

SHORT (& MEDIUM) TERM MEASURES - EXECUTIVE SUMMARY

MEASURE SET	Financial Incentivisation
MEASURE TITLE	Route Development Funding
MEASURE SUMMARY	This measure is aimed at ensuring access to the UK hub airport from the more peripheral regions of the UK, and/or the provision of support for new direct routes to emerging economies
MEASURE INVOLVES	<div> <input type="checkbox"/> Behavioural Change <input type="checkbox"/> Infrastructure Change </div> <div> <input type="checkbox"/> Operational Change <input checked="" type="checkbox"/> Regulatory Change </div> <div> <input type="checkbox"/> Technical Change <input type="checkbox"/> Policy Change </div>
WHAT DOES THIS ADDRESS?	
<p>This addresses two issues: the limited connectivity of peripheral UK regions, including the north of Scotland, from current reduced access to the UK hub; and direct links to many international destinations. Heathrow in particular has lost a number of connections to UK destinations, attributed to its landing charges and the preference for more profitable overseas routes in a constrained slot environment.</p> <p>It is possible to ring-fence regional air services to a national hub (such as London, Glasgow or Cardiff); this is done by making a public service obligation (PSO). Article 4 of the Route Access Regulation (Regulation 2408/92/EEC) harmonised the procedures for ensuring the operation of lifeline air routes - PSOs. The PSO provides the basis on which non-commercial but socially and economically necessary air services can be subsidised by national or local authorities, notwithstanding the single market. The UK Government currently imposes PSOs on 25 routes in the Highland and Islands, and on one route within Wales. The UK Air Consultative Committee's Liaison Group has previously concluded (http://www.ukaccs.info/10almfiles/10slots.pdf) that the PSO mechanism was not preferred as it would allow access only to a 'London' airport, and that Heathrow's constrained capacity would generally rule out guaranteed regional slots there.</p>	
WHAT WOULD BE DONE?	
<p>The use of the PSO mechanism, start-up funding or APD discounting for long-haul routes from non-hub airports, destination marketing of regional UK airports as destinations.</p> <p>The PSO mechanism allows for ring fencing of regional service access to a hub. This would require Government to use the regulatory powers available to set PSOs for regional access to London, and ideally to Heathrow as proposers suggest. Paras 1.25 to 1.29 in the Aviation Policy Framework 2013 (APF) set out the current view on PSOs.</p> <p>Start-up funding could be locally provided (e.g. Edinburgh Airport operates a regional development fund) but otherwise would be subject to state aid rules. Paras 1.30 to 1.32 in the APF indicate that the Government continues to argue for more flexible approach to start up funds. APD discounting already exists to some degree in that banding is by destination distance and class of passenger, but could be revisited. For more details, please refer to APD proposals. Destination marketing of UK regional airports would see a step change in how UK airports are promoted overseas.</p>	
WHAT IS THE IMPACT?	
<p>The main impacts would be expected to be:</p> <ul style="list-style-type: none"> Increased intra-UK connectivity to the hub airport and economic benefits to connected regions New route subsidy would support development new direct long-haul links to emerging markets Increased direct traffic to / from regional airports Potential loss of more profitable routes currently used slots to be ring fenced for regional access Positive impact for social inclusion through accessibility and connectivity 	

MEASURE SET:	Financial Incentivisation	Short Term	<input checked="" type="checkbox"/>
MEASURE TITLE:	Route Development Funding	Medium Term	<input checked="" type="checkbox"/>

