



Response for BAA Limited

Overview of BAA's Capacity Development
Strategy for the South East

BAA/CC2008/1066

BAA Limited
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Introduction

1. We have provided the Commission with yearly summaries which set out the chronology of BAA's capacity development strategy (including supporting evidence) [BAA/CC2008/891, 934, 980 and 1031].
2. While these documents represent a detailed account of BAA's actions on a year by year basis, there is value in bringing this material together to highlight the themes and issues that span different years. This shorter document is therefore BAA's summary of strategic development since 1985, drawn from the material provided to the Commission.
3. The Commission's own summaries lack much of the political and regulatory context which is so important to developing a proper appreciation of BAA's strategy during the period. Although it is impossible to capture perfectly the context for decisions taken during the last twenty years, we consider that BAA's summary of the evidence is much more balanced and representative than the papers received to date from the Commission with respect to BAA's performance in delivering new capacity from its privatisation to the present day.
4. BAA's review highlights the following points:
 - Successive **Governments have established policy** for the development of new airport capacity, recognising the need to strike a balance between the impacts and wider benefits of aviation.
 - Although the strength and relevance of Government policy has varied across time, BAA has consistently taken the view that **Government support is necessary to deliver major airport projects** in the South East. Government policy did not provide support for new runways in the South East until 2003.
 - From 1985 to at least 2003, the **Government adopted a "system" approach** to assessing demand, capacity and the need for new capacity. This approach underpinned the Government's decision in 1985 to privatise BAA as a group. BAA was also regulated by the CAA, MMC and CC on a system basis until 2003.
 - The **"system" policy focused on making use of London's existing runway capacity**; it did not provide any support for new runways. Stansted was developed as an "expansion chamber" within the system, which together with further terminal development at Heathrow and Gatwick, was intended to provide capacity to defer the need for a new runway for many years.
 - **BAA attached a high priority to getting permission for new terminal capacity**, and managed to increase the capacity of its London airports by more than 60 mppa. However, throughout the period BAA remained concerned that studies of new runways could divert political attention away from the need to provide additional terminal capacity at each of its airports – which it considered to be the most pressing and urgent task.

- **Throughout the 1990s BAA was deeply concerned that planning permission for Terminal 5 would be refused**, partly because of the perceived link to a third runway, and partly as a result of weak and dated Government policy. Without T5, the effective runway capacity of the London system would have been reduced by some 30 mppa.
- From the end of the 1980s, **Government and the CAA carried out a prolonged sequence of runway studies** into the need for new capacity and the potential options. On a system basis, these studies concluded in 1993 that a new runway would be needed when London demand reached around 160 mppa. The CAA's forecasts led it to the view that this would be around 2010; BAA's lower forecasts indicated that it would be needed somewhat later in around 2015.
- In the event, the **Government decided in 1995 that none of the RUCTASE options should be taken forward**. It announced that further studies to investigate less environmentally damaging options were needed to inform future Government policy, to be produced after the Government's decision on Terminal 5.
- The 2003 White Paper provided **strong Government policy support for new runways**, after almost five years of study, assessment and legal challenge. The policy has created the platform for BAA to bring forward proposals for a new runway at Stansted, and for a programme of studies to be carried out into the feasibility of a third runway at Heathrow.
- In 2008 the delivery of both runways remains dependent on **continued Government policy support**, and a **supportive regulatory framework**.

The importance of Government policy

5. Throughout the period, Governments have taken the lead in establishing policy for airport development, from the 1985 White Paper to the 2003 White Paper and beyond. To some, this policy leadership has been surprising, given the level of local opposition and general controversy generated by airport development issues. Commentators have often asked why Governments have felt it necessary to provide a policy framework for airport development, when it does not provide an equivalent framework for many other industries.
6. The key reason Governments have chosen to take this leadership role is the significant environmental, social and economic impacts associated with airports, and airport expansion. Governments have recognised the need, in public interest terms, to strike a clear balance between the positive and negative impacts of aviation, particularly in light of the disparity at a general level between the concentration of environmental impacts around airport sites and the wider spread of benefits, such as trade and tourism.
7. That is not to say that Governments have consistently maintained a strong policy position. As the year by year account demonstrates, and this paper discusses below, the strength and relevance of Government policy has varied considerably over the period since 1985. Indeed, there have been wide ranging debates about the sort of policy Governments should establish. The Government has been criticised by some in the past of taking a 'predict and provide' approach to airport development. Others have encouraged the Government to adopt a policy of

‘demand management’ to limit the growth of air transport. In recent years, policy debates have focused on the impact of air travel on climate change and the need to promote the UK’s economic competitiveness by maintaining international air services.

