

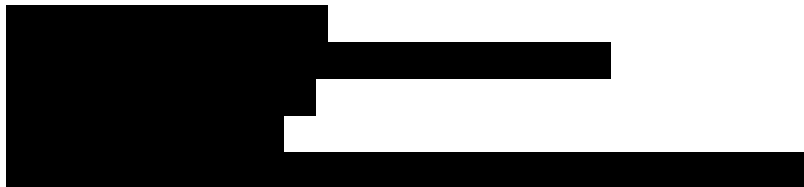
The following submission has been prepared by Tees Valley Unlimited, the Local Enterprise Partnership (LEP) for Tees Valley, in response to the Airports Commission Discussion Paper 06: 'Utilisation of the UK's Existing Airport Capacity.'

It is submitted on behalf of:

- Tees Valley Unlimited
- Darlington Borough Council
- Stockton-on-Tees Borough Council

We have formulated our responses around the key themes of the paper, grouping questions together to provide a more comprehensive response.

However, if you require any clarification or further information, please contact:



21st July 2014

Executive Summary

We would like to make five key points in response to the Commission's Discussion Paper:

1. **The importance of smaller regional airports to national economic growth:** We strongly support the thrust of the Discussion Paper which emphasises the important role that smaller regional airports currently play and will play in the future. This is through the connectivity they offer for businesses (worth up to £37m a year in the case of Durham Tees Valley Airport) and the contribution they make to the growth of local economies, through the facilitation of export activity and the attraction of inward investment. This is particularly the case in an area like Tees Valley which is leading the way on export-led advanced manufacturing, logistics and renewable energy.
2. **The need for smaller regional airports to specialise:** We believe that there is a bright future for those airports outside of the major regional destinations. However, they need to develop as clusters of specialist and complementary activities. The DTVA Master Plan sets out the vision to do this here in Tees Valley, maximising the airport's assets and competitive advantages to ensure that the local economy – and the UK – can become a leader in freight and logistics, fire training and safety, advanced manufacturing and aircraft maintenance, repair and overhaul.
3. **The contribution of smaller regional airports to national aviation:** We believe that smaller regional airports, such as DTVA, have an essential role to play in easing the pressure on an overheated London and the South East. Already, specialist services, such as fire training, take place at DTVA and serve the whole country, including the South East. In order to ensure a true national aviation offer that helps to rebalance the economy, a national hub airport needs local spokes in order to benefit the whole country.
4. **Route support is needed to catalyse growth at smaller airports:** To ensure that the full potential of smaller airports in the UK is realised, the Government needs to support these airports by providing more flexible route support, including the new Air Connectivity Fund, and by reforming Air Passenger Duty. The latter currently acts as a disincentive for the use of intra-country flights. There is clear demand for re-establishing the London link from DTVA, which would provide local businesses with access to two of the biggest hubs in the world (Amsterdam and London) and help to boost business investment.
5. **Extra capacity in London and the South East must come with guarantees of access to local economies:** We believe that any extra capacity in London and the South East – vital to ensure that the UK can access the growing markets across the globe that we need to retain and enhance national competitiveness – must mandate those airports with increasing capacity to ring-fence a certain proportion of flights to regional airports. This will be small in comparison to the total extra capacity granted, but will make a big difference to airports such as Durham Tees Valley. It will also help to rebalance the economy and address the historic trend of a lack of investment in infrastructure in the North of the country.

1. The role of non-London airports in providing connectivity and utility to the UK (questions covered in section 7.3)

We agree with the Commission's diagnosis of the decline in air connectivity between London and the regions – vital for economic growth – and believe that the remedy to this malaise is for any new capacity in London and the South East to have guaranteed access to the regions. This small obligation would enable the significant economic impact already being made by local airports to be further strengthened, delivering considerable benefits for the UK as a whole.

1.1. Decline of London-regional air connectivity

We believe that the Commission is correct to identify a decline in air connectivity over the past decade between London and the regions of the UK; these areas, such as Tees Valley, make a significant contribution to the growth of the UK economy, with Tees Valley leading the way on export-led advanced manufacturing; particularly in the process, chemical, biologics, automotive, oil and gas, subsea and energy from waste sectors.

