

Newsletter 60 : August 2020

It was lovely while it lasted

For several weeks it was possible to hear the dawn chorus without the bass accompaniment provided by Pratt & Whitney, Rolls-Royce and their noisy chums. A particular delight was the absence of Luton cargo flights between 03.00 - 05.00 because they'd been moved to Heathrow. But all good things come to an end and the flights are creeping back – under pressure from the aviation and holiday industries Government's exhortations about non-essential travel, social distancing etc. can all be relaxed to enable that favourite creature of the industries' publicity mantra the “hard-working British family” to jet off on a foreign holiday. However the airport is quickly getting busy in terms of flights; we don't yet know how this translates into passengers but by way of example on Sunday 2 August there were 18 departures and 2 arrivals between 06.01 to 07.00; 8 departures and 11 arrivals between 07.01 and 08.00. Both are dramatic increases on the 2-3 per day at the height of the lockdown. Recent informally-collated data suggests that the majority of flights are a bit less than half-full, with flights to and from eastern Europe having the highest load factors.

One of the approaches urged on Government was the notion of “air bridges” or “air corridors” to open up travel opportunities to “safe” destinations so that risk of infection while abroad was low and returning travellers would not then need to quarantine themselves for 2 weeks. Creative, but it's turned round to bite some folk when their “safe” destination was declared, overnight, to no longer be safe. The CoVid19 beast is flaring up in a number of locations, apparently caused largely because the social distancing guidelines were abandoned prematurely. It's turned the taking of a holiday overseas into a somewhat risky gamble which brings to mind Dirty Harry's question: “are you feeling lucky?” One unlucky gambler turns out to be Grant Shapps, the Secretary of State for Transport and keen aviation enthusiast: and the man who pressed vary hard for “air bridges”..... if he can't take a joke he shouldn't have joined.

Airport Expansions: the story so far

At the last Airport Consultative Meeting (held over the internet using Microsoft Teams) we heard from the two players in the “expansion” game: the airport owner (LLAL, a wholly-owned part of Luton Borough Council) and the operator LLAOL whose licence deal with the airport owner ends in 2031. The deal between the pair of them is relatively straightforward: LLAOL pays a concession fee worth around £3 a time for each passenger, coming or going, or each tonne of cargo, and also pays for all of the development of the terminal, runways, aprons etc. In 2014, with passenger growth slowly rising, the owner gave the operator a rebate on the concession fee as an incentive to accelerate growth of the traffic – that resulted in dramatic growth which has resulted in breaches and imminent breaches of number of the planning conditions attached to the development which had been consented in 2011. We know about the breaches of the night- and daytime noise contours and it was only through a handy get-out clause, which allows the airport

operator to exclude passengers on bizjets in the overall passenger throughput figure, that the 18million annual cap on passenger numbers wasn't breached in 2019 - CoVid19 and its effects on passenger numbers has saved their bacon for 2020 and probably the next two years.

But the operator, LLAOL, which had applied for a relaxation of the noise contour conditions and was about to seek a relaxation of the annual passenger cap to 19 million, told us that despite the huge fall in passenger numbers it intends to proceed with these applications.

The **owner** has, as we know, far larger ambitions: a second terminal built on what is still, just, Wigmore Nature Park to serve up to 32 million passengers per year, but it has chosen to ditch its present plans and revise them "in the light of the many comments from neighbouring communities and others". We don't expect to see the new proposals: which, we were told, would probably require what was described as "targeted consultation"; until late this year.

The funding for that new terminal is a bit obscure: it seems that LLAL and Luton Borough Council, already up to their ears in debt, may be hoping that a new concessionaire would fund the development as LLAOL and its backer AENA have done for the scheme started in 2011 and soon to be completed. There's also a £120million dual-carriageway road from Airport Way around the back of the airport, the plans for which were disguised as an access road to New Century Park when that entity is built. That 32 million passenger number is carefully-chosen as we believe that there will be enough "elbow room" in the planned building to accommodate another 6-8 million whose size, which, though an additional planning application would be required, would enable it to be nodded-through by Luton Borough Council. It also commissioned the development of a people-mover scheme (DART) to link Parkway Station to, now, both terminals (the second of which has no development consent) ; that scheme will have cost close to £250million by the time it's finished (about 18 months late) plus an annual fee payable to the DART builder for operating it, and replaces the current fleet of transfer buses whose operation is paid for by the rail operator. It was granted planning and budgetary approval by Luton Borough Council when the airport was handling around 16 million passengers a year and the transfer bus arrangements were, and were at 18 million passengers per year, working satisfactorily.

The economics of the DART scheme, including the fare structure and the proportion of travellers likely to use it, remain shrouded in mystery : when, 3 years ago, we asked to see the business case we were very firmly rebuffed. We were, and are, particularly interested in the extent to which it might be used by some of the substantial number of passengers who currently arrive by car or taxi. Previous versions of the airport's Surface Access Strategy have not been especially successful in reducing the numbers. That £120million dual-carriageway road to a new terminal, and the scale of additional car-parking envisaged, suggests that there will still be large numbers of travellers arriving or departing by car or taxi from the natural catchment area of the airport.