8. Despite these debates, Government policy has played a central role in the planning and development of airport infrastructure. Airport operators, planning inspectors, planning authorities and delivery agencies have looked to Government policy to establish whether specific airport developments can be considered to be in the ‘public interest’. In particular, planning inspectors have needed to take a view, in light of the proposed environmental impacts and the potential compulsory acquisition of property, on the issue of whether there are sufficient offsetting benefits, as defined by Government policy, to recommend approval.
9. The two Government policy statements that have applied to the period in question are the 1985 White Paper and the 2003 White Paper. The 1985 White Paper provided support for airports to meet demand over the following decade by making more intensive use of existing runway capacity, and providing new terminal capacity to support this. The policy made clear that the question of new runway capacity in the South East would be addressed in due course when better information was available. In the event, despite the panoply of Government announcements and studies during the late 1980s and 1990s, policy towards new runways in the South East was not established until the publication of the 2003 White Paper.
10. During the intervening period the prevailing policy, “yellow round the edges” though it was, was opposed to the development of runways in the South East. BAA consistently took the view that controversial airport developments would have to be supported by Government policy to stand a reasonable prospect of securing planning permission. Where Government policy was explicitly against a particular development, BAA’s view was that it would be virtually impossible to secure planning permission. Planning inspectors would be unable to conclude that the development was justified by national interest where Government policy was against the development, and would be almost certain to recommend that Government refuse planning permission. In situations where Government policy was arguably more ambiguous, such as Heathrow T5, the risks associated with the planning process were also significantly increased.
11. Partly in response to this experience, the role and status of Government policy is now being strengthened by reforms to the planning system for major infrastructure projects. Under the Planning Bill, a National Policy Statement (NPS) will establish location-specific policy for major airport developments. Proposals supported by the NPS will be brought forward by airport operators for consideration by the Independent Planning Commission.
12. The year-by-year record demonstrates that throughout the period BAA consistently encouraged the Government to establish and maintain a clear airports policy to enable demand to be met. Before the 1985 White Paper, the British Airports Authority lobbied the Government to adopt the recommendations from the Eyre Report. Towards the end of the 1980s, BAA pushed the Government to clarify and strengthen its policy towards Heathrow T5. In 1990, BAA encouraged the Government to establish the RUCATSE studies to inform the development of policy for new runways. In the lead up to the T5 inquiry, BAA sought further clarification from Government on its policy. Following Labour’s general election victory in 1997, BAA lobbied

Government to prepare a new airports policy looking thirty years ahead. In 2003, BAA lobbied Government to produce a policy that would provide strong and specific support for new runway capacity in the South East; the outcome was a policy that provided strong and specific support for two new runways.

The system approach to meeting demand

13. From well before 1985, the Government adopted a system approach to airports policy in the South East (which is clearly reflected in the 1985 White Paper). This meant that airports policy was based on forecasts of South East demand as a whole, and was designed to address how demand should be met by South East airports as a *system*. In 1985, an important element of Government policy was that new capacity at Stansted would be used to meet demand across the London system. Further terminal development at Heathrow and Gatwick would also be necessary to make full use of their existing runways. The 1985 White Paper recognised that runway capacity would be a restraint on passenger growth at Heathrow. The policy was underpinned until the early 1990s by powerful traffic distribution rules that sought to reallocate demand between airports in the South East. A further clear example of the Government's approach was its 1991 statement that demand that could not be met at Heathrow or Gatwick (because of capacity constraints) and should be met at Stansted where there would be spare capacity.
14. Government policy did not contemplate that each airport should be able to meet its forecast demand but rather that the system should have enough capacity to be able to meet South East demand as a whole. As a result, traffic forecasts and capacity assessments were prepared on a system basis by the Government, BAA, the CAA (the Government's advisor on capacity issues and BAA's economic regulator) and the MMC. Importantly, assessments of the timing of the need for new runway capacity (CAP548, CAP570 and RUCATSE) were done on a system basis, taking account of demand and capacity across the London system.
15. The system approach was also an important factor in the Government's decision to privatise BAA as a single entity. Government considered that BAA's London airports were an integrated system and the commercial prospects of individual airports would be heavily dependent on Government decisions (e.g. as to planning, traffic distribution etc.). Separate ownership would introduce *undesirable rigidity* into the administration of Government policy (including as to airport development).
16. The system approach was reinforced by the regulatory framework for BAA's London airports. The system approach formed the basis of the MMC's Reports of 1991, 1996 and 2002. In fact, BAA's airports were regulated as a system until 2003. It is notable that even when the CAA proposed the move to "standalone" regulation from 2003, the Commission's 2002 advice still considered "system" pricing to be preferable. The 2003 White Paper recognised the importance of the system/standalone debate to the delivery of a second runway at Stansted, and tasked the CAA to work with BAA to develop a regulatory framework that would support the delivery of the project.¹