Of the reasons the Commission describes for this reduction (set out in 1.16), we agree that capacity constraints in London and the South East, Air Passenger Duty and airport charging mechanisms have all combined to have the effect of squeezing out domestic routes. We go into more detail on APD and the unequal environment it provides later in our submission. However, it is clear that smaller airports are unable to compete with larger regional rivals when it comes to attracting short haul carriers in what is a very competitive market. Government intervention is needed to ensure an aviation offer that meets the needs of business.

1.2. Importance of the London link

However, we disagree with the assertion that part of this decline in connectivity is lack of demand. This is not the case in Tees Valley where demand for a London flight is high and connectivity to a London hub is vital to ensure that our major companies can continue to access key international markets. A survey of over 100 businesses found that 46% of the largest employers in the area used hub airports for onward travel with the link to a London hub is felt to be of crucial importance in facilitating inward investment and supporting Tees Valley export-led businesses. Over 20% of large companies requested London as the most favoured new route from DTVA,¹ with Tees Valley having major business links to London and a number of key businesses in the area having headquarters in the capital.

However, while we agree with the Commission's assertion that there has been a growth in access to hubs outside the UK from smaller regional airports, we do not believe that this is a zero-sum game. It should not be a case of Amsterdam or London as the two are not mutually exclusive. The connectivity that the KLM flight from DTVA to Schiphol provides can be supplemented by the reestablishment of the London link which was lost in 2009 to benefit both Tees Valley businesses and the UK economy through GVA being generated here.

A route to England's capital city can boost the national economy, with a recent report finding that a future London flight from DTVA could deliver £220m in GVA benefits (a 2.4% increase) and 2,180 jobs to the wider Tees Valley economy by 2050, with particular impacts in the business services sector. As the report states, *"the reintroduction... of services [could] deliver strong benefits in terms of hub connectivity and regional economic performance."*²

¹ Tees Valley Unlimited survey, 2010

² York Aviation, 'Making Connections: Improving the UK's Domestic Aviation Connectivity with a New Four Runway Hub Airport,' June 2014

1.3. Economic impact of smaller airports

We strongly agree with the Discussion paper (1.48) that states the benefits provided by non-London Airports, both to the local and the national economy. It is well-recognised that by increasing transport connectivity, business benefit by reducing the cost of getting products to market, increasing trading links, reducing barriers to exporting and opening up new sector, geographic and collaborative opportunities. The Institute for Civil Engineers annual State of the Nation report argues that: *“the UK’s ability to compete in the global race and to generate and sustain economic growth depends on infrastructure networks that provide ... the transportation of people and essential goods into and around the UK by rail, road, sea and air.”*

Furthermore, the Smith Institute’s recent report on ‘Making Global Connections: the potential of the UK’s regional airports,’ states that *“There is little disagreement over the economic significance of domestic connectivity, both to London and non-London airports.”*

Connectivity is also vital to encourage new investment. The recent annual Ernst and Young report on foreign direct investment into Europe found that investors placed transport infrastructure as one of their top determinants of whether to invest in a place. The Smith Institute say that there is “strong anecdotal evidence that simply having an airport can make a difference to whether investment can be attracted to an area.” This highlights just how important it is to maintain and enhance our existing key transport infrastructure assets. Thirdly, airports help to grow and sustain aviation-related activity on the airport site.

DTVA fulfils all three of these functions. It provides regular services to Amsterdam Schiphol and Aberdeen, vitally important routes for Tees Valley businesses, serving a local economy which hosts one of the UK’s most important industrial complexes. This includes over half of the country’s petrochemicals industry, export-led advanced manufacturing as part of the only area in the UK with a positive balance of trade, world-leading engineering sectors and a growing renewable energy base servicing projects around the world, including supporting Tees Valley’s growing reputation for subsea excellence and.

