

**Airports Commission**

**Discussion Paper 06**

**Utilisation of the UK's Existing Airport Capacity**

**Response by Newcastle International Airport Ltd**

**Background**

***Newcastle Airport is a key economic driver for the North East***

Newcastle Airport is a public private partnership between seven Local Authorities and AMP Capital of Australia. The Airport has a reasonable network of air services across the UK and Europe; including 6 or 7 flights a day to Heathrow and 2 a day to Gatwick, and in 2007 secured its first long haul scheduled service with Emirates' daily flight to Dubai. The Emirates service has helped significantly increase the region's connectivity and led to increased economic activity in the region with a positive impact upon employment.

The Airport delivers multiple benefits to the North East economy, including connectivity, jobs, GVA, inbound tourism, journey time savings, exports and revenues to the exchequer. In 2012, we commissioned York Aviation to assess the economic impact of Newcastle Airport, and their key findings were as follows:-

- The Airport supports 7,800 jobs, including 3,200 on site, a further 500 off site through direct effects, and a further 4,100 across the North East through indirect and induced effects;
- A total of £402.5m in Gross Value Added is generated annually;
- The Airport supports £57m per year via tourism impacts, and 1,750 tourism jobs;
- The journey time benefits generated as a result of services provided by the Airport will bring net economic benefits to the region of £243.3m in 2012. Journey time benefits are derived from shorter journey times for passengers and businesses, and the producer benefits triggered by these;

2013 data for freight shows that the value of flown exports carried through the Airport has grown from under £20M per annum in 2006, before the Emirates service started, to over £250M in 2013. The vast majority of this is carried by Emirates, which highlights the transformational or 'game-changing' effect a single long haul scheduled service can have. In the same period, trade between the North East and Australasia has increased from under £150M to over £360M.

***Proposed objectives of Government policy***

The objectives of Government policy on aviation should be to:-

- place aviation at the centre of economic policy, with the aim of using it to help grow the economy and making the UK more competitive;
- recognise the economic benefits of providing more airport capacity, and plan for this alongside other infrastructure requirements;
- view aviation and high speed rail as being complementary to one another, ensure that they are properly integrated, and recognise that for regions further north aviation is a better option than even high speed rail for domestic and short haul journeys;
- recognise that it is in the interests of the UK that it retains its important hub role, and plan for additional hub capacity to serve London and the rest of the UK. Heathrow Airport presents the most viable and deliverable option;
- ensure that as part of the planning permission for the above that some of the additional capacity is ring-fenced for regional air services;
- create the conditions for regional airports to flourish, including support for the use of differential rates of Air Passenger Duty (APD) to stimulate new regional air services, thereby encouraging the use of under-utilised runways in the regions, and reduce the need for surface travel within the UK;
- ensure the environmental costs of aviation are balanced with the economic benefits.

### ***Our proposals on APD***

Newcastle Airport has taken a key role in a group of regional airports, also including Manchester Airport Group, Bristol and Birmingham, which have undertaken research and lobbying regarding changes to the structure of APD. Initially our focus was on differential rates between congested and non-congested airports, and this was the subject of a HMRC review, and consideration by the Treasury. The proposal was, however, ruled out in the 2013 Budget. It did, nevertheless, get considerable traction, and we therefore took the view that we should sharpen our focus and put together a revised proposition.

During the summer of 2013 the same group of airports appointed York Aviation to look at an alternative proposal and its potential impact, focusing just on new long haul services, and for a limited time (2 or 3 year) period following their commencement. This proposal, for an APD holiday for new long haul services to non-congested airports, was finalised in October 2013.

### ***Response of the Davies Commission on APD, and our rebuttal***

In December 2013, the Davies Commission published its Interim Report, and rejected proposals to reform APD. The Commission looked at several proposals – devolving APD, varying APD by region and a ‘congestion charge’ on the busiest airports. It also examined a temporary exemption for new long haul services, as proposed by our group of regional airports. The findings on each were as follows:-

- Devolving APD was rejected on the grounds that it could give rise to competitive distortions between proximate airports on either side of a border (e.g. Newcastle and Edinburgh). We welcome this finding and remain strongly resistant to the devolving of APD to Scotland.
- Variable APD, i.e. an APD congestion charge, was considered to be better targeted, but was rejected on the basis that it would not increase overall seat capacity, it does not maintain or improve long haul connectivity, it is carbon inefficient, and the effects of the policy diminish over time. We welcome the view of the Commission that this would be better targeted than a devolved approach, but it would appear that the Commission has looked at this proposal through the prism of SE capacity issues, rather than that of regional economic development. The Commission refers to short term benefits for less congested airports. Such benefits might be small in the eyes of the Commission as they don’t impact significantly on the SE capacity challenge, but

might be considered large if viewed in terms of additional passengers, new routes and economic benefits at an airport like Newcastle, and a region like the North East.