¹ FOI requests to the DfT give insight as to the level of concern at the DfT over the CAA's proposals

Making Best Use of Existing Facilities

17. As highlighted above, Government policy since 1985 has been based on a system approach to meeting demand. The policy has supported the development of new capacity across the London system to meet system demand.
18. In 1985, Government policy recognised that, with the proposed development of Stansted, there was substantial spare runway capacity available at each of London's airports, and that forecast growth over the following decade could be met with further terminal development. The question of where and when a new runway should be developed would be addressed when more information was available. The immediate priority should be to develop new terminal capacity at Stansted to enable more effective use of the spare runway capacity.
19. At the time, the Government was uncertain whether a fifth terminal at Heathrow would be required to make full use of the existing runways. Under some scenarios, it was possible that a new terminal would not be needed to accommodate the demand from the existing runways. The Government was also unclear about the feasibility of further terminal development at Heathrow, both in terms of the suitability of the Perry Oaks site and the constraints imposed by road and rail infrastructure. In the event that Terminal 5 was not developed, it was envisaged that Stansted would act as an "expansion chamber" for the South East system, and further development would be brought forward there to meet demand.
20. Government policy recognised that individual airports might be constrained in their ability to meet demand, and in particular, that runways would be the constraining factor. Government policy acknowledged that the appropriate response to runway capacity constraints at one airport might well be to develop terminal capacity at another airport, rather than develop new runway capacity at the airport in question. As we discuss further below, this approach to airports policy also has significant implications for the timing of the need for new runway capacity. Under a system approach, new runway capacity is needed at the point when existing runway capacity in the system is fully utilised.
21. The policy objective of achieving best use of existing runways was clearly stated in the 1985 White Paper. In Government statements from 1985, it indicated that the Government policy as set out in the White Paper was to make maximum use of the existing runways.
22. From time to time the Government reaffirmed this policy, and confirmed that it remained relevant. For example, in 1988 the Government stated that the development of new terminal capacity was a way of realising existing runway capacity. In 1993, the Government confirmed its policy remained as per the 1985 White Paper, giving no commitment to Terminal 5 and focusing on the use of existing capacity before new capacity was to be provided. In 1996, the Government's policy witness at the T5 public inquiry confirmed that the 1985 White Paper remained the most up-to-date statement of Government policy. Also in 1996, the Government's response to the Transport Select Committee made it clear that the 1985 White Paper was still the relevant policy concerning airport development.

23. More recently, the 2003 Air Transport White Paper re-adopted important elements of the system approach to meeting demand. It was clear from a policy perspective that the first priority in the South East was to make best use of the existing runways, including Stansted and Luton. The timing of new runways in the South East was also based on an assessment of when the existing runway capacity in the system would be fully utilised. The White Paper has been reaffirmed as Government policy on a number of occasions since 2003, including the Air Transport White Paper Progress Report in 2006.

Government policy towards new runways

24. Throughout the period, Government has recognised its leadership role in terms of developing and maintaining airports policy. However, after the 1985 White Paper the Conservative Government was singularly unsuccessful in establishing a new airports policy in the period in question. Airports policy (particularly where this involves support for new runways in the South East) is highly controversial, and the weakened Conservative Government (which lacked a Parliamentary majority) was reluctant in the mid 1990s to formulate any successor policy to the 1985 White Paper. It was only with the election of the new Labour government in 1997 that the Government embarked on a process for the formulation of airports policy, which resulted in the 2003 Air Transport White Paper.

