be about 150% at peak and around 100% for a much longer period.
126. We are concerned that this level of airport charge increase does not offer value for money for passengers at Gatwick, who are more price sensitive than the passengers at Heathrow. It is particularly concerning that with the application of pre-funding (where Gatwick is allowed to charge for the new capacity ahead of delivering it) this increase would occur before any new capacity is in place.

easyJet and GAL discussions

127. We have worked with GAL to address the risks in its business case. Our focus has been on the infrastructure design, and in particular the service quality proposition for our passengers, and the significant increases in airport charges. We made significant progress on the infrastructure design and GAL have made significant improvements to its initial proposal.
128. There have been lengthy and frequent meetings between easyJet and GAL over its proposals. These have regularly involved easyJet's and GAL's CFO's. These discussions have addressed airport charges, the costs of the proposals and the passenger experience. They have been inconclusive.

Heathrow Hub

Heathrow Hub Design

129. The Heathrow Hub proposal has several design innovations that are of potential value.
130. The **First** of these is the runway design itself. This clearly has a different impact on noise and land take from the HAL design. We are unable to comment on whether these impacts are preferable, and this is something for the Commission to assess.
131. **Second**, Heathrow Hub have proposed more innovative use of arrival flight paths to minimise noise impact. The development of arrival flight paths to take advantage of the capability of modern aircraft is a significant issue. We believe these are important ideas and should be considered by the Commission.
132. **Third**, the proposal is significantly more cost effective than the HAL design. We support any efforts to deliver airport capacity in a way that delivers better value for money for passengers. We urge the Commission to consider these savings and to ensure they are incorporated in to any final design for Heathrow.

Heathrow Hub delivery issues

133. We think it is important that the Commission addresses how Heathrow Hub could become reality, as without this the delivery risks are higher.
134. We note that the Commission has set out a capital expenditure profile for the proposal that is more aggressive than that set out by the Heathrow Hub proposers. It would be helpful if the Commission could set out the cause of this difference.
135. Finally, we should note that the Heathrow Hub proposal is forecast to deliver fewer Air Traffic Movements (ATM's) capacity than the HAL proposal, 700,000 compared to 740,000. This is a significant difference and we urge the Commission to investigate whether this gap is real or whether it could be reduced or removed.

Heathrow Airport Limited proposal

HAL proposal design

136. We have assessed the proposed HAL design with our expert advisers, Atkins.
137. The design is a practical and viable solution to delivering new capacity. However, we do believe that it is a relatively expensive design solution, as the design/costing for the proposed new terminal is based on those of existing Heathrow terminals which are relatively more expensive than many other airport terminals globally.

Heathrow business case

138. The Commission says it would be challenging for HAL to raise the level of debt necessary to develop the third runway. We believe the Commission is overstating the difficulty of raising the required funds. We note that Ferrovial raised very high levels of debt to purchase BAA in 2006. In addition, Heathrow is a regulated monopoly utility. It is not clear why the entity could not raise debt to fund capital expenditure when a clear regulated return will be attached to this expenditure. We also note it is not inconsistent with the funding needs of other regulated industry projects, as the Commission has reported in its consultation⁵².
139. The Commission has forecast higher capital expenditure in the early years of the development than HAL. This would lead to greater financing pressure on the airport than expected by HAL. We urge the Commission to look again at the profile.
140. We disagree with the suggestion by the Commission that Heathrow will compete with other airports⁵³. The Commission has not carried out an assessment of the airports market and it is unclear on what evidence this claim is based.
141. HAL's traffic forecasts are broadly in line with easyJet's. We note that Heathrow's forecasts are towards the bottom of the Commission's forecast range, unlike Gatwick's. For 2030 the Commission's passenger forecast range is 104m to 129m passengers, with Heathrow forecasting it will see 104m. For 2050 the Commission's

⁵² Airports Commission, 2014

⁵³ Airports Commission, 2014

passenger forecast range is 133m to 149m passengers, with Heathrow forecasting it will see 135m.

142. Finally, we note the Heathrow proposal involves a doubling of its regulated asset base, compared to Gatwick's proposal leading to its asset base increasing three and a half times.

Consultation question 8. Do you have any other comments?

[none]

easyJet

January, 2015

easyJet and Heathrow Airport Limited: Indicative Operating Framework

Purpose and context

The Airports Commission has been considering options for UK airport capacity expansion, including seeking views from airlines. As part of this work easyJet has been assessing the viability of expansion at Heathrow, and has held discussions with Heathrow Airport Limited (HAL) to that end. Both HAL and easyJet believe that consideration of passenger interests should be at the heart of any decision on new capacity in the South East. For its passengers easyJet is looking for simple, efficient airport operations, at airports that are best placed to match passenger demand.

easyJet and HAL have met a number of times since early 2014 to discuss this issue, including meetings involving the respective CEO's of both HAL and easyJet. easyJet have also shown HAL its operations at Amsterdam Schiphol, to demonstrate how easyJet operate at a major hub airport.

This paper summarises the discussions between easyJet and HAL of potential easyJet operations if Heathrow builds a third runway. These discussions focussed on operational issues and ways of working, as well as discussing the potential easyJet Heathrow network. The note outlines the main points or questions raised in those discussions to date. It is not and should not be construed a binding agreement or understanding on future operations by easyJet nor Heathrow.