PROPOSAL SUMMARY

Proposed by:	Aberdeen International Airport (004), Birmingham International Airport (009), Bristol Airport (010), Connected Scotland (014), HITRANS (026), Institute of Directors (039), North East Chamber of Commerce (058), Scottish Council for Development & Industry (062), Scottish Regional Transport Partnerships (063)		
Proposal: FInc-RDEF-1 FInc-RDEF-2 FInc-RDEF-3	<p>This measure covers: Enabling support for route maintenance and development, ensuring and expanding connectivity, covering three specific issues:</p> <ul style="list-style-type: none"> Access from UK peripheral regions to UK Hub Direct access to new routes Destination marketing 		
Approach	<p>The approach is:</p> <ul style="list-style-type: none"> Access to the UK hub from the peripheral regions is indicated as vital for the north of Scotland, but the issue is reinforced by the more peripheral English regions also; the use of the PSO mechanism is suggested by some, but discounted by others. Start-up funding or APD discounting is indicated for new routes, generally long-haul from non-hub airports to specific new destinations (e.g. Turkey) Destination marketing of regional UK airports as destinations in themselves is identified by a number of submissions. 	Stated Capital Cost:	Not stated
		Capacity (mppa):	Not stated
		Capacity (atm):	Not stated
Benefits	<p>The main benefits available are in-UK connectivity and economic vitality to the regions through this link; equally UK economy benefits from e.g. the key peripherally based industries of oil and gas exploration having global access through a UK hub. Start-up funding for direct access to new routes would allow new direct long-haul links to emerging markets, where the initial commercial risk is mitigated. Destination marketing could benefit regional airports through increased traffic, although the effect on traffic from a hub connection is not certain.</p>		
Issues & Risks	<p>The main issues and risks are That access to UK Hub through PSO would require an extension of the current PSO usage (to Glasgow and to Cardiff). PSO slot usage at congested airports restricts availability for long haul routes, or more profitable short haul feeder routes, so is unlikely to be an immediate mechanism to deliver UK region access to a hub.</p> <p>Current EC State Aid ruling guidelines put in place in 2007 have prevented the provision of a successor to the Route Development Fund (RDF). Allowable state aid in this context is limited: (http://europa.eu/legislation_summaries/competition/specific_sectors/transport/l06030_en.htm)</p> <p>If UK were to petition for reintroduction of RDF, there is no guarantee of short term success. RDF has been criticised by environmental NGOs and could attract similar attention. However, Edinburgh Airport has introduced its own £15m RDF (announced 25 Jan 2013) which might suggest this is a more viable route than one linked to state aid. Local Economic Partnerships are also identified as an option for RDF / Destination Marketing delivery. APD discounting issues identified under template for APD, but significant assessment of APD and its UK wide and regional impacts may be found in the 2013 PWC report.</p> <p>Destination marketing – dependent on funding source may be feasible, benefits difficult to quantify; on its own is unclear if can change demand by shifting LHR / LGW journeys to regional airports.</p>		
Mitigations	No environmental mitigations are identified, but no significant additional impact is anticipated.		
Dependencies	<p>The key dependencies are:</p> <ul style="list-style-type: none"> Air Passenger Duty approaches Traffic Redistribution Rules Slot /scheduling options 		

ASSESSMENT SUMMARY

MEASURE SET:	Financial Incentivisation	Short Term	<input checked="" type="checkbox"/>
MEASURE TITLE:	Route Development Funding	Medium Term	<input checked="" type="checkbox"/>

Strategic Fit	No significant capacity gains from these measures, although UK connectivity could potentially be enhanced. In a constrained capacity would prioritise connectivity of UK peripheral regions. Slot restriction through PSO would limit connectivity outside UK in ATM / slot constrained context. Destination marketing and Route Development Funds could encourage new routes, but long term economic viability must be considered. Potential for regional access to London is flagged within the Aviation Policy Framework.
Economy	Likely to support local and national economic growth through connectivity at regional airports. Scott Wilson conducted an appraisal of the Scottish RDF (published 2009) in which it was shown that nearly all the RDF services returned a positive net present value (NPV) and benefit-to-cost ratio (BCR) greater than 1.0 suggesting the RDF programme was successful in improving travel conditions for business and leisure passengers. In several cases, the rate of return was very high. Current proposal impacts not quantified.
Surface Transport	Not directly; Could increase demand for surface access if regional airports developed new routes and traffic to match.
Environment	RDF was criticised by environmental NGOs as encouraging additional air travel beyond that which the market determined. A parliamentary briefing on the previous RDF by WWF/FOE Scotland / Transform Scotland argued that argue that the economic benefits were “questionable, and the environmental costs considerable”. However, the Scott Wilson study suggested that CO2 emissions costs were of significantly lower order than the economic benefits. Different carbon cost assumptions would affect this. CO ₂ emissions disbenefits could also be argued to be addressed by EU-ETS inclusion.
People	The Scott Wilson report suggested that the RDF in Scotland had a positive impact for social inclusion, through using travel time as a proxy for social inclusion benefits. Passenger interviews also suggested the enhanced connectivity supported those seeking work, accessing education and in maintaining family connections. No significant social inclusion disbenefits were noted. There will however be some impacts on the quality of life of those living near regional airports if aircraft noise increases.
Cost	The costs would be dependent on airport and what was achievable. Edinburgh airport has identified £15 million for its RDF. Destination marketing could be relatively low cost in bringing a more emergent market connectivity gloss to current information provided on UK airports to overseas trading partners. Could be funded through usual BIS / FCO budgets where market relations are considered a priority.
Operational Viability	If slots were guaranteed to UK origin airports, other routes would suffer in constrained slot / ATM context. Otherwise no obvious operational difficulties would be anticipated.
Delivery	State supported RDF currently not possible within EC legislative framework, but could be supported via other mechanisms; PSO mechanism is deliverable under Article 16 of the Air Services Regulation 1008/2008, but limited in its effects (unlikely to link LHR to regions, but London airports). Destination marketing could be delivered through usual BIS / FCO activity where market relations are considered a priority.