- With regard to a temporary APD exemption for new long haul routes, the Commission dismissed our proposal with little supporting analysis. They argued that the idea could lead to airline churn as airlines seek to 'game' the system by moving routes to take advantage of the exemption. In addition, they added that rules to prevent this could be challenged on competition grounds. Our view is that these matters can be overcome and further work is being undertaken in this respect.

The Davies Commission has quite rightly considered APD in respect of its use as an instrument to deliver significant shifts in demand and the impact this would have on the requirement for additional runway capacity in the South East. Our focus over recent months, however, has been on something quite different – small shifts in demand that would trigger the bringing forward of game-changing new long haul services.

### ***Masterplan 2030***

We carried out a successful consultation on a draft Masterplan in 2013. The draft Masterplan took the form of a written statement covering policy context, forecasts, development proposals, economic impact, environmental impact, surface access and consultation arrangements. Alongside this statement are a series of plans, including three Key Diagrams for the years 2013, 2021, and 2030.

The draft Masterplan was launched at a press conference on 25<sup>th</sup> July 2013, and generated significant regional media coverage, focussing on the following key messages:-

- Support for a total of 10,000 jobs and a contribution to regional GVA (gross value added) of £1.2B by 2030;
- Our plan will deliver improved connectivity for the region by adding a range of game-changing new air services;
- Growth to 2030 can be accommodated without a runway extension and noise impact upon the local community will remain low;
- Grade separated junction to the main terminal complex will not be required;
- The Airport itself will only grow within the previously identified envelope.

The consultation generated very strong support for the proposals from stakeholders and the public, with only 7 objections, and in January 2014 the Board agreed to the adoption of the Masterplan.

### **Responses to specific questions**

#### ***Role of non-London airports***

The Commission is correct in identifying a reduction in air connectivity between UK regions and London in the last decade. This reduction has occurred and at the same time there has been a split into two types of service:-

- The first type is hub services, such as Newcastle to Heathrow. These have reduced in number and are now limited to more distant large cities/regions that can support high frequency and medium sized aircraft, and can provide a large hub feed. The Newcastle to Heathrow service is 6 or 7 times a day, carrying almost 500,000 passengers a year, of which 50% are connecting to onward flights. The remaining 50% are travelling point to point, but many are wishing to access western London

and the M4 corridor. For both the interlining and many of the point to point customers, the rail service does not provide an acceptable alternative.

- The second type is point to point services, such as Newcastle to Gatwick. These serve a variety of point to point markets, but do not include any customers that are genuinely interlining. The possibility for larger scale interlining at Gatwick exists but it is not yet proven.

There are three key factors that will determine how the pattern of these services will develop in the future:-

- The provision of additional capacity, including the expansion of Heathrow to increase hub capacity, and possibly Gatwick to increase point to point capacity;
- The affordability of the capacity, which then translates into the cost of landing for regional services. In our view, the Estuary option would be so expensive that landing costs would be prohibitive for regional services, and so won't provide the additional regional connectivity that is hoped for in some parts of the country;
- The viability of air services, including the amount of demand, and in the case of hub services, the ability to feed the hub. Regional services have failed in the past, including at times when capacity wasn't so constrained, because they are not commercially viable.

In addition to point to point connectivity between London and the North East, Newcastle also serves other more distant UK cities, including Exeter, Bristol, Southampton, Cardiff, Birmingham, Belfast and Aberdeen. These services are generally operated using smaller aircraft and provide a valuable alternative to long train or car journeys.

### ***Regional airport business models***

The observations of the Commission on the business models of regional airports are broadly accurate. Newcastle is a larger regional airport, and a strong business. There are significant competitive and regulatory pressures on the business, but despite these it has been able to build its role and improve connectivity for the North East. The securing of the Emirates service to Dubai in 2007 is perhaps the best example of this enhanced role. Longer haul hub connections of this nature have been successful at only a very small number of larger regional airports.

### ***How connectivity provided by regional airports can be enhanced***

We recognise that PSO obligations are not suitable for the protection of air services for all but the most remote UK regions. The recently announced Regional Air Connectivity Fund does, however, provide some potential, and we await the detailed guidelines.

Our proposals above in respect of APD are worthy of further consideration, especially if the Commission assesses them based upon regional connectivity rather than South east capacity criteria.

