

Airports Commission
6th Floor, Sanctuary Buildings
20 Great Smith Street
LONDON
SW1P 3BT

25 July 2014

Dear Sirs

Discussion Paper 6: Utilisation of the UK's Existing Airport Capacity

We are pleased to submit the comments of Durham Tees Valley Airport (DTVA), which is part-owned by Peel Investments (DTVA) Ltd (89% shareholding), a part of the Peel Group, and the Local Authorities of Darlington Borough Council, Durham County Council, Hartlepool Borough Council, Middlesbrough Borough Council, Redcar and Cleveland Borough Council and Stockton-on-Tees Borough Council (11% combined shareholding).

This representation should be read alongside those from the following organisations:

- 1 Tees Valley Unlimited, the Local Enterprise Partnership for Tees Valley, with whom the Airport works closely to ensure it maximises its contribution to the local economy.
- 2 The Regional and Business Airport Group (RABA), of which the Airport is a member and which represents the interests of smaller regional airports.

We have considered the questions raised by the Airports Commission in Chapter 7 of the Discussion Paper on a topic basis and our comments are set out in the separate note attached. In this cover letter, we provide background information in respect of the Tees Valley area, describe the characteristics and role of the Airport and provide our observations on the issues we consider the Commission should address in respect of regional airports more generally.

Durham Tees Valley Airport serves the areas of the Tees Valley, South Durham and North Yorkshire. In particular, it provides vital air links for the petro-chemical complex on Teesside, the largest in the UK and the second largest in Europe, with routes to Aberdeen (Eastern Airways) and Amsterdam Schiphol (KLM). It also handles leisure traffic through KLM and seasonal services provided by Newmarket Holidays to Italy and Flybe to Jersey, but the main focus is on those essential business services.

The petro-chemical complex on Teesside is of national importance and ensures this is one of the few areas of the UK with a positive trade balance. The multi-national companies engaged within it are of international standing and many of the executives using the routes of Eastern and KLM are very regular travellers. They require quick and reliable access to the main centres of the oil and chemicals sector in the UK at Aberdeen (serving the offshore oil fields) and to their European sites and head offices and markets across the world. Whilst it might be argued that leisure passengers could take an hour or so travel time to alternatives at Leeds Bradford Airport or Newcastle Airport, that would not be acceptable for these regular business travellers. If DTVA did not provide the flights, this industrial base on Teesside would undoubtedly suffer in terms of its attractiveness for global investment. If the locality does not appear on internet flight booking systems, those foreign companies being encouraged to expand and trade with local firms or make new investments in the Tees Valley would be less inclined to do so. They would regard the area as inaccessible without convenient and identifiable air connectivity and the Tees Valley would not make the shortlist for investment. The petro-chemical sector is vital to the UK economy and DTVA plays a vital role in serving it. A national airports policy needs to address how it ensures these air services are retained and accessibility is enhanced, particularly to the national hub airport in the South East.

DTVA incurred losses of £4 million in the financial year 2012-2013 and again in 2013-2014. [REDACTED]

[REDACTED] Without a critical mass of passengers, the Airport cannot meet the high fixed costs of airport operations (which are increasing as regulation is passed down to the airport level). We are therefore looking to diversify into aero engineering, aircraft dismantling and other aviation related activity in which there is a local skills base in the local engineering industries and where there is also a wealth of aviation skills available with many servicemen who have served on the RAF and Army bases located in North Yorkshire still residing in the area. The International Fire Training Centre, for example, is located at DTVA, including a specialist fire training ground, the only one of its standard in the UK. Pilot training activity also takes place at DTVA. Many of these aviation roles cannot be served by Heathrow or other large airports and if such facilities are lost, it is unlikely they could be replicated at the larger airports. The integrated nature of the industry is often neglected in the debate about capacity, which is dominated by passenger numbers rather than reflecting this diversity of activity that takes place. However, the economic importance of these vital roles is not reflected in the income smaller airports receive for these services. Operating costs are high and relatively inflexible – a fixed cost which is not reflected in the aviation income which can be earned – a new model of viability is required.

Until 2009, DTVA had three daily flights to Heathrow operated by bmi. These services were well used, particularly by those in the petro-chemical sector. However, albeit the demand was present (and still is), the route was withdrawn in favour of a long haul route, where a larger aircraft size could be operated, which was more attractive to the operator. This has been a disadvantage to local businesses, but also to the Airport, which lost one of its main source of aviation income. It is important that this route should be reinstated. If new national capacity is created at a South East hub on any sound economic reasoning, this must be one of the top priority routes to provide with a service.

Albeit DTVA has no views on the respective merits of the options being considered for increasing capacity in the South East, we do welcome the focus upon the importance of linkages to regional airports displayed recently by both Heathrow Airport, with their national press advertising, and Transport for London, with their support for the report of The Smith Institute – *"Making Global Connections: The Potential of the UK's Regional Airports"*, which contained a number of insightful essays. The report for the Mayor of London *"Making Connections: Improving the UK's Domestic Aviation Connectivity with a new Four Runway Hub Airport"* prepared by York Aviation and Oxford Economic Forecasting, was of particular value in the quantitative assessment it provided of the economic benefits of reinstating the London link to DTVA. It calculated the value of four flights per day to be £220 million in GVA and with 2,180 jobs created in the wider economy. It estimated the route could be handling 450,000 ppa by 2050. This would therefore suggest significant benefits would accrue to both the local economy, but also to the viability of the Airport. As the report notes, *"Without expanding connections, there is some risk that Durham Tees Valley Airport could close if it remains loss making"*. Discussion Paper 7 notes at paragraph 3.16 there are 480,000 movements per annum at present allowed at Heathrow, so even without expansion, four flights per day which amounts to 1,460 movements per year would only amount to 0.3% of route capacity.

