

Flybe's Response to Airports Commission

Discussion Paper 6

July 2014

1. Introduction

- 1.1. Flybe welcomes the Commission's latest Discussion Paper. When taken alongside the additional strategic guidance in the post consultation revisions to the Stage 2 Appraisal Framework, it promises to fill a shortcoming in your Interim Report to Government published December 2013, which quite frankly we found disturbing due to its apparent indifference to regional issues. In our own response to that document and our on-going engagement with regional stakeholders, we are clear that considerable concern has been expressed in the lack of a regional dimension to your analysis. That said, the Commission is to be praised for having heard such representations, and we are encouraged by the enthusiasm with which Sir Howard Davies now talks about the importance of the regional dimension of the Commission's work. This gives us confidence that its final recommendations to the Government will give this aspect the significance we believe it deserves.
- 1.2. We say this because Flybe, as Europe's leading regional airline, is firmly committed to connecting the UK regions and providing regional residents with a range of cost effective but high quality direct air services to major business cities and connections to key European hubs for onward global connections. The strength of our network is in the UK's regions and nations and we believe high quality air service connectivity is a fundamental component of the well-being of those parts of the UK located outside the 'orbit' of London and its hinterland. Eighty per cent of the UK's GDP is generated outside of the capital, and regional access to the wider world is a key enabler of re-balancing of the UK economy and ensuring broad-based economic regeneration. We recognise that this is one of a select list of Government policy objectives where there does seem to be a cross-party political consensus. We are looking to the Commission to secure a similar coming together of minds regarding the UK's national aviation strategy and recommend the capacity enhancements in London and a supportive policy framework in the regions.

2. National Integration

- 2.1. There is much talk of the EU single market and the UK doing business with the rest of the world. It should not be forgotten, however, and indeed the current Scottish referendum debate only serves to underline this point - that the first and best market for most UK businesses is their own UK domestic market. Here similar legal, currency, language and cultural mores and shorter distances ensure that for most UK businesses their obvious first and biggest opportunity is to further develop their domestic market.
- 2.2. Flybe plays a key role in not only feeding passengers to the UK's biggest market in London, but also critically
 - Providing those long distance east- west cross country links that the rail network struggles to adequately provide, and

- Intermediate north - south UK journeys, that permit UK businesses to meet and interact with each other much more easily.

2.3. A key measure of connectivity is the ability to complete a business trip there and back within a day.

FIGURE 1: MULTI-MODAL DAY RETURN TRIPS WITHIN EUROPE



- 2.4. Places that can be reached for day-return business trips have a significant advantage in terms of being well networked and acceptable. Aviation is the prime mode for EU inter-metropolitan business trips as demonstrated by Figure 1. We can see that it also plays a significant role in achieving this in the UK, and yet there are still parts of the country that do not enjoy this essential day return connectivity with each other.
- 2.5. Many of Flybe's passengers live in UK regions outside London and the South East and as such are poorly served by the dense domestic and international networks that the capital's airports support. For these passengers, higher speed rail links, which are principally radial to and from London, are neither convenient nor practical. For the oil worker who lives in the south west, for example, and commutes every 4-6 weeks to a job in Aberdeen, there is no practical alternative to flying. Similarly, for a businessman travelling between Edinburgh and Birmingham or Norwich and Manchester for meetings, both rail and road offer notoriously slow journeys; as does the ferry ride (which in the winter can often be disrupted by poor weather in the Irish Sea). The student or family relative needing to get between Belfast and Manchester at a weekend likewise faces a challenging journey by road, rail and/or ferry. For the millions of UK passengers who make such journeys each year, Flybe (and other UK regional carriers) provide a lifeline, and like us they do not consider regional air transportation to be a casual after-thought, a luxury or insignificant in the way that it is portrayed by some interest groups in the aviation debate, and it is important that the Commission explicitly recognises this in its reports and recommendations to Government.

3. City Development, Economic Growth and Regional Airports

- 3.1. In this context, and further by way of background to our response to the Commission's paper, we also want to highlight the increasingly high profile that the development of regional cities is taking within Government as a key policy instrument for securing a regionally more balanced economic growth profile across the UK. This is an aspect that did not feature significantly in DP06 and yet there is a growing consensus within academia and Government policy circles regarding the core role of cities, including secondary and tertiary cities, as incubators for rapidly growing businesses and the knowledge-based sectors of the economy. These cities offer ready access to markets, suppliers and labour for new SMEs and enable them to connect easily with capital markets, professional services, innovation networks in Universities and strategic transport links – including airports and air services.
- 3.2. A good example of this urban-focused growth agenda is the Think Cities campaign run by the Centre for Cities and their network of city and business leaders summarised below:

Think Cities ***We're asking all parties to Think Cities in the run up to the 2015 General Election and beyond***

Cities and their surrounding areas hold the key to a host of big policy questions that affect people's day-to-day lives. Not only are cities the places where 96 per cent of private sector jobs were created between 2010 and 2012, they also hold the key to boosting housing supply, improving living standards and improving public services.

We are building a powerful network of city and business leaders, as well as local and national politicians, to make the case that all parties should Think Cities when developing their political manifestos. We will be showcasing voices from across parties, cities, business and beyond, on why cities matter to a prosperous future.