HAL and easyJet discussed how easyJet's operations could work at Heathrow, in the event of a third runway providing expanded capacity at the airport for a significantly sized easyJet operation.

Discussions covered questions in two main areas:

1. Could easyJet use the infrastructure at Heathrow ?
2. What kind of network easyJet would operate from Heathrow ?

Infrastructure

HAL and easyJet discussed the process involved in a new carrier, specifically easyJet, entering Heathrow, covering slot allocation and terminal allocation. Heathrow stated it believed that easyJet would be considered a new entrant at the point of runway opening and that slots in the pool are normally allocated on the basis of 50% to new entrants and 50% to incumbents.

HAL clarified that the process of allocating an airline to a terminal is part of an objective terminal allocation process and that it could not provide a guarantee where easyJet would operate from.

easyJet stated its operating principles:

- A turnaround time of 25 minutes by facilitating
 - Pier served with walk-in-walk-out availability
 - Pre-boarding zones
- A check-in area that reflects the service standard consistent across easyJet's network
- An airport charging structure that encourages efficient use of assets at the airport
- Availability of sufficient Code C stands

easyJet and HAL agreed that the suitability of Heathrow for easyJet's operations would be tested against Terminal 4. easyJet toured Terminal 4 and discussed operational issues around the terminal with HAL.

easyJet indicated that they would be interested in basing between 15 and 30 aircraft at Heathrow and carry between 5 and 9 million passengers annually on around 30-55,000 Air Traffic Movements per year. This was based on easyJet's modelling of market demand and operational business case. easyJet clarified that the exact scale of the fleet and passenger numbers would be based on a number of factors, including the economic environment at the time, opportunities in other markets and the like.

The potential to depart all easyJet home based aircraft from between 6am and 8am was assessed. HAL noted based on initial analysis that this was feasible. easyJet believed this aligned well with predominantly foreign based carriers that arrive early morning in Terminal 4 (leaving stands available after easyJet's early morning departures) and depart in the evening (thereby freeing up stands for easyJet to park overnight).

Stands

The number of stands available at Terminal 4 and any potential fit for an easyJet operation was assessed. HAL confirmed that Terminal 4 has 35 stands today. easyJet believes this is sufficient for its scale of future operation. Heathrow noted that it would provide stands for as many aircraft as possible based on all airlines' requirements and not on preference alone as consistent with the stand allocation process today. Heathrow also noted that its aim is for stands to be utilised in the most efficient manner possible.

HAL also noted that the stands in Terminal 4 are, or could be converted to, MARS stands that can accommodate easyJet's narrow body fleet (Code C) as well as the wide body fleet of foreign based carriers that could also operate out of Terminal 4.

Walk-in-walk-out

easyJet assessed the extent to which Terminal 4 is suitable for walk-in-walk-out operations. HAL believed that easyJet could physically use Terminal 4's existing facility for walk-in-walk-out operations, allowing boarding of aircraft using both front and back doors.

Pre-boarding zones

HAL believed it is physically possible to install tensiles to create pre-boarding type zones.

Other issues

On the basis of initial analysis it would be possible for easyJet to achieve three turns per aircraft per day if easyJet had acquired the equivalent slots required.

For check-in areas the easyJet expectation would be a check-in area that reflects the service standard consistent across easyJet's network. HAL said that the check-in area should reflect a service standard that is consistent across the airport. HAL would also work with all airlines to ensure efficient use of airport assets.

easyJet and HAL discussed taxiway times and runway allocation. HAL outlined that in an expansion scenario it would consider operating a principle that traffic turning south would be allocated to the Southern runway, near Terminal 4. This would be based on the mode of operation. In the scenario that the southern runway was used for landing, aircraft from Terminal 4 could depart from the middle runway. The airport's policy would be to try and minimise taxi times for all carriers/aircraft.

Network

easyJet and HAL discussed the potential easyJet network from Heathrow. If there is a third runway easyJet plans to base a significant number of aircraft at Heathrow, with a working assumption that this would be 15-30 aircraft to create a strong route network from Heathrow. easyJet noted it would continue to grow at Gatwick and these aircraft would be additional to those easyJet operates at the other London airports. easyJet noted it is not able to commit to specific routes in advance but its initial planning indicates that it could serve 70 routes, adding around 20 new routes to Heathrow's network including, as examples:

- o Domestic routes - with likely routes including Belfast, Aberdeen, Inverness, Edinburgh, Glasgow, Manchester, Isle of Man, Jersey
- o Short-haul city destinations such as Amsterdam, Berlin, Copenhagen, Geneva, Madrid, Munich, Paris, Rome and Vienna
- o Short-haul holiday destinations (both summer and winter) such as Corfu, Crete, Innsbruck, Marrakech, Paphos, Sharm El-Sheikh, Tenerife.

Transfer passengers

easyJet does not provide a connecting service and does not interline with other airlines, but recognises that they are a key part of Heathrow's current operation. easyJet would participate in any transfer product where a third party, such as Heathrow, facilitates the purchase of connecting itineraries and provides the mechanism for passengers to transfer at Heathrow, including any baggage.

easyJet plc

Heathrow Airport Ltd

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