Existing major users of the Airport include the likes of multinationals SABIC, GlaxoSmithKline, Huntsman, AMEC and ABB Engineering, with Tees Valley having close industry links across the globe; from France (EDF, Mersen), Holland (Heerema, Hertel) and India (Firstsource, Tata Steel, Tetley) to Saudi Arabia (SABIC, Cleveland Bridge), the USA (Cummins, Darchem, Huntsman) and Japan, Thailand and Singapore (Nifco, SSI, SembCorp and Samsung). Such firms have invested millions of capital expenditure in new projects in Tees Valley over recent years.

The Airport supports 600 jobs and contributes £37m in GVA, including an innovative and growing cluster of businesses on site specialising in fire safety training, freight forwarding and aircraft maintenance, overhaul and repair. This features giant military training and airport inspection firm, Cobham Aviation and the Serco International Fire Training Centre to specialist aviation operator Weston Aviation, freight forwarder Camair and aircraft maintenance, overhaul and repair experts Sycamore Aviation.

1.4. Easing the pressure on London and the South East

There is clearly a role for smaller regional airports, such as Durham Tees Valley Airport and others, to help the UK cope with increased aviation demand. Such redistribution would help accommodate the expected growth outlined by the Commission and help rebalance the economy, providing further economic benefits for areas like Tees Valley. Regional airports offer cheaper land charges and, often, faster boarding times, with cheaper parking for passengers.

There are also emerging opportunities to further ease the pressure through the growing market for freight and logistics traffic from regional airports and for specialist services to be carried out at airports outside the capital. Durham Tees Valley Airport's recently launched 'Master Plan to 2020 and Beyond' makes a strong case for this.

As set out in 1.54 of the Discussion Paper, we are pleased that the Commission acknowledges *"the importance that non-London airports play in facilitating and supporting the entire UK airports system...for instance, non-London airports host a number of activities that London airports are too congested to undertake, such as fire safety and other operational training (Durham Tees Valley airport)."*

However, as a recent IPPR North report³ has highlighted, *"there is a worrying trend toward closing connections to regional airports in favour of more profitable routes."* We therefore believe that national aviation policy should clearly reflect and consider not just the impact upon passengers and businesses in the South East in terms of capacity, but also the economic impact that key flights, routes and services provided from smaller regional airports have upon our national aviation system.

2. Changing business models of non-London airports (questions in 7.4)

The Commission is right to identify the financial pressures that currently adversely affect smaller airports, as set out in 2.2 and 2.8. It is particularly true that a high fixed cost base and the intensity of competition from low cost airlines has resulted in the broader trend of larger regional airports (such as Leeds Bradford Airport) building their route networks in comparison to smaller ones. This is due to larger airports having the ability to take more risks and carry more liabilities on their balance sheet.

It is due to this competition which means that smaller airports must generate non-aeronautical income streams and develop niche business offers. DTVA is doing just that through the development of aviation related business parks at both Northside and Southside – capitalising on its land assets as set out in 2.22 – to ensure that it can be a vibrant airport in the future.

The Airport's Master Plan "to 2020 and beyond," recently published⁴, sets out the case for a vital piece of northern infrastructure; allowing for the development of the Southside Business Park by funding crucial road access to the site. This scheme will start to cement Tees Valley's reputation for excellence in fire training and aircraft recycling, niche offers rarely available across Europe and would create a general and business aviation business park with links to logistics and freight markets through Teesport. Aircraft maintenance, repair and overhaul is a growing market, with more than 12,000 aircraft expected to be retired across the globe in the next two decades.

The Southside business park will create over 2,500 jobs and produce over £100m in GVA benefits over the next ten years and grow DTVA's ability ease the pressure upon London airports.⁵ We are pleased that Government has agreed to fund the road infrastructure necessary to open up Southside through Local Growth Funding as this site will help to differentiate DTVA from other regional airports and ensure that, as set out in 2.24 of the paper, duplication of unused infrastructure does not occur.