- 3.3. Then there are a number of Urban 'Commissions' that are currently collecting evidence in this area¹. The second round of City Deals for non-Core Cities are currently being negotiated and Cities Minister Greg Clark has produced what essentially amounts to a Green Paper on the subject via a document published by the Brookings Institute, a think tank in Washington².

- 3.4. While there is much talk of the importance of connectivity in these discourses, the contribution small and

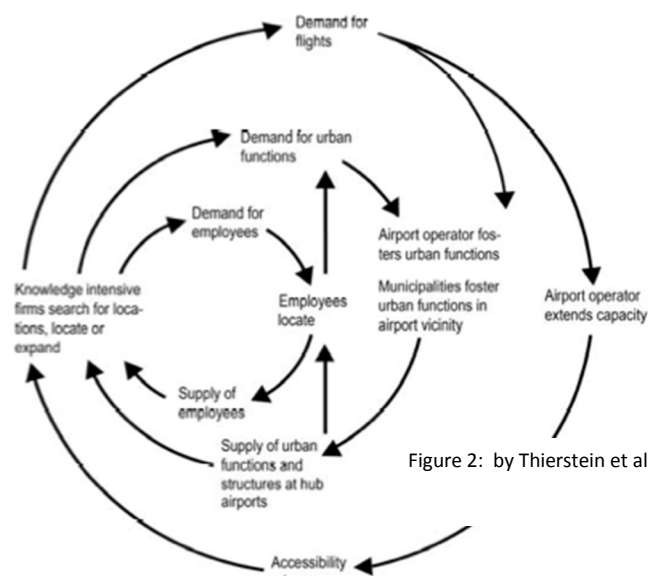


Figure 2: by Thierstein et al¹

¹ An example is the RSA Cities Commission which published an initial report on 16 July – Connected Cities the Link to Growth

² Rt Hon Greg Clark, Minister for Cities and Greg Clark (2014) Nations and the Wealth of Cities – A New Phase in Public Policy; Brookings Institute, Washington DC

medium-sized regional airports can make in this regard has not yet been fully recognized, nor has the role of airports as ideal focal points for airport quarters/campuses or economic clusters. Some German academics have made some tentative steps in that direction (see Figure 2), but further UK-focused work will be needed to ensure these arguments are heard and acted upon in policy terms across Government. The Commission can play a major role in highlighting this to Government.

4. Regional Tourism

- 4.1. The discussion paper was also 'scant' in its attention to UK tourism, both inbound and domestic, a major sector of the national economy and a huge source of jobs and GDP nationally – the numbers are eye-watering. VisitBritain reported that a record 32.8 million overseas visitors came to the UK in 2013 and spent a record £21.0 billion, whilst in 2012 GB residents took 57.7 million holidays of one night or more in the UK spending £13.8 billion. The industry supports 3.1m jobs and generates £127bn of GDP. But crucially it needs to be remembered that the UK regions are more dependent upon the domestic side of the UK tourism market, as it is London that tends to attract such a high percentage of the total overseas visitors. Aviation plays an important role in serving all of these markets, especially the more rapidly growing and higher added value short-break component of the industry.
- 4.2. To illustrate, feedback from Irish tourism market research shows that GB holidaymakers perceive the island of Ireland primarily as a short-break destination, with an average stay of five nights. Scotland, the Lake District, Wales and Devon/Cornwall were identified as the island of Ireland's primary competitors for short-break holidays³. From a Northern Irish perspective, in 2013, 131,000 visitors are estimated to have come from GB; 30,000 from the Irish Republic and 9,000 from overseas. In other words 76 per cent of tourists are from GB and approximately 60 per cent arrive by air and 40 per cent by ferry⁴.
- 4.3. From a Scottish perspective, 85 per cent of outside visitors are from the UK and 15 per cent are international, but the international visitors generate 35 per cent of the revenue⁵. The rest of the UK represents just over half of the total tourism spend in Scotland (excluding Scottish internal tourism)⁶. Around 25 per cent of visitors to Scotland arrive by air⁷ and 40 per cent of those reportedly travelled via a hub⁸ (a market still currently dominated by Heathrow which has over 30 per cent of the hub transfer market to Scotland - 2009 figures). In addition 6 per cent of the very large volume of UK visitors arrive in Scotland by air⁹. Around 14 per cent of the Scottish workforce is engaged in tourism, representing 100,000 FTE jobs and serving 50 million visitors. The industry contributes £3,000 per head of population for Scotland.
- 4.4. Perhaps one of the most interesting features of these markets, and one shared by Cornwall and the Channel Isles, is that tourists arriving by air, whether international or domestic, spend *more* than terrestrially arriving visitors. Moreover, in Cornwall, airport surveys have consistently shown that 25 per cent of the visitors using Newquay Cornwall Airport would not have made their journey to the County without an air link and hence air-based tourism,

³ Tourism Ireland - GB Path to Growth • The Tourism Recovery Taskforce

⁴ Tourism Ireland

⁵ VisitScotland

⁶ Sources: GBTS/DETINI/NISRA

⁷ TNS Research

⁸ Appraising the Economic Benefits of New Air Routes: Technical Report Scottish Enterprise March 2012 York Aviation

⁹ VisitScotland

in addition to attracting higher spending visitors, also adds value to some of the UK's most important tourism regions by generating business that would not have occurred without it¹⁰.

