



NEW BRITISH PRIME MINISTER TO TACKLE OLD RUNWAY PROBLEM

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Prime Minister Theresa May is expected to decide where to allow new airport capacity near London this month, a long-awaited ruling that will help shape Britain's economy and trading ties following its vote to leave the European Union.

May will either support plans for a new runway west of London at Heathrow, the busiest airport in both Britain and Europe, or at Gatwick to the south. The decision has been debated for more than 25 years and any further delay could risk economic growth as both sites near full capacity.

At \$22 billion, Heathrow would be the more expensive project and face legal challenges over its environmental impact on densely populated west London. But its established trade links with emerging markets strengthen its case in the wake of Brexit. It also has the backing of the major airlines.

For its part Gatwick, the country's no. 2 airport that mostly connects to Europe, argues it can build a runway more quickly and cheaply and that its rural position means it would disturb fewer people with noise and air pollution.

The decision has split successive governments, faced with protests from high-profile politicians, local residents and environmental campaigners. But May told her party last week an announcement would be made "shortly".

"She is the kind of person who won't baulk at making a decision," former Conservative transport minister Steve Norris said at an event on the sidelines of their party conference.

Industry sources say they expect a decision this month.

Three options are under consideration: building a new runway at Heathrow for 18 billion pounds, lengthening one of its existing two runways for an estimated 14 billion pounds, or building a new runway at Gatwick for 7 billion pounds.

May's predecessor David Cameron had been due to rule on it in July, after he delayed an earlier decision, and sources and media reports said he favored Heathrow. But the vote to leave the EU cost Cameron his job and the decision was delayed again.

For business leaders, Heathrow remains the preferred choice. A hub airport delivering passengers on to further destinations, Heathrow is also Britain's biggest port by value, handling a third of the country's non-EU exports through established connections with emerging markets.

"After Brexit, the case for Heathrow is stronger because it is the airport which links the UK to markets outside Europe," said Howard Davies, who backed Heathrow following his three-year government-commissioned independent inquiry.

"There is a very great need ... for the country to set a direction."

Airlines also prefer expansion at Europe's largest hub airport, a title Heathrow is set to lose to France by 2020.

"We struggle to see any business case for the expansion of Gatwick," Willie Walsh, the head of IAG, owner of British Airways and Heathrow's biggest airline, told an industry conference in June.

He prefers Heathrow but says he will only support expansion where the costs are kept low.

Heathrow, 15 miles from central London, faces greater scrutiny after some of its air monitors breached air quality limits in 2014. May's constituency lies under the flight path but she is giving little away, including whether to put the decision to parliament.

Davies' recommendation for Heathrow came after it agreed to abide by a list of conditions over night flights, noise and air quality, providing some reassurance to residents.

"A third runway with conditions is much better than a third runway without conditions," said John Stewart, chairman of the Heathrow Association for the Control of Aircraft Noise.

But those changes have not silenced all the critics and a group of councils near to Heathrow have already brought in lawyers.

Gatwick, 40 miles south of London and mostly surrounded by countryside, says its stronger

environmental position bolsters the case for its runway to go ahead, as the two airports battle to be given permission to deliver expansion by 2025.

However, Gatwick protesters say they would also launch a legal challenge if it is given the green light.

For some, the demands for new connections after Brexit would warrant May approving new runways at both Heathrow and Gatwick.

"The possibility that the government will support both runways is not so far-fetched," said Duncan Field, head of planning at law firm Norton Rose Fulbright.

But building at both would conflict with Davies's warning that only one new runway was justifiable given climate change targets.

Both Heathrow, owned by Spanish infrastructure company Ferrovial, Qatar Holding, China Investment Corp plus others, and Gatwick, owned by investment fund Global Infrastructure Partners, Abu Dhabi Investment Authority and others, say expansion can be funded without government money.

But the required road and rail changes at Heathrow would need public funds to top up what its owners are prepared to spend. These are estimated by Davies at 5 billion pounds, and by Heathrow at around 2 billion pounds. Gatwick's new links will cost 800 million pounds but the airport will fund them itself.

Some of the funding for expansion is expected to come from an increase in airport charges to the airlines, which puts Gatwick at a disadvantage as its main airline users are low cost carriers like easyJet rather than the full-service carriers who are Heathrow's client base.

In a bid to win the industry's backing, Gatwick Chief Executive Stewart Wingate has said the airport would cap charges at 15 pounds per departing passenger, compared to current fees of 9 pounds, by phasing the building work.

When asked about future charges, Heathrow said only that its charge is currently about 22 pounds and charges are calculated under a framework agreed with the UK regulator in consultation with airlines.

Analysts said the vote to leave the EU, and the uncertainty that had sparked about the health of the economy, mean a decision is now urgent.

"The imperative to do something and to be seen to do something, from being open for business and open for investment ... is now much higher than it was," said KPMG UK aviation head James Stamp. "Twelve months ago we were all despairing of them ever making a decision."

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