In Autumn 2013, the Airport published for consultation its *"Master Plan - to 2020 and Beyond"*. Public and stakeholder responses to the consultation exercise were generally supportive and the finalised Master Plan was published in April 2014 (two copies of the Summary are enclosed). It set out a strategy for the Airport as a business focused airport community, targeting sectors with the most growth potential and maximising the use of the Airport's land resources, which is substantial. The Airport site includes 250 acres to the south of the runway of flat land available and with planning permission for over 300,000 sq metres for aviation related development. Over 3,800 jobs would be created. The Master Plan and Consultation Report can be found on the website, <http://dtva-master-plan.co.uk/>. In promoting this new approach, the Airport has recognised it cannot afford to chase passenger numbers, but even so, there does need to be a stable environment for DTVA to continue to play its particular and important role.

We consider that the Airports Commission in its consideration of South East Capacity should, in making their recommendation, consider the national interest and this can only be achieved if the dimension of regional airports is an integral part of future airports' policy. We make the following suggestions:

- 1 Policy should recognise the importance of Regional Airports to their local economies. The starting point is not necessarily the airport, but the importance of connectivity to the local economy – and the national economic benefit that results. The petro-chemical cluster in the Tees Valley is of national importance, it requires convenient local routes to the offshore oil fields in the North Sea via Aberdeen and international destinations via the KLM route to Schiphol. It would benefit significantly from the reinstatement of the London route. The policy approach should therefore begin with the question how can a viable future for DTVA be secured and how can links to the national hub airport be secured, given this is in the national interest?
- 2 The specialist role of smaller regional airports needs to be fully reflected in future policy formulation. The airport community is diverse and this should be explicitly supported. Flight training or intensive fire training will be carried out at airports, such as DTVA, not the large south East airports, whatever their capacity enhancements. However, the income received from this activity by the small airports does not reflect the true advantage the larger airports receive from it. There needs to be a much greater reciprocal return to smaller airports in the relationship. For example, allowing access for routes from regional airports in terms of movement numbers is not a big ask and whoever gains permission in the South East should willingly grant it.
- 3 If the additional capacity in the South East is to be justified as being needed on the basis of performing a national role, the regional airport dimension will be crucial. A hub is not a hub without spokes and a national hub will not satisfy that role unless it has national spokes in the form of routes linking it to regional airports. Only in that way can the new capacity created in the South East benefit the whole country.
- 4 There needs to be a much more rigorous focus on how this access is secured and guaranteed to be secured through ring-fenced slots. At the time of the planning process for the fifth terminal at Heathrow, regional airports were told that the additional capacity created would facilitate greater access to Heathrow – in reality, the opposite happened. The Interim Review Report of the Commission was particularly weak in seeking to use EU law as a reason that a robust mechanism to protect regional links could not be introduced. We believe the approach of a planning condition ring-fencing a number of slots for the use of routes serving named regional airports will be a simple mechanism that works. The condition would be fully justified in terms of their economic importance for local regional economies. As long as the condition is drafted in accordance with planning requirements, there is no reason EU law needs to be involved – we are not aware of it being raised in the context of planning conditions or Section 106 Agreements in other areas of the economy.
- 5 At a time when the divergence in the national economy between a resurgent South and a lagging North is increasing, it is very important that decisions taken about major investment, new infrastructure capacity and enhanced connectivity do not lead to even greater national imbalance. The North needs to gain also from the new capacity, so it too benefits from the greater global accessibility created. Enormous resources are to be spent by Government on HS2 on the basis of time saved travelling to London from the North. Such savings should be recognised in terms of air access also. If access can be made as close as possible to important economies, such as the Tees Valley, from a local airport, that will be equally important in terms of time saved as HS2. It would be illogical to say there is no dis-benefit in the air passenger travelling further to a larger airport and the additional time that would take and then saying that in respect of rail travel that the time saved through quicker speeds from the construction of HS2 is of great economic benefit. A fly local policy also reduces surface travel distances, which produces significant benefits in terms of both reducing congestion and carbon savings.

- 6 If the regional airport sector is to survive and it is in the national interest it does, the National Policy Statement (NPS) for Airports needs to address issues related to regional airports in a positive manner, setting out a strategic approach which provides a viable future and a sensible financial basis for people to invest in them. It should recognise that planning policy will affect their long term future and that forward passenger projections for one half of UK airports would render them poor investment decisions unless they have clear support from a thought through national policy. The NPS will need to include policies which support regional airports to justify the wording "National".

We would welcome meeting with the Airports Commission to consider further and discuss our representation.

Yours sincerely



Peter Nears
Strategic Planning Director

Encs.