4.5. This makes the availability of aviation services to key markets of particular value to tourism interests and many of them realise that a high proportion of their arriving tourists will come via a hub, ensuring they are heavily engaged through local Chambers of Commerce in the current runway capacity debate.

4.6. As the World Tourism Organisation recently commented:

"In spite of these obvious linkages, separate sectoral policies on air transport and tourism result in a fundamental and too often even conflicting disconnect in many countries which constitutes a severe constraint on the development of travel and tourism as well as of aviation and thus of the respective economic benefits."

4.7. The 2013 UNWTO/WTM Ministers' Summit in London in November 2013 addressed the following issues:

- Bringing air transport and tourism policies closer together – what does it take?
- Opportunities and challenges facing air transport development – infrastructure, taxes and levies, visa facilitation and regulation.
- Success factors and remaining obstacles

4.8. Addressing the delegates UNWTO Secretary-General Taleb Rifai said:

"It is clear that in spite of the interdependent relationship between aviation and tourism, greater efforts must be exerted by both sectors to achieve an integrated policy position to ensure a more sustainable and competitive growth."

5. The Business, Leisure and VFR Mix

5.1. Despite the above, an issue the Commission's Discussion Paper chooses to lead with and focus on quite heavily is the reduction in the percentage of business travellers on domestic flights. The objective of this is unclear, but does come across as if the Commission is sceptical about the significance or health of the domestic aviation market in the UK and is implying that, because it is in terminal decline, it is not important enough to justify its attention or any form of policy support. While accepting that this may not have been the intention, Flybe finds this underlying tone worrying as it embodies the anti-regional 'tradition' that has been a feature of the DfT and CAA's approach to the UK aviation sector for some considerable time, and we were hoping that the avowed 'independence' of the Commission would overcome this long-standing problem.

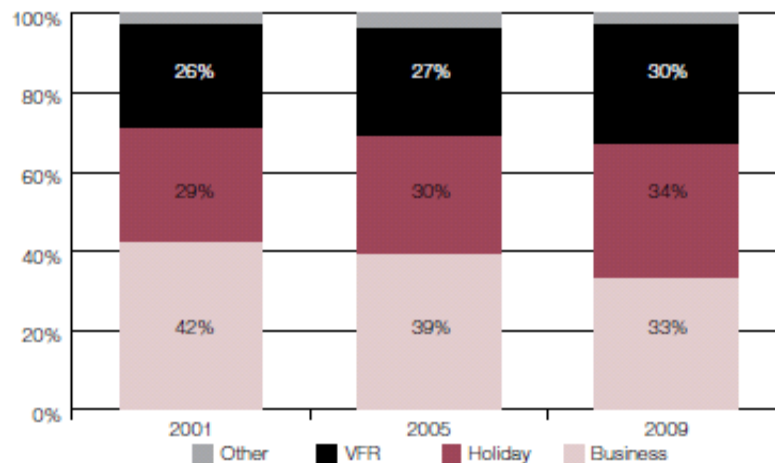
5.2. With this in mind, Flybe would like to strongly caution the Commission that if the interpretations it has ascribed to the data contained in the Discussion Paper (Figures 1.6 and 1.7) – notably that regional business is looking to other ways of meeting its domestic connectivity needs - are a sign of its underlying preconceptions, then it is in danger of drawing entirely the wrong conclusions.

¹⁰ Newquay Cornwall Airport – Passenger Surveys

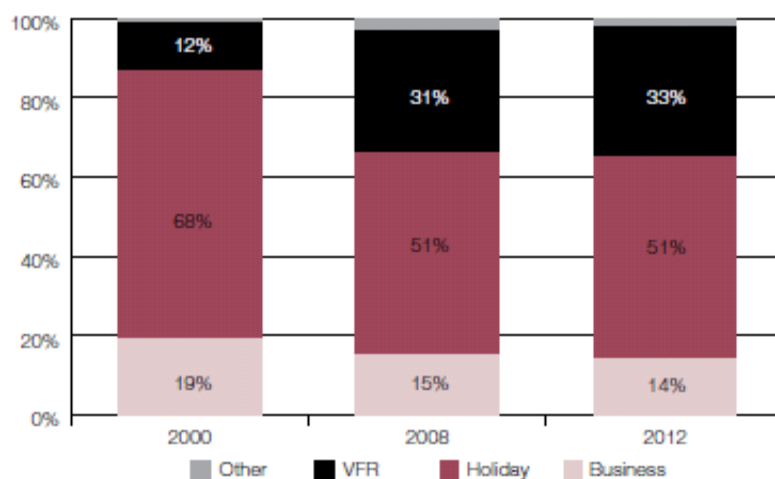
Figures 1.6 and 1.7: The purpose of travel from selected regional airports has not changed dramatically over the last decade, although the two regions sampled show an appreciable growth in VFR traffic and a decline in business traffic.