³ IPPR North, 'Faraway so close: The North East as an International Gateway,' Oct 2013: <http://www.ippr.org/publication/55/11358/faraway-so-close-the-north-east-as-an-international-gateway>

⁴ Durham Tees Valley Airport Master Plan, April 2014, <http://dtva-master-plan.co.uk/>

⁵ Tees Valley Strategic Infrastructure Plan, Executive Summary, May 2014: https://www.teesvalleyunlimited.gov.uk/media/237402/sip_-_may_2014.pdf

3. How connectivity from non-London airports can be enhanced and the options for intervention (questions in 7.5)

As York Aviation's recent report explains, *"without good connectivity, the UK's regions are likely to struggle to attract overseas investment...therefore, new airport capacity is not just an important issue for London, but one that will have wider ramifications. Any decision [on new capacity] must be taken in the national interest, as it is one that will affect everybody."*⁶ Airport links are vital for areas like Tees Valley to facilitate trade and attract visitors, workers and investment and therefore any new capacity must come with strings attached.

The Commission has rightly identified the key measures that government must take to enhance connectivity; the reform of Air Passenger Duty, more and flexible route support and, critically, ensuring that any new airport capacity in London and the South East is tied to the better regional access to our capital city, creating a truly national aviation hub.

3.1. Air Passenger Duty

There is clearly a need for government intervention in the form of introducing differential APD for a number of reasons. Firstly, regional airports in the UK have to compete with those across Europe for operators, regardless of whether these competitors are located next door. It does not seem fair or in any way aligned to the strategy of rebalancing the national economy, that airports such as DTVA are disadvantaged, while Northern Ireland, for example, is supported. Secondly, domestic flights are particularly hardest hit with APD disproportionately impacting upon intra-UK flights compared to those over longer distances and outside the UK. We agree with 3.27 of the paper that APD currently acts as a disincentive.

Reducing APD rates can act as a further lever to attract foreign direct investment particularly in advanced manufacturing where Tees Valley is at the forefront of the UK. It can provide a fillip to help regional economies in the UK compete on a more level playing field across Europe. APD currently presents a barrier to operators establishing new routes from smaller regional airports, holding back a nascent export-led recovery taking place in Tees Valley. A reduction in APD would make DTVA more competitive, adding further stimulus to the Tees Valley economy.

3.2. Route support

We believe that the new Air Connectivity Fund announced in the 2014 Budget is a welcome step forward and could benefit smaller regional airports. It is vitally important that this funding, along with Public Service Obligations and Route Development Funds, is flexible, allowing the fund to enable routes to both London and other airports (as suggested by the Commission in 3.23).

Route support should recognise the contribution that smaller airports in the UK make to our economy and aviation landscape (as highlighted above). Therefore, with the new EU State Aid regulations now in place, which gives increased flexibility and investment aid intensity for those airports with less than 5 million passengers per annum, it is essential that funding goes to the smaller rather than the larger regional airports.

Equally we would support policies that reduce landing charges at Heathrow for arriving domestic flights (which would then obviate the need for subsidies). The experience of TVU in trying to pursue a PSO is that the procedures need to be simplified to make them workable. It

⁶ York Aviation, 'Making Connections: Improving the UK's Domestic Aviation Connectivity with a New Four Runway Hub Airport,' June 2014

would be far better to ensure, through the regulatory process, that the landing charges and slot allocation procedures are amended to ensure that regional flights are viable (see more below).

We agree that other measures to encourage investment in our airports should be encouraged. As 3.35 outlines, Enterprise Zones have the potential to attract businesses to airport sites and Tees Valley has made the case to government in its Strategic Economic Plan to extend its existing Enterprise Zone to cover Southside at DTVA and discussions continue.

3.3. Obligations upon new capacity in the South East to provide regional access

We are very pleased that the Commission recognises the importance of restoring links between regional airports and the South East and the economic benefits that could be maximised by areas such as Tees Valley. Therefore, there must be sufficient planning and legal arrangements to ensure that, wherever additional capacity is provided in the South-East, there are sufficient slots available for regional services. Without such arrangements, there is a real danger the pattern of recent years, which has seen regional routes lost in order to feed the demand for more profitable international long-haul services, would simply continue.

Access to London and ring-fencing slots at whichever extra capacity is created is crucial for smaller regional airports and for local economies. This will ensure vital business connectivity and key trading links. Competitiveness needs to be retained and strengthened, particularly when business and investment decisions are made on a global basis impacting upon areas such as Tees Valley.