New, improved Greenwash

One of the things we heard was that the new proposals would be based on an "environmentally-managed growth strategy" and that Luton's scheme would be the first of its kind in UK. We did rather unkindly remind the LLAL spokesperson that Heathrow had published theirs in June 2019.... just before their third-runway scheme hit the buffers. The Heathrow scheme told us that :

"Environmentally Managed Growth (or EMG) is a new concept for UK airports, although there are precedents overseas. It means that throughout our planned growth and into the future, Heathrow

will always operate within clear, defined environmental limits. This commitment responds to our sustainability strategy Heathrow 2.0 published in 2017 and it reflects our vision for sustainable growth. It is also consistent with the conclusions of the Airports Commission and with the Government's policy that supports the development of Heathrow's north-west runway, on the condition that clear environmental limits can be observed. Some who object to the expansion of Heathrow doubt that those environmental conditions are achievable but our work shows that they are and we intend to put the matter beyond doubt by formally committing to them. "

Unfortunately, we at Luton already know plenty about the lack of enforceability of formal commitments to environmental conditions, with the airport operator having violated formally-agreed planning limits and then seeking to have those limits relaxed; we also know, to our substantial disadvantage, of failure to live up to formal undertakings about introduction of less-noisy aircraft. Over the next few years at Luton, where there remains an issue over the replacement of noisier Airbus and Boeing aircraft with less-noisy types, the further contraction of Airbus manufacture doesn't bode well for the promised replacement programme.

So it's a racing certainty that any formal commitments in such a scheme are unlikely to be worth the beautifully-produced and illustrated paper that they're printed on, at Heathrow or anywhere else. One big danger from such an approach, in a request for a Development Consent Order from Government or Planning Permission from a Local Planning Authority, is that all sorts of commitments could be included to make the scheme appear unexceptionable, for us then to find that once development has started the commitments are in effect worthless.

The office of the Mayor of London was not over-impressed with Heathrow's Environmentally-Managed Growth offering, saying (among many other things):

A badly constructed, unenforceable EMG framework can be worse than no framework at all if it provides no effective restriction on the airport's operations and impacts. The detail presented by Heathrow, such as it is, is not only wholly inadequate to the task but has the potential to deliver worse environmental outcomes in the short, medium and long terms.

We have been warned.

Ponzi Scheme, anyone?

They still pop up from time to time: a Ponzi scheme (named after Charles Ponzi, who operated what is probably the biggest such scheme in USA in the 1920s) is a form of fraud that lures investors and pays profits to earlier investors with funds from more recent investors. Such schemes lead victims to believe that profits are coming from normal commercial business operations, and they remain unaware that other investors are the real source of funds. A Ponzi scheme can maintain the illusion of a sustainable business so long as new investors keep contributing new funds, and as long as most of the investors do not demand full repayment and still believe in the non-existent assets all is well - for the fraudster.

The incidence of refund claims for flights cancelled because of the CoVid19 virus has revealed an unfortunate feature of many airlines' business models: according to the Daily Telegraph "*they are dependent on payments for flights not due to take off for weeks, months or even years to prop up their cash reserves and use this money to fund operations now.*" You may think that sounds awfully close to a Ponzi scheme: we couldn't possibly comment.

An uncomfortable economic truth

We hear from our Government how important it is for our economy to start clawing its way back into action after the worst recession since WW2. We also hear from governments in tourist destinations such as Spain how important the British tourists are to their own economies. In our last newsletter we quoted some reportage in The Guardian and some numbers from the Office of National Statistics which showed the big balance of payments deficit caused by the gap between what UK residents spend when overseas and the smaller spending of inbound tourists. The story is even more stark if one examines the raw numbers of UK foreign tourists and their spending overseas: 93.1million trips, and spending of £62.33**billion**. Air travellers accounted for 88% of this, suggesting that each outbound traveller on a flight costs the UK economy around £590 in spending power.

Luton's 18 million passengers per year pretty well equates to 9 million outbound trips: each of which therefore represents the export of £5.3**billion** in spending power from within the local and national economy. But don't trust us: do check with the official Government data from the Office of National Statistics. So next time we hear any of the enthusiasts for the airport's expansion and its "enormous contribution to the local economy" it will be entirely appropriate for them to be reminded that, in the words of the old song, "it ain't necessarily so". No wonder Europe welcomes British tourists: or at least their wallets.

CHAIRMAN

VICE CHAIRMAN

G.P. Blackburn
36 Maple Way
Kensworth
Beds.
LU6 3RT
01582 872670
gerryblackburn@outlook.com

SECRETARY

M D Nidd
The Old Bakery,
152 Piccotts End
Hemel Hempstead, Herts
HP1 3AU
01442 252724
oldbakery@aol.com

TREASURER

Your comments and contributions are always welcome – you can contact the EDITOR at The Old Bakery etc.

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