Changes to the stated purpose of journey of passengers from selected South West and Scottish regional airports, taken from recent CAA surveys¹⁹

Passengers by purpose of travel, selected Scottish airports, 2001, 2005 and 2009



Passengers by purpose of travel, selected South West airports, 2000, 2008 and 2012



- 5.3. Nearly half of Flybe's air passengers are still business people. There was a slowdown in the traffic during the recession, but that was to be expected as firms managed their cost base more aggressively. But with the economic recovery under way, we are seeing signs of volumes returning, emphasising again the relationship between doing business, a successful economy and air transport. For our business customers, the services we provide are not a luxury – they are an essential part of a modern, thriving economy, where the regions outside the London metropolitan area generate 80 per cent of UK GDP.
- 5.4. It also needs to be borne in mind that passengers in one of the outlying regions who respond to a CAA survey stating that they are taking their trip for leisure purposes, will in all likelihood be delivering the much needed tourist income documented above and are therefore indirectly generating important economic benefits. So, for example, the increase in the share of domestic passengers stating they are on holiday from 29 per cent to 34 per cent at selected Scottish airports will be seen as a very welcome development by tourism marketing organisations there. Similarly, tourism leaders in Cornwall are regarding the up-tick in passengers using Newquay Airport in the first six months of this year as being a very

positive indicator. To interpret the South West data in Figure 1.7 of DP06 in the way that the Commission did, therefore, is to misunderstand and over-simplify the complications caused by the demise of Air South West (more a function of the airline's business model, route selection and its parent company's wider financial travails), the closure of Plymouth (less a function of financial insolvency than property development ambitions) and the withdrawal of Ryanair from Newquay (a broader political statement to the UK Government and the industry about the introduction of Airport Development Fees and escalating APD rates, especially on short domestic sectors with low yields).

6. Air Passenger Duty

- 6.1. It is with these thoughts firmly in mind that we turn our attention next to the UK's policy on APD, which we submit is a policy that clumsily clashes with the UK's avowed intention to develop a more balanced economy in which the UK's regions and nations perform better. This is because APD effectively acts as a discriminatory tax on the regions and is an inhibitor to the ability of the regions to retain and improve their domestic and international air connectivity.
- 6.2. The Commission's Discussion Paper No. 6 devotes considerable space to highlighting the decline in domestic air passenger traffic - a quizzical approach in the context of Sir Howard's more recent speeches on the subject - and then lists a range of possible reasons to explain this, including:
 - the recession,
 - longer security clearance times,
 - improvements in railway travel times, and
 - technology improvements such as Wi-Fi and mobile phone technology which have favoured rail over air
- 6.3. Capacity restraints and the pricing of smaller aircraft at London's busier airports get a mention, but only in dispatches as does the loss of transfer traffic to London leaking from the UK system to hub airports such as Amsterdam, Dublin and Dubai because there is capacity to accept flights from the UK's regional airports.
- 6.4. Lost in this mix was the doubling of APD in late 2007 and conjecture that this was not material in explaining the decline in domestic aviation because such a trend was evident a year earlier. Flybe rejects this apparent downplaying of the negative impact of APD on domestic traffic volumes by highlighting other trends, some of which are material (e.g. the underlying state of the economy) and others which are totally irrelevant (e.g. Wi-Fi availability on trains).

	1994	Feb 2007 - Oct 2009	from Nov 2009	from Apr 2012	from Apr 2013
UK and European destinations	£5	£10	£11	£12	£13

- 6.5. Domestic aviation is at the core of our business; we understand it and our customers better than anyone else; and we are 100 per cent convinced that it is the progressive rises in APD shown above and the so-called 'double-whammy' impact of having it charged on both legs of a domestic return trip compared to just once for international return journeys that institutionalised its decline. Average domestic air fares are lower than international equivalents and the tax was therefore adding 20-25 per cent to passengers costs; it does

not require much of a trained economist to realise that such overages were going to have a major impact on demand. Government may not like to admit it, but the plain fact is the principal cause behind the decline in domestic aviation is Government policy in the form of taxation and a failure to allow new runway capacity to be built in London. This is clearly demonstrated in Figure 1.2 of DP06, which we believe shows that domestic passenger decline was materially accelerated in 2007 as a result of the doubling of APD and future increases have only served to help flat-line and impede the recovery of UK domestic aviation (see our Figure 3 below it).

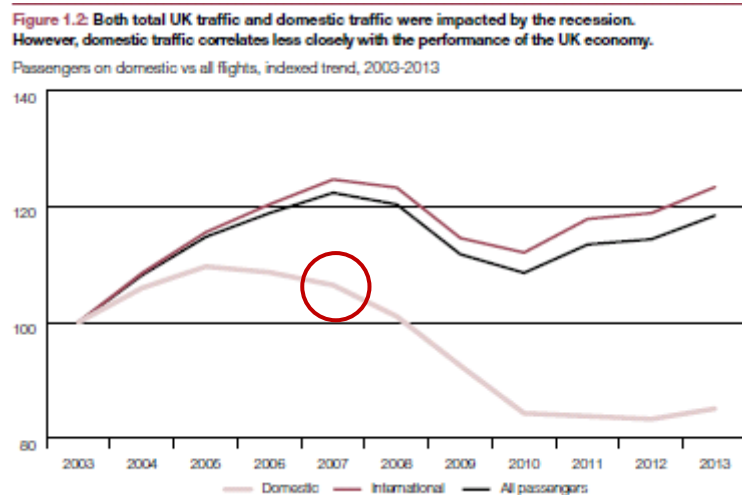
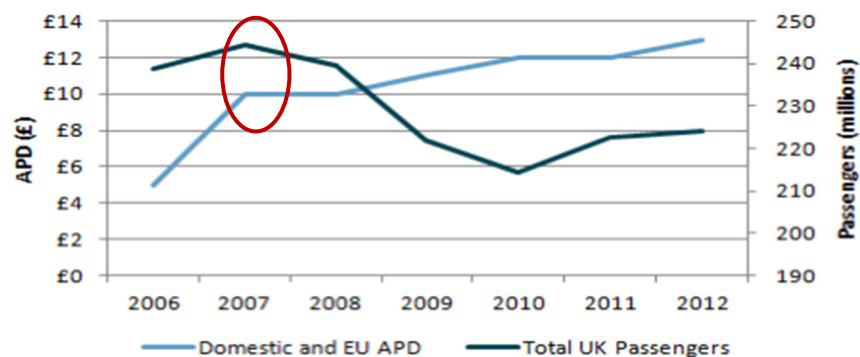


