

Dear Mr Toal,

London First is a business membership organisation with the mission to make London the best city in the world in which to do business. We represent the capital's leading employers. We welcome the reference to other stakeholder views in the CAA's consultation document regarding the economic regulation of the early costs of capacity expansion at Heathrow Airport, and the opportunity to express our views directly.

London First has consistently made the case for the expansion of aviation capacity in the South East. During the Airports Commission process we coordinated the Let Britain Fly campaign and we have been clear throughout that the increase in demand for air services requires a commensurate increase in supply. We warmly welcome the CAA's recognition that "additional runway capacity in the south east of England will benefit air passengers and cargo owners." Whilst there is always a balance to be struck between time and cost – particularly on a project of the scale and complexity of Heathrow expansion – we believe that prioritising the early delivery of new capacity should be the primary objective, and that may require Heathrow Airport Limited to be given greater latitude in terms of their early costs.

The idea expressed by the CAA that the impact of different early cost regimes constitutes a "modest delay" should be seen in the context of decades of political delay that has led to a current situation which is far from ideal for consumers. The 2003 Aviation White Paper noted that "At Heathrow, for many years now the demand for runway capacity has exceeded the available supply for virtually all hours of the day" – and there are very stringent controls on the number of flights permitted at night. At Gatwick, demand exceeds supply for much of the day, especially in summer. At Stansted, there is no spare capacity in some peak hours, and demand is continuing to grow extremely rapidly" (emphasis added). Whilst this has been beyond the control of the CAA, it follows that the urgent priority now, as far as consumers are concerned, is to remedy this artificial constraint in supply that undeniably leads to less choice and more cost for both passengers and cargo owners.



There is, of course, a distinction to be made between short term and long-term benefits to consumers. The CAA's current proposed approach would bring some short-term cash saving for passengers, but this needs to be seen in context. On an average British Airways ticket Heathrow's charges make up less than 4% of the price the passenger pays, so it is unlikely that these gains will be anything more than marginal. With a longer time, horizon, the case for small short-term cost increases becomes clear. Recent research from WPI Economics showed that 77 routes from Heathrow are only served by one airline. One group of airlines – IAG – control 55% of all capacity at Heathrow. This means 18.5 million passengers each year are not flying in a competitive market. Every year that this is allowed to persist, is another year of raw deals for consumers. It is also worth noting that on large and complex projects, a longer timeline can also mean increased risk and uncertainty. This naturally leads to higher costs and a less attractive investment environment. These second and third order impacts should also be taken into consideration.

Finally, we believe that the CAA should ensure that it is taking a holistic approach to this issue. In the context of government environmental policy – both regarding air quality and carbon emissions – a regulatory regime that encourages the owners of airport infrastructure to invest in sustainable surface access links would be most welcome. At Heathrow, enabling the early delivery of new rail connections to the west and to the south of the airport would clearly offer more choice and a better passenger experience for customers.

I would, of course, be happy to meet with you to discuss any of these issues should it be useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Dickie', with a stylized, cursive script.

John Dickie  
Director of Strategy and Policy