At present, the inability to access Heathrow from smaller northern airports effectively means that Heathrow is only an international hub for the South East and not a national asset serving the whole of England. With High Speed Two (HS2) only reaching up to Leeds, Tees Valley and other areas in the North East are hit by a double whammy of poor rail and air connectivity to the nation's capital at a time when such links are of vital importance for local economic growth

The key measure that government could put in place in order to enhance regional connectivity – itself an ingredient of economic growth – is to mandate landing slots, via planning or another mechanism, as part of any expansion for a number of regional flights. This could be achieved by offering slots with lower landing charges to regional airports and promoting the use of flights from Heathrow that would serve two regional destinations, such as DTVA and Aberdeen. The ring-fencing of slots is vital, both to improve connectivity for our residents and businesses, but to take the pressure off London and the South East.

3.4. These measures will help to rebalance the UK economy

From the arguments set out above, we believe there should be recognition by government that in the debate over the future of airport capacity, what happens in the South East has major repercussions for all local economies and local airports. Our prime consideration is not where any new capacity will be created in the South East, but the assurance that such capacity will come with watertight provision for regional services.

This will help to rebalance the UK economy and begin to form part of a wider picture where investment in infrastructure is not just concentrated solely on London and the South East. It can start to redress the traditional imbalance that sees transport spend per head at £2,700 in London compared to £5 per head in the North East.⁷

⁷ IPPR North, 'Transport spending system is broken', Dec 2011

Such an environment makes it very difficult for areas like Tees Valley to compete on a level playing field and particularly to demonstrate the scale and impact of major projects in London and the South East, such as Crossrail, the Northern Line Extension and London Gateway Port. In this regard, the HM Treasury Green Book and rigid use of Benefit Cost Ratios does not allow for the full recognition of the benefits that investment in infrastructure can have in unlocking the potential growth of Tees Valley. These mechanisms skew government investment towards areas of large population and those with higher wages. Furthermore, this process fails to recognise the role that economies such as Tees Valley can play in easing capacity constraints and alleviating issues of overheating in London and the South East. For instance, a better utilisation of both regional airports and regional ports, such as DTVA and Teesport, would take the pressure off Heathrow and Gatwick and Felixstowe, London and Southampton respectively.

Tees Valley's Strategic Infrastructure Plan⁸, part of the Tees Valley Strategic Economic Plan, makes the case for investment in nationally-significant infrastructure in Tees Valley.⁹ This places developing and providing infrastructure at its heart, with two key priorities; to, firstly, secure additional capacity on the East Coast Main Line (ECML) rail route and improve rail services to major northern cities and within the Tees Valley; and, secondly, to improve air, road, port, land and property infrastructure to enable economic growth.

Our plan calls on the government to make true on its promise to rebalance the economy by supporting assets and projects that can boost economic growth in areas such as Tees Valley. Strengthening connectivity and boosting greater growth both across the North – such as through electrification of the transpennine rail route – and between the North and the South, including improvements to Darlington station, investment in the East Coast Main Line and flights to the capital from Durham Tees Valley Airport, will have positive implications for national economic growth.

Therefore, extra aviation capacity in London and the South East – vital to ensure that the UK can access the growing markets across the globe that we need to retain and enhance national competitiveness – must mandate those airports with increasing capacity to ring-fence a certain proportion of flights to regional airports. This will be small in comparison to the total extra capacity granted, but will make a big difference to airports such as Durham Tees Valley and help to rebalance the economy. After all, the development of a true national aviation hub in the UK must serve the needs of not just London and the South East, but the whole country.

⁸ Tees Valley Strategic Infrastructure Plan Executive Summary, May 2014, https://www.teesvalleyunlimited.gov.uk/media/237402/sip_-_may_2014.pdf

⁹ Tees Valley Strategic Economic Plan, April 2014, <https://www.teesvalleyunlimited.gov.uk/tees-valley-unlimited/aims-and-ambitions/economic-strategy/strategic-economic-plan.aspx>