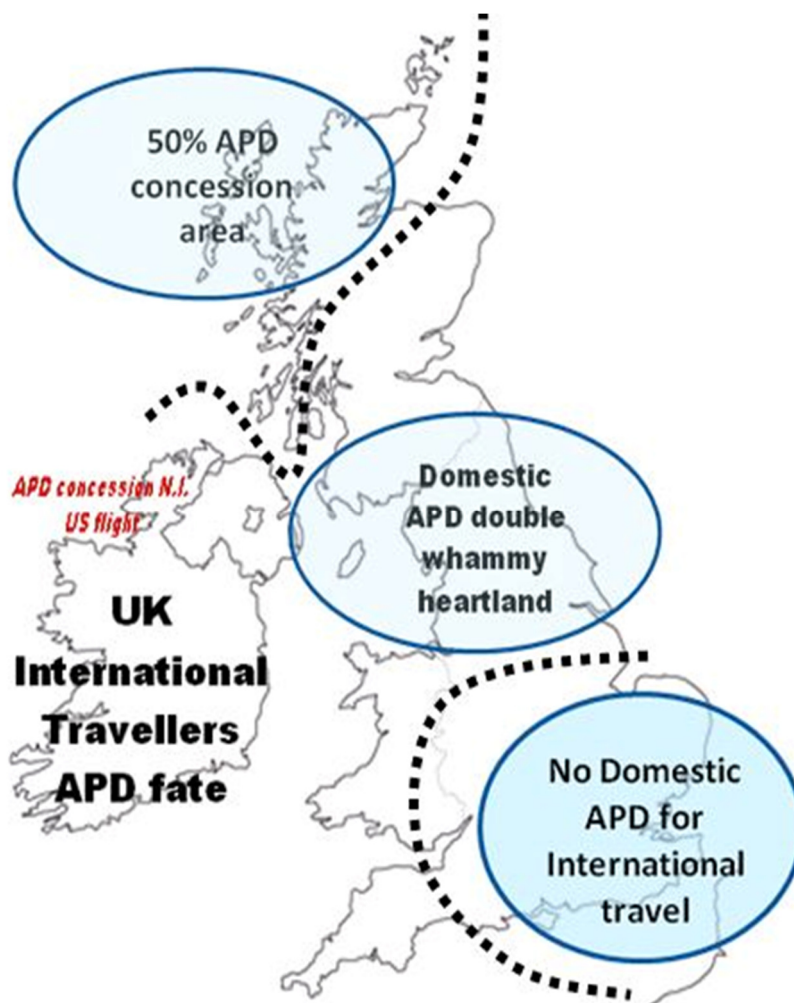
Figure 3;
UKAPD reduced rate (Domestic and EU Services) 2006 - 2012
Source: CAA Statistics and HMRC



- 6.6. We believe, therefore, that it is Government, and *not* maturing or volatile travel markets, which has driven the decline in domestic (and wider regional short haul) aviation. The Government has created market distortions by its own actions. The level of tax relative to the average fare on domestic trips and the way it applies on both legs of a domestic return trip cannot possibly be said to support the UK's ambition of internationalising of the UK regional economies. Such a perverse outcome therefore places the onus on Government to intervene to address it, if it is sincere in its desire to support regional economic growth.
- 6.7. APD has never been rationally graduated. The basic domestic rate for APD has rocketed 160 per cent from £5 for a one-way flight when it was introduced in 1994, to £13 today, which on a domestic sector, such as Newquay – Gatwick of 215 miles, works out at an average of 6p per mile. By way of contrast, the new Band B rate for long haul will be £71 from April 2015, which, on a 3,400-mile trip to Bermuda, works out at 2p per mile; or 6,000 miles to Tokyo at 1.2p per mile. There is absolutely no logic to such a discriminatory tax regime

(originally introduced for environmental reasons), that favours international and long haul travel that as a by-product generates far more carbon emissions.

- 6.8. It also has the rather bizarre and presumably unintended effect of creating a tax on the regions compared to the residents of the south east. This is because residents in the south east can use surface modes of transport to access air travel networks covering most of the destinations they might like to fly to (see Figure 4). By contrast, travellers in other parts of the UK need to travel by air to another UK airport and have to pay an incremental tax for their UK connecting leg.



- 6.9. HM Treasury has told us previously that it would only consider revenue-neutral reform. In line with this policy position, we would like the Commission to recommend a possible change that is in line with Treasury preferences and would complement the changes recently made to the long haul tax bands (which was primarily of benefit to larger airports and airlines capable of supporting those type of services), by introducing a small increment on APD rates at London's most congested Airports (i.e. LHR and LGW) to offset a reduction or removal of Band A APD from passengers using airports with less than 3 or 5 mppa.

