

Airports Commission Discussion on UK Regional Airport Capacity: a response from the Welsh Government

Introduction

1. The Welsh Government welcomes the opportunity to engage further with the UK Airports Commission (the Commission) and has prepared the following response to the Commission's call for evidence on the role and contribution of regional airports to connectivity and capacity in the UK.
2. The Commission's Interim Report, published in December 2013, suggested there was little scope to redistribute demand away from London Airports or to move traffic from London to regional airports without having a negative impact upon the UK's overall air connectivity.
3. For those and other reasons the Interim Report shortlisted Heathrow and Gatwick for further consideration as long-term capacity options (with further consideration to be given for the Thames Estuary option).
4. Given the marginal role assigned to regional airports, in the Interim Report, as a potential solution to UK Airport Capacity issues, this latest call for evidence, focussing on regional airports is an opportunity to redress the balance.
5. The Commission's discussion paper can be divided into two parts:
 - The first half considers the role of regional airports in providing air connectivity to the UK. It considers demand, route and passenger trends from these airports; developments in their business models in response to market challenges and changes; and some options for enhancing their connectivity.
 - The second half considers similar issues to the above, but does so in the context of airports serving London and the south-east of England (excluding Heathrow and Gatwick).
6. It is the first half of the discussion document that is of most interest to Wales and upon which our response is focussed.

Comments

7. The Welsh Government is in broad agreement with the Commission's analysis of the multiple factors influencing air connectivity at regional airports as set out in its discussion paper on the role of regional airports (the paper). In particular the Commission is right to identify:
 - (a) Capacity constraints at Heathrow and Gatwick airports which have led to a prioritisation of larger aircraft to maximise revenues with a resultant 'squeezing out' of domestic connections.

- (b) The corrosive effect of Air Passenger Duty (APD) in acting as a particular disincentive for domestic flights (given the charge on both 'legs' of the journey).
8. In Wales we are particularly concerned about the impact of APD on both domestic and international connectivity. For these reasons we continue to make the case for devolution of powers over APD so that we can make changes that will help incentivise improved service provision rather than suppress demand, and which support a more attractive environment for operators.
 9. Given that the discussion paper identifies APD as one of the factors in driving a decline in connectivity between London and regional airports, it is disappointing that in its Interim Report, the Commission considered that the perceived risks of regional variations in APD outweighed the benefits of incentivising improved connectivity. We do not agree with the rationale that devolution of APD would create damaging market distortions and we will continue to argue the case for its devolution.
 10. We recognise the consideration given to non-domestic connectivity trends from regional airports. In this context the discussion paper pointed to the route network peaking pre-recession and continuing to decline or flat-line at small and medium sized airports (less than 5million passengers), whilst the larger regional airports (more than 5million passengers) have managed to either grow or at least stabilise their route networks.
 11. We broadly agree with this analysis, however we note that in considering changes to routes and the purpose of travel from regional airports, the discussion paper cites Cardiff Airport as an example of a trend (between 2007-13) for some regional airports to lose routes for leisure and business travel. The paper does not acknowledge the upturn since 2013 in new routes and carriers from Cardiff Airport. Some of the 'lost' routes listed in the Commission's paper have since been re-established and added to.
 12. We feel it important to add balance by reflecting upon our experience and evidence of Cardiff Airport's performance since our acquisition of it in March 2013. Over the past year there has been a substantial percentage growth in passenger numbers. Civil Aviation Authority (CAA) figures for the airport in February 2014 showed that rolling year passenger numbers totalled 1,079,859 for 2013/14, an overall increase year on year of 7% for the period 1 March 2013 to 28 February 2014. In addition detailed CAA figures showed the following positive improvements in passenger numbers:
 - inclusive tour passengers were up 15%,
 - low cost passengers were up by over 5% over February 2013,
 - schedule passengers were up by over 35% over February 2013.
 13. We have also seen a significant number of new routes announced over the past year:

- CityJet announced in December that they will be starting flights from Cardiff to Glasgow, Edinburgh and Paris in January to replace the FlyBe flights,
 - Vueling are now flying all year round – it has launched its summer schedule to complement its winter programme,
 - Thomson and First Choice have also announced additional flights from Cardiff airport,
 - Germanwings take over the operation of the Dusseldorf route from Lufthansa which will continue for the 2nd year in 2014,
 - Ryanair have returned to Cardiff, and will operate a weekly winter flight to Tenerife,
 - new flights and routes have also been secured for flights to the Caribbean, Malta, Spain and P&O Cruises.
14. The paper also considers the financial pressures on regional airports and considers historical trends on their viability and profitability. The paper cites Cardiff (alongside Prestwick) as examples where airports have been acquired by their respective devolved Governments as a response to concerns over their ongoing viability. However, in the case of Cardiff, no mention is made of increased profitability, passenger numbers and overall viability since the change in ownership.
15. The Commission is right to highlight the approaches of some regional airports toward further developing and maximising income streams from non-air revenue streams i.e. retail, catering and car parking. This is a trend that we recognise in Wales. At Cardiff Airport, upgraded terminal access and facilities has seen commercial benefits in non-aeronautical income for the airport.
16. We welcome the consideration given in the discussion paper on whether and how Government can intervene to help enhance connectivity at regional airports. We note that the Commission identifies potential opportunities for Infrastructure and start-up financing within the new EU Guidelines on State aid to airports. In particular the ability to:
- (a) grant State aid to finance infrastructure investment at airports of less than 5million passengers per annum and
 - (b) provide 'start-up aid' under certain conditions to airlines departing from airports with fewer than 3million passengers per year.
17. All of Wales's airports fall within the fewer than 3million passengers a year category and so we are considering the scope to use these guidelines to support both infrastructure improvements and route development at airports in Wales.

18. The Commission is right to emphasise the significance of Public Service Obligations (PSO) as an additional source of State aid in appropriate circumstances. In Wales we actively use the PSO regulations to support the Anglesey to Cardiff route. The potential to use PSOs to support not just connectivity to remote areas but also to safeguard links between the UK's major cities (outside of London) should be explored.
19. We also note the UK Government's announcement earlier this year on the Regional Air Connectivity Fund and we look forward to the anticipated consultation in the summer with the first call for applications later in 2014.
20. We are also in agreement with two further alternative measures that the Commission identified to enhance regional airports – reform of APD and targeted international tourism. We have already commented upon APD. We are undertaking that targeted promotion of Wales as a destination in domestic and international tourism markets. We also continue to work with airlines to promote routes to Wales.

Concluding Remarks

21. We are encouraged that the Commission has focussed a call for evidence on the UK's regional airports. With the cluster of major airports in London, it can be easy for UK organisations to overlook the role of regional airports as major economic drivers through facilitating international and domestic connectivity and as employers in their own regard.
22. Supporting the competitiveness of these airports is a key consideration in helping to address regional economic imbalances. The Commission discussion paper identifies a number of means for doing this and we would regard APD and the use of the new State aid Guidelines to support investment in infrastructure and start-up aid as particularly important.