25. The Eyre Report was published in December 1984 and the White Paper was published in June 1985. BAA supported the recommendations of the Eyre Report but the White Paper fell short of its expectations: it approved development at Stansted (but controlled by parliamentary ATM limits) and effectively deferred a decision on T5.² No decision was taken on runway development in the South East, except that new runways should be ruled out at Gatwick and Stansted, and the focus at Heathrow should be on terminal development.

26. In 1987, the Government published the Heathrow Surface Access Report without offering any support for development at Heathrow. BAA pressed the Government during this period to review (and hopefully strengthen) its policy on T5, which it agreed to do in 1987. The DTp set up a working group including representatives of BAA and the CAA, but following the review (which included active participation by BAA) it failed to strengthen its position as set out in the 1985 White Paper. Again, the Government was taking no decisions on runways.

27. The Government asked the CAA to undertake a study of airport capacity and airspace in 1988. An interim report was published in the same year. The Government response was that airports could continue to meet demand *without* new runways by realising the capacity of existing runways and through improvements in airspace and terminal capacity. The CAA consulted on its final advice in 1989 (CAP 548). The CAA's advice was limited to traffic distribution and did not provide advice on airport capacity as planned. Instead, it proposed to undertake a further year of work before reporting on airport capacity.

² The 1985 White Paper needs to be read in the context of the CAA report (CAP 502) which was to the effect that new runway capacity would not be needed at Heathrow and Gatwick until the end of the 1990s if adequate terminal capacity was delivered.

28. The CAA's report on airport capacity (CAP570) was finally published in 1990. It reached the view that extra runway capacity would be required in the South East shortly after the turn of the century. However, the report on its own was not sufficient to support a Government policy in favour of new runways.³ The Government made clear that it was not committed to any of the options suggested by the CAA and noted that the impacts of airport development (environment, employment and local infrastructure) would need to be thoroughly addressed. The Government's position was that there would be no major new runway development without full public consultation and a full public inquiry into any objections. Again, no decision is taken on runway development.
29. BAA was concerned that the CAA's advice might undermine its case for T5 by suggesting a link between T5 and a third runway at Heathrow. Nevertheless, it supported the further studies that were required in order to develop a robust runways policy and actively participated in the RUCATSE working group that was established to consider the implications of the options for new runway capacity identified by the CAA.⁴
30. The RUCATSE report in 1993 concluded that a new runway would be needed when throughput in the London system reached around 160 mppa. The report concluded that this would be around 2010 if the new runway was at Heathrow or Gatwick, or 2015 if the new runway was at Stansted. BAA agreed that a new runway would be needed at around 160 mppa, but due to BAA's less aggressive demand forecasts it would not be needed until around 2015.
31. The Government eventually decided that none of the RUCATSE options should be taken forward, and that further work was needed to explore other options. Whilst the Government concluded that BAA should not consider the options for a third runway at Heathrow or a second runway at Gatwick, it did say that BAA should examine 'less environmentally damaging options, such as a close parallel runway at Gatwick'.⁵ The Government anticipated that the further work would take two to three years to complete. The Government also concluded that there was scope for increasing the utilisation of the existing runways at Heathrow. A report commissioned by NATS, BAA and the airlines, 'The Heathrow Runway Capacity Enhancement Study', supported this conclusion. BAA had during the course of the studies and subsequently, implemented various enhancements to runways at Heathrow and Gatwick.
32. The Government's response to RUCATSE also confirmed that its policy remained as set out in the 1985 White Paper (including no further support for T5), noting that the need for new

³ CAP 570 was limited to the feasibility of new runways and the convenience of passenger journeys: it did not address the full range of issues that would need to be addressed before a runways policy could be formulated.

⁴ BAA was not prepared to express a preference for any of the RUCATSE options for two reasons. First, it was concerned that given the narrow focus of the RUCATSE work it did not want to express a preference for an option in circumstances where the full merits of options would not be considered by RUCATSE. There was a risk that in expressing a preference all the options would not be fully considered. Secondly, there was a danger than in expressing an option, BAA might undermine a subsequent planning application if that option was not supported by government. This did not detract from the extent of BAA's participation in the RUCATSE studies.