6.10. The table overleaf summarises analysis submitted to the Airports Commission in June 2013 by the UAG group of airports. Whilst it needs updating and expanding, it is nevertheless a useful guide to the figures that would be required for different offsetting schemes.

TABLE 1: OFFSETTING INCREMENTS AT LHR/LGW FOR DIFFERENT FORMS OF DIFFERENTIAL APD INTERVENTIONS

All Regional Airports with Less than 2mppa	Total Pax 2012	Approx APD	As % of Total APD
	9,778,278	£63,558,807	2.10%
If APD taken away from airports of less than 2mppa and added to LHR/LGW it would equate to an extra fee per departing passenger of	£1.26		
All Regional Airports with Less than 1mppa	Total Pax 2012	Approx APD	As % of Total APD
	6,004,625	£39,030,063	1.29%
If APD taken away from airports of less than 1mppa and added to LHR/LGW it would equate to an extra fee per departing passenger of	£0.77		

Source: UK Airports Group Analysis

- 6.11. Such is the importance of this issue to Flybe, we have commissioned Oxford Economics to examine the impact of a number of 'revenue neutral' APD structures that are designed to encourage regional flying, while generating positive net economic benefits nationally and locally at the cost of small scale rises in APD elsewhere. OE's modelling suggests that APD on domestic flying could be reduced substantially or eliminated altogether for relatively modest increases at London airports. Similar results appear possible if the APD reductions were to be targeted at small and medium-sized airports rather than a specific type of flying.
- 6.12. Although OE's work is not yet finished, we are anxious to share it with the Commission as soon as it is complete, because it suggests very firmly that if this fiscal tool is carefully re-designed with re-distributive outcomes in mind, it can make a material difference in two respects. Firstly, it can be redesigned to reduce pressures on the most congested airports whilst a new runway is built. Secondly, such redesign can also stimulate traffic growth at regional airports elsewhere in the UK. Keeping in mind that the APD modelling using NAPAM, which the DfT/HMT have undertaken, has not looked at such scenarios, we strongly urge the Commission not to set APD to one side in its deliberations. We would recommend that the DfT should model some new scenarios along these lines because we are certain the outputs will be both enlightening and helpful to the Commission in fulfilling their wider national remit. This is because it is clearly understood within the industry, that the impact of APD on passenger demand is related closely to the percentage of the total fare it comprises. The implications are that on domestic and short haul international routes from small and medium sized regional airports, relatively modest changes to the tax will impact substantively on route demand and hence route viability especially on thinner more marginal routes. Conversely, where the size of the tax is quite small in terms of the total cost of a flight (e.g. at Heathrow and Gatwick), even quite substantive changes to the tax would have only a relatively small impact on total demand.
- 6.13. The literature on the price elasticity of passenger duties is extensive and we would be happy to set out our evidence in a more detailed follow-up paper, but we believe it would also be important to work closely with DfT officials, who operate the air forecasting

modelling suite being used by the Airports Commission, and which has also been used in previous HMT assessments of possible changes to APD, to specify a set of input assumptions for a model run that reflects our proposed differential APD regime. We believe that no model run with such a configuration has been undertaken thus far, or if it has, it has not been published. However, if it were, it would help to validate the conclusions of our own independent work.

- 6.14. Flybe is convinced that APD has had a disproportionately adverse effect on small regional airports of less than 2mppa, particularly those outside the South East. Effectively, the tax itself, and particularly the impact of the tax on both legs of domestic air journeys, has distorted the market significantly for these airports and the catchments they serve, and this has resulted in a loss of traffic that is affecting their short and medium term commercial viability.
- 6.15. As previous HMRC reports have demonstrated, small incremental increases in APD at Heathrow and Gatwick are likely to have little or no impact on demand from these airports, but a reduction or elimination of APD for smaller regional airports would almost certainly have a material and immediate effect. Moreover, the value of these revenue neutral measures would not only be enhanced connectivity domestically, within Europe and to the wider world from the UK's more peripheral regions and potentially fast-growing secondary regional cities, with all the economic benefits that this engenders, but also the long term financial sustainability of the many vulnerable smaller regional airports throughout the UK would be materially improved.

7. Prevent Discriminatory Pricing at CAA-regulated London airports

- 7.1. Turning to other issues that are materially impacting on regional aviation, as you may know, Gatwick Airport has changed its aeronautical charges to a 'per plane' landing fee, in an attempt to maximize its return for its investors. In 2011, summer landing charges increased by 62.5 per cent, while the pricing was reduced significantly during the winter months. This had the effect of making routes uneconomic in summer for smaller aircraft, as substantially increased landing charges are spread across fewer passengers in comparison to airline competitors that are using larger aircraft with more seats.
- 7.2. Gatwick argued that this provides an efficient allocation of a scarce resource (i.e. a single runway for the holiday season). It happens also, of course, to provide maximum profit to airport operators for whom typically half their revenue comes from non-aeronautical revenue, such as parking, retail and catering, much of which is passenger numbers-related.
- 7.3. The CAA supported Gatwick airport in a S41 case we brought to it, explaining that its remit is a narrow one:

'to further the reasonable interest of users of airports within the United Kingdom' and 'to promote the efficient, economic and profitable operation of such airports'.
- 7.4. This points to the Government's appointed industry regulator, apparently disavowing responsibility to promote regional aviation or regional connectivity. Indeed it would appear to comfort itself that the market is always right when it says:

*'If Flybe does withdraw from routes, or reduces its frequency on them, the CAA would expect that other operators or routes would take their place'*¹¹

- 7.5. Our experience highlights the wider concern that we and our regional partners have - that there is an *institutional bias* against the promotion and development of regional aviation in the UK. Any proposal that the Commission may make to add new runway capacity in the South East therefore needs to be balanced by policy which ensures inclusiveness (e.g. through increasing the range of regional destinations connected to a UK hub and affordable slots for regional aircraft at such a hub) and positive interventions to help regional airports achieve their full market potential.

8. Pro Regional Aviation Policy Initiatives

8.1. The following paragraphs set out some of our suggestions for such a policy:

- i. Support Local Enterprise Zones centred on regional airports: Newquay Aerohub, Cardiff International and Manchester Airport City are three examples. Flybe supports the further development of business clusters at regional airports, as this will only serve to underline the key relationship between business and the enhanced domestic and international connectivity that air travel offers.
- ii. Encourage the DfT to adopt a measure for UK citizens and/or regions that enhances multi modal connectivity and accessibility. Then set targets that should include efforts to improve connectivity and a baseline below which citizens and/or localities will not fall. Other EU countries have such formal or informal targets in this regard.
- iii. In line with recent policy improvements, continue to make the UK PSO policy guidelines more user friendly for the regions. Key issues to address by:
 - Permitting affordable access to hubs for inter connectivity purposes as practised in other EU countries;
 - Stop treating London as one destination – (the regions need access to the strongest airport and this is achieved by other EU countries whilst still complying with PSO regulations);
 - Financing PSOs – ensure financing and management is provided by the next tier of government above the two connected regions. So for Kirkwall- Westray it is and should be Orkney Isles Council; for Barra – Glasgow, Transport Scotland and Cardiff – Anglesey, the Welsh Assembly Government. For a link between a UK Region and London this implies the DfT in partnership with the local authorities/LEP in that region;
 - Develop a remote and peripheral region that compensates areas beyond reach of HS2 (e.g. SW, NI, and northern Scotland) (see below)
- iv. Attach planning conditions to new runway approvals that impose the right of UK regions to have slots reserved in perpetuity at the national hub at charges that are affordable for the size of aircraft those regional operations can realistically support. Once awarded, these slots can earn grandfather rights for the region rather than the operator, as practised in other EU countries, and as permitted by the EU slot allocation rules, but not by the current UK interpretation of them.

¹¹ Paragraph 5.2 Investigation of the structure of airport charges levied by Gatwick Airport - CAA decision 17 January 2013)

8.2. Other important interventions might encompass:

- Requiring a route allocation committee's local rules to ensure that there is regional representation and the regions have rights and targets in discussions on additional or freed slots. This may require the Committee itself not to be dominated by the larger vested interests, as they are currently. The EU parliament is currently making efforts to ensure this kind of change happens.
- We would also like to see the CAA Regulatory Policy Group have its terms of reference changed. They should have a UK regional air access remit in line with targets set by the DfT. This would also extend to incorporate issues such as predatory pricing by congested airports on regional aircraft – thereby ensuring regional slots are available and regional air operations are affordable.

8.3. These matters are too important to be left to a constrained, and artificially skewed, market where airport incentives are to seek more lucrative routes than the UK regions. Government, taking a UK wide perspective, has a duty to intervene where there are such instances of market failure.

8.4. Regional development interests in the devolved government, English regions and Crown Dependencies should be required to develop economic and regional development strategies that set targets for connectivity and provide policy levers and interventions to deliver them.

9. State Aid to UK Airports

9.1. The new EU Regional Aviation State Aid Guidance were published in January this year and define a ten year adjustment for airports with up to 5 mppa and not eligible to provide Services of General Economic Interest (SGEI), to become commercially sustainable. We think this is overly ambitious and could result in airport charges rising and service levels falling. We would like to see the Commission ask the Government to caution the EU about this proposed timescale and the need for member states to be given greater time and flexibility as to how they can achieve this goal.

9.2. It is also urgent that the UK develops a coherent and consistent regional air access policy that permits some of these airports to achieve, or regain, a quality link with London. This in turn will allow these airports to more easily achieve a sustainable financial footing. By the time the new runway is built, these airports will have been through their ten-year adjustment period, and if nothing is done, some will probably be closed before the cavalry can arrive.

9.3. To avoid this, we believe that interim measures should be recommended by the Commission based on the idea that it is in the UK's interest that the country retains a network of airports with overlapping catchments so that competition works in the interest of consumers and airport's monopolistic tendencies are somewhat curtailed.

9.4. The suggestion in DP6 that if an airport is within one hour's drive of another it can close without significant impact on the region's connectivity underplays the fact that someone living on the far edge of the closed airport could face a significant commute to catch their early morning flight and the same again after their arrival back that evening. This would impose material costs on business, which regionally based companies would suffer from most. Our suggestion, therefore, is that Government introduces a remote and peripheral

region connectivity strategy focused on areas beyond the reach of HS2. (e.g. SW, NI, and Northern Scotland). Even a tiny fraction of the money the Government is proposing to spend on HS2 or raises each year from APD, would allow considerable stability and embellishment to be brought to the regional airport network, enabling them to improve use of their existing capacity, meet more air travel demand locally and therefore reduce the volume of leakage and surface journeys to South East airports so that these do not fill up quite so rapidly.