⁵ It is notable that the Transport Select Committee subsequently concurred with the government's decision to rule out the RUCATSE options in its 1996 report.

runways had been deferred by the more intensive use of London and regional airports. It also reinforced its view that existing South East runway capacity should be used before new capacity was provided. The Government noted that RUCATSE was only an advisory group and its report would be the *start* of debates on airport issues.

33. In 1995, BAA's submission to the Transport Select Committee called on the Government to publish a new Airports White Paper. This was supported by the Select Committee in its 1996 report 'UK Airport Capacity'. The Select Committee concluded that only the Government could define the national interests and give guidance to development. The Government's response to the Select Committee's report made clear that the policy framework established by the 1985 White Paper remained valid and it had no plans to produce a new White Paper. Rather, it intended to issue an updated statement of policy once it had an opportunity to consider the inspectors report from the T5 inquiry (which was not completed until 1999) and the close parallel runway studies at Gatwick had been completed (which would not be before 1998). This would have effectively deferred the *commencement* of a consideration of a new airports policy until the late 1990s. This is a further example of Government – which at that time had no overall majority – avoiding politically difficult decisions.
34. It must be noted that from 1992 until 1997, the Government was in continual paralysis. Its majority ebbed away. The Prime Minister had to seek re-election as leader of his own party. Votes of confidence were called in the House. Given these weaknesses, the Government was essentially incapable of producing a major controversial policy setting out the timing and location of new runway capacity, and no amount of lobbying would have changed this position.
35. In 1998, the new Government announced that it had asked BAA to cease all work relating to the study of close parallel runway options. This was at least a decision – albeit a negative one. However, on a much more positive note the Government produced an Integrated Transport White Paper in the same year adopting the recommendation of the 1996 Transport Select Committee Report that a new statement of UK airports policy should be prepared looking 30 years ahead. It was intended – the Government said – to provide the framework within which those concerned could plan for the future with greater certainty.
36. The SERAS study began in 1999: BAA was heavily involved in the consideration of runway options throughout the study process.⁶ In 2001, the Government published its 'Future of Aviation' consultation document; BAA's response called for the approval of T5, the phased development of Stansted, further runway capacity in the South East and improvements to the planning system. The government also approved the T5 development in 2001.
37. In 2002 and 2003, the Government consulted on the SERAS options. BAA's response was to support up to three additional runways, with four options available at Heathrow, Stansted and Gatwick (after 2019) which was consistent with the Government's forecasts of the need for three runways in the South East. BAA carried out significant research during the consultation process to demonstrate the technical feasibility of the Heathrow option (relating to the air quality impacts

⁶ For the same reasons as set out in relation to the RUCATSE studies BAA was not willing to state a preference for any of the options being considered for its airports; however, this did not detract from its participation in the SERAS studies.

and layout of a new runway). BAA made the results of this work available to stakeholders during the consultation period to strengthen the DfT's consultation process. However, BAA's view was that it would be unproductive for it to make specific recommendations to Government on preferred options; to come to a view on the preferred options the Government would need to balance the impacts and benefits of the different options from a public policy perspective.

38. The Air Transport White Paper was finally published in the same year. The policy supported the development of two new runways in the South East. The Government made clear that it would not support demand being met in full over the period to 2030; the Government's view was that the policy struck the appropriate balance between its environmental, social and economic policy objectives.
39. BAA responded rapidly to the 2003 White Paper by beginning the necessary technical work for the SG2 project and engaged with the Government on the studies necessary to assess the feasibility of a third runway and mixed mode at Heathrow. The Government recognised the work done by BAA and once again noted in 2004 that maximum use should be made of existing capacity.
40. In 2006, the Government's progress report on the ATWP acknowledged the significant progress that BAA had made at Stansted on the second runway. In 2007, the Government consulted on adding capacity at Heathrow indicating that additional capacity could be added within defined environmental limits which could be in the form of mixed mode or a third runway.
41. In summary, it took eighteen years and numerous technical studies to replace the 1985 White Paper (which did not support runway development) and produce a Government policy that provided strong support for new runway capacity.