- 9.5. An example of one such strategic measure would comprise making the slot reservations set out in the Table 1 below mandatory for the UK's four most peripheral regions

TABLE 1: DAILY PAIRS OF SLOT RESERVATIONS FOR THE UK'S MOST PERIPHERAL REGIONS

Airport	Heathrow		Gatwick	
	Current	Proposed	Current	Proposed
Aberdeen	11	11	4-5	5
Inverness	0	2	2	5
Belfast	9-10	10	9	10
Newquay Cornwall	0	2	2	3
Total	20-21	25	20-22	23

- 9.6. The total claim on the slot portfolio at the two airports would be:

- Heathrow: 9,125 pairs of slots per annum, or 3.8-3.9 per cent of currently available annual capacity (470,000 ATMs); and
- Gatwick: 8,395 pairs of slots per annum, or 6.3 per cent of currently available annual capacity (265,000 ATM's).

- 9.7. This amounts to a very small cost for maintaining links between, and providing connectivity to, the wider world for all parts of the Union, and one which will be readily achievable in the context of new runway capacity.

- 9.8. If the Commission were minded to advocate more immediate interventions, in the context of the extensive international short-haul portfolio routes at Heathrow, it is worth noting that there are:

- A number of routes on which there are up to three competitors;
- Others where point-to-point passengers might be served equally as well by High Speed Rail connections, given they are physically closer to London than Aberdeen;
- And others still, which serve outbound leisure destinations and are therefore a questionable use of valuable Heathrow slots.

- 9.9. Imposing some form of route-based frequency cap on these routes would therefore seem a readily achievable way of generating the supply of additional slots required. With surface travel times from Aberdeen and Inverness to London and its airports of between 8-10 hours, passengers need to fly. With rail access times of 2.0-4.5 hours on many of these routes, there will be less need for high frequency air services from Heathrow and/or Gatwick to these cities than there is to the North of Scotland. We estimate that if the number of services to Amsterdam, Brussels, Paris and Dusseldorf alone from Heathrow were reduced by 25 per cent (Cologne has only 3 flights in each direction per day and is therefore excluded) and some of this lost seat capacity could be replaced by up-sizing the

types of aircraft used on the route), nearly 200 slots would be released. If Frankfurt and Geneva were also included that figure would rise to over 250 - more than sufficient to meet the needs of the UK's peripheral regions, without having to cannibalise slots to other parts of the UK. Flybe would be very keen to serve these routes.

- 9.10. The alternative would potentially be to convert Northolt as a temporary 'satellite' facility for services from the regions that do not currently have air services and operate it until a new runway is built at the national hub, following which it would be closed down or revert to its original military purpose.
- 9.11. We suggest that the *Regional Air Connectivity Fund* becomes permanent, rather than temporary, until the new runway is built. Under current indications, the fund will have expired before the new guidelines and protocols for RACF are developed by the DfT. The potency of RDFs was demonstrated in the early noughties in Scotland and other regions, and now that the State Aid rules have been clarified, once the UK interpretation is agreed, the fund should be run with some level of stability.
- 9.12. If the UK hub is full and regions are now achieving international connectivity via other hubs such as Schiphol and Dublin, the regions should consider establishing international PSOs to protect their vital interests. EU officials have indicated that *international PSOs* may be an increasingly popular transnational way of dealing with European slot capacity crunches. There already are, or have been, instances of international PSOs.
- Mariehamn Airport in Åland to Stockholm is one that links the Åland islands of Finland with Stockholm. It is understood this PSO has been generated by and financed by the Åland Islands government directly dealing with the EU, as they have a high level of autonomy within the Finnish state.
 - There was a PSO between Derry in Northern Ireland (UK) and Dublin in the Republic of Ireland. This PSO was financed by the Republic and ran until 2010, when it was suspended largely from a review of cost benefit considerations.
 - There are other international PSOs listed in the EU PSO listing but they are largely concerned with linking Strasbourg with Amsterdam, Copenhagen, Madrid, and Prague.
 - The Czech Republic also had approved three links between Ostravia and London, Brussels and Amsterdam, but none were taken up, as the tender process was unsuccessful.

10. Conclusions

- 10.1. In short, Flybe believes there are a wide variety of policy interventions that the Commission could recommend to Government to help ensure the core objectives of a well-rounded UK aviation policy (i.e. optimal use of regional airports, additional south east runway capacity and improved regional air connectivity to help rebalance the UK economy). We trust the Commission will show the independence of mind not to allow itself to be subsumed by DfT and CAA institutional tradition, and to be bold in setting out some or all of the mechanisms we have set out in this response as part of a package of measures associated with its preferred South East runway option.
- 10.2. We believe they are deliverable legally, and proportionate in terms of expenditure elsewhere in the transport sector and the tax raised from the aviation industry. Crucially, they would help to build a political consensus that would be difficult to achieve otherwise.

Flybe commends them to the Commission and is ready to play its part in supporting them politically and delivering them operationally.