BAA's Capacity Development Strategy

42. BAA's strategy was and is to meet forecast demand. BAA has sought to achieve this objective within the strategic framework established by the Government and its economic regulators.
43. As, explained above, since 1985, Government policy has been based on a system approach to meeting demand, focused on making the most of the system's existing runway capacity before developing new runway capacity. The regulatory framework established by the CAA and MMC following BAA's privatisation was also based on a system approach to setting prices. This strategic framework remained in place throughout the 1980s and 1990s. As such, all parties operated within a "system" environment (including the MMC, and latterly the CC), which encouraged airports to bring forward investment in new terminal capacity to increase the utilisation of the existing runways.
44. Within this framework, it would not have been in BAA's strategic or commercial interests to have brought forward proposals for new runway capacity. Such proposals would not have been supported by Government policy, and would therefore have stood little chance of being approved. Furthermore, a proposal for a new runway could easily have jeopardised the more pressing capacity developments that BAA was pursuing throughout the period (consistent with

Government policy) by significantly increasing public and political opposition to airport development generally.

45. Nor is it clear that the investment required to develop and promote proposals for a new runway would have been supported by BAA's economic regulators; there are certainly no clear indications from the 1980s and 1990s that either the CAA or the MMC (or the Competition Commission) considered that such investment was necessary to meet users' needs. Indeed, the 2002 CC report is explicit that further incentivising BAA with respect to investment was not required.
46. BAA's position in 1985 was that there was a pressing need for additional terminal capacity in the London system to meet demand between 1990 and 2000. Phase 1 of the Stansted development would be capable of meeting system demand between 1990 and 1995. BAA intended to develop T5 in parallel with Stansted, but given the longer lead times it was expected that T5 would be available to meet system demand between 1995 and 2000. BAA supported the capacity developments proposed by the Eyre Report, and was disappointed with the 1985 White Paper which imposed constraints on Stansted's development and failed to provide clear policy support for T5.
47. At this stage, it was envisaged that a new runway would not be needed to meet demand in the South East until at least the late 1990s. It was also recognised that there were very real political, practical and environmental issues associated with developing another runway at either Heathrow or Gatwick (even assuming the 1979 agreement could be overcome).
48. During the late 1980s, BAA considered the second phase of development at Stansted as a way of meeting demand in the South East. BAA contemplated taking forward the second phase of Stansted in parallel with T5 but was advised that this would be problematic in planning terms. It recognised the urgency of starting either of these developments as soon as possible so that one would be available by the mid 1990s.
49. In 1989, BAA considered that additional terminal capacity would be needed to maximise use of the runways. The following year, BAA's view was that Stansted could provide enough runway capacity to meet London system demand until around 2005, while Heathrow and Gatwick operated at full runway capacity. BAA's long term development strategy encompassed the development of T5 and the CTA at Heathrow, the second phase of Stansted, and the extension and redevelopment of terminal facilities at Gatwick. These projects would be supported by sustained investment in infrastructure and processes to enhance runway capacity across the system.
50. This strategy was expected to meet demand over the ten-year period to 2000. Although the Government had not provided the clear statement of policy support for T5 that BAA had sought, BAA proceeded with the project on the basis of legal advice that the planning application stood a good chance of being successful (even though the discussions with Thames Water were ongoing and there were concerns about the costs of the T5 project and the implications of the regulatory price control process under the Airports Act).

51. At this stage, BAA's view (based on its traffic forecasts) was that a further runway in the South East would not be needed until 2005 (which was slightly after the date forecast in CAP 570). BAA's view was that there was a pressing need for the terminal capacity that BAA was seeking to develop, and that there was adequate time to establish policy to support the development of new runways.
52. The new terminal at Stansted opened in 1991 and BAA announced its intention to submit a planning application for T5 in 1992. During this time, BAA was also actively involved in the RUCATSE studies. It took the view at that time that the option for a third runway at Heathrow would not affect its T5 case, given that five terminals were needed to make full use of the airport's existing runway capacity. BAA's forecasts in 1992 showed that T5 would be needed by 2000 and the second phase of Stansted by 2005. If this new terminal capacity was provided, new runway capacity would not be needed in the South East until 2016.
53. The RUCATSE conclusions in 1993 were broadly consistent with this view. New runway capacity would be required when system throughput reached around 160 mppa. BAA's view was that terminal developments were needed at Heathrow and Stansted to enable the system to reach this level of throughput. BAA's demand forecasts for the London system showed that new runway capacity would be needed in around 20 years time. BAA was concerned that the RUCATSE studies could adversely affect its T5 planning case (which had been submitted in the same year); work on runway options needed many years hence could imperil urgently needed terminal development. However, the level of environmental impacts associated with the RUCATSE options meant that more work was needed (in particular to address environmental considerations). In BAA's view there was time to undertake that work. At the Government's request, BAA led detailed technical studies into the feasibility of close parallel runways at Gatwick, before it was asked to cease this work by the incoming Labour Government in 1997.
54. The public inquiry for T5 started in 1995, two years after BAA had submitted its planning application, and sat until 1999. The inquiry and the subsequent consideration by Government of the Inspector's report took far longer than BAA (or indeed anyone) had expected. T5 was approved in 2001 and completed in 2008.
55. BAA's strategy given the delays in approval of T5 was to implement the other aspects of its capacity strategy by developing capacity at Stansted and Gatwick to meet demand. Over the period, BAA secured parliamentary and planning approval to expand Stansted first to 15 mppa, then subsequently to 25 mppa, and completed significant expansions to the terminal and airside infrastructure. At Gatwick, BAA secured approval to expand Gatwick to around 40 mppa in 2001. Major developments at Gatwick and Stansted were secured with the support of local planning authorities, without public inquiry.
56. An important element of BAA's current strategy continues to be to make the best use of existing runway capacity at each of its London airports, supported by appropriate terminal facilities and airside infrastructure. This development strategy underpins BAA's application to increase

Stansted's capacity from 25mppa to 35mppa, and its investment plans to take Gatwick to the full capacity of the airport's single runway.

57. In summary, BAA has secured the necessary planning permissions to enable airlines to make full use of runways at Heathrow and Gatwick. BAA also expects to secure planning permission (and regulatory support) to allow airlines to make full use of Stansted's existing runway. With this, BAA will have secured permission since 2001 for new facilities that will eventually provide additional capacity for around 65 million passengers a year – equivalent to around half the current throughput of the London system. BAA regards this as a significant achievement, and at the very top end of the range of potential outcomes given the prevailing circumstances and government policy.
58. The 2003 White Paper created an environment and policy framework in which BAA could be confident of securing permission for a new runway in the South East. BAA was influential in securing this policy framework. Since 2003, BAA has committed significant resources to bringing forward proposals for a second runway at Stansted, and to assessing the feasibility of a third runway at Heathrow. BAA remains confident that with continued Government policy support and an appropriate regulatory framework, it will secure permission for both these new runways over the course of the next decade and deliver significant new airport capacity for the London system.

Conclusion

59. BAA succeeded in developing its London airports to their maximum potential achievable under the prevailing Government policy – the 1985 White Paper. The issue of new runway capacity has always been an issue for a new Government policy. Although the Conservative Government considered the issue of new runways almost continuously after the 1985 White Paper, it was never fully committed to making the politically difficult decision of where and when a new runway should be developed.
60. This situation changed significantly in 1997, when the Labour Government committed itself to preparing a new airports policy, including the issue of where and when new runway capacity should be developed. The 2003 White Paper established Government support for two new runways in the South East: the first at Stansted, the second at Heathrow subject to environmental conditions being met.
61. BAA has committed itself to developing its airports as quickly as possible to the fullest extent enabled by the 2003 White Paper. Delivering these runways will require BAA to invest up to around £10 billion over the next ten to fifteen years. With continued Government policy support, and an appropriate regulatory framework with clear and stable incentives, BAA believes these new runways will be commercially attractive investments.

62. Despite BAA being on the verge of delivering new runway capacity, the Commission has questioned the suitability from a narrow competition perspective of the Government's airports policy, and looks set to recommend that changes should be made. BAA's regulators are also creating commercial and regulatory uncertainty for these projects by not taking a firm view on whether the projects are in passengers' interests or how the projects should be remunerated.
63. BAA would encourage the Commission to consider again the history of capacity development in the South East, and assess BAA's record within the context of the Government policies that existed during the period. In BAA's view, a balanced reading of this material would lead the Commission to see clearly the significant risks to the delivery of new runway capacity that would be created by diminishing the policy support created by the 2003 White Paper, thereby recreating the policy vacuum of the 1990s.
64. It would also enable the Commission to put into proper perspective the very limited, and most probably academic, benefits that might arise from an approach that sought to encourage airports to compete to deliver new runway capacity within a looser policy framework.