



where the sky
meets the sea
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Date: 25th July 2014

Tel: [REDACTED]

My Ref: F73:9/2014/DP625.07.14

Email: [REDACTED]

Your Ref: [REDACTED]

Dear Sir,

Re: Response From Cornwall Airport Ltd to Discussion Paper No.6: Utilising the UK's Existing Airport Capacity.

Cornwall Airport Ltd (CAL) a 100% owned Company of Cornwall Council as the operator of Newquay Cornwall Airport (NQY) welcome the opportunity to respond to Discussion Paper No.6, which we believe covers some important ground not yet covered in previous Calls for Evidence and Discussion Papers from the Airports Commission. The 'regional' dimension, by which we mean those parts of the UK outside of London and the South East, received scant attention from the Commission in its December (2013) Interim Report, much to the alarm of many in Cornwall who understand the importance of links between Cornwall and London and the difficulties airport capacity in London has and is creating for all those involved in securing, operating and using those links.

Discussion Paper No.6 still evidences some worrying preconceptions that appear to be based on a misunderstanding of the dynamics of the regional aviation market, which include:

- the effects a lack of scale and regulated fixed costs has on commercial viability,
- the importance of the catalytic (both direct, induced and indirect impacts) role of smaller airports in more remote and peripheral areas, and
- the inequity of the tendency towards one size fits all policy from Government in the regional airport sector.

These concerns will be allieviated, however, if there is evidence that the Commission will listen to clear evidence from the UK regional stakeholders and that they are not just going through this exercise simply to counter the criticism in the early part of 2014. We welcome Sir Howard Davies rhetoric about the the 'non-London' facets of his Commission's brief, but actions will now have to speak louder than Sir Howard's well chosen words.

Having made those opening observations, and before turning to the substance of our response, it is worth placing on record that Newquay Cornwall Airport is an active member of the Regional and Business Airports Group (formerly UAG), and as such is also a party to their separate collective response. We have therefore focused here on providing a Newquay

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and Cornwall specific response to the issues raised in DP6, whereas the Group will approach it from a more generic smaller airport point of view.

Finally, it should be noted that while our single shareholder [Cornwall Council is not a member of that Group, as the owner of the airport assets and CAL, they share our concerns about the Commission's work to date and our aspiration for a more regional aviation friendly policy agenda to emerge from this consultation and the prospective one on the short-listed runway options in October, When the Commission's makes its recommendations to Government.

What is Regional?

Our perception that when the Commission refers to a 'regional airport' it is referring primarily to the larger regional airports that do not form part of the London system. The threshold for airports specific commentary in the Interim Report and direct contact with one or more Commissioners prior to the launch of DP6, appears to have been around the 5mppa mark; some of the data sets used have included airports of 1mppa, but this has been inconsistent and the treatment has been superficial.

There is by contrast little apparent consciousness of the unique geography of the rest of the UK or of travel time and distance – airports and their catchment areas are, rather inside or outside London and the South East. Concepts such as peripherally or remoteness have little or no acknowledgement; the EU recognises Cornwall as the former, but in reality has the Commission? Does it understand the definition or full implications? Nor really are the limitations of surface transport modes as viable alternative means of travel to air services over water or long distances explicitly acknowledged. So for example, the centre of gravity of Cornwall's population is further away from the centre of London than is Newcastle or Carlisle, England's most northerly cities, but in travel time by road it is the equivalent of driving to Edinburgh, or by rail to Perth.

It is perhaps not surprising, therefore, though never the less disappointing, that there is an undercurrent running through DP6 which seems to be questioning the need for all the smaller regional airports in the UK, let alone links from them to London. There is an implicit assumption that it is acceptable for someone living in a more peripheral part of the country to travel an hour or more (indeed in many cases it would 2-3 hours) to access air services, in a way that would be unthinkable to the well-healed inhabitants and corporate intelligentsia of central London.

Whether it intentional or not, there is clear evidence of double standards being applied here to what is regarded as acceptable access to global air connectivity for London air users when compared with those who live in Cornwall. Such inequality would be unacceptable if they existed in respect of telecommunications, broadband or other forms of public infrastructure or service, so in an increasingly global economy why not also air travel? We are not sure how the Commission's Appraisal Framework factors in considerations such equity, but if it does not, then it should.

Cornwall needs an Airport and the connectivity it provides. The nearest alternative of any size that offers a range of hub connections and European destinations is Bristol, and that is over 3 hours away from the centre of Cornwall by car and substantially more than that by public transport. Whilst NQY may be a small peripheral airport which requires on-going public subsidy, it does not make it less necessary in economic or social terms. Cornwall Council (County Council as it were then) understood this when it acquired the RAF St Mawgan airfield from the MoD in 2008 and despite changing administrations and considerable budgetary pressures elsewhere, it has recognised the airport represents just as important a piece of public (& Transport) infrastructure in Cornwall as a road, hospital, school or port. In many ways, the Council was the enlightened forerunner of the Welsh Assembly and Scottish

Executive, who have also now had to step in to Airport ownership to ensure that commercial air services can be accessed readily by people and businesses living in South Wales and Ayrshire, when in 2006 the Council made the decision to embark upon the airport's transition project and all that has followed; but the vision and long term significance of that commitment, is now just beginning to be realised.

In our view the Commission should stop concerning itself with diversions about airport to population density and the need for small airports, issues that were no doubt put in its mind by some of the larger regional airports (e.g. Birmingham and Bristol), whose siren voices have been raising them solely because they would like to eliminate competition and widen their own catchment areas. Instead the Commission should focus not on whether smaller regional airports like NQY are needed - that is not within the Commission's remit - but on how they can be helped to serve their local catchment areas and economies better and in so doing contribute to relieving pressure on more congested airports in the South East by reducing catchment leakage and providing locations for non-essential activities that currently use them (e.g. base maintenance, dedicated cargo flights, Business/General Aviation – including military movements, flight testing and training and diversions).

Air Access to London

In this regard, the highest priority for airports less than three hours by surface travel from central London is year round air services to the capital. It is worth noting in passing that DfT's use of the Zone 1 boundary as a proxy for central London is an artificial design designed to eliminate interchange penalties in travel times for high speed rail passengers rather than reflect the high density destinations where in-bound travellers to London are typically heading. In the case of NQY, over 35% of our passengers are London bound, the advantage of air travel to them being the ability to do a *full* day of business and return home in a single day, whereas use of the train makes this impractical.

The loss of main line railway connections at Dawlish and through the Somerset levels last winter combined with Flybe having already announced its withdrawal from Gatwick, brought the challenges of travel to Cornwall without air connections into sharp relief. Having previously endured the closure of Plymouth and with the threat to NQY's long-standing London air connections all too plain, the importance of maintaining economic lifeline connectivity galvanised Government into action. We were delighted that the Government was willing to work with Flybe and us to ensure it could continue to serve Gatwick while the track at Dawlish was being repaired and that Cornwall Council and DfT were able to speedily agree plans to put in place a PSO to guarantee a London service for at least 4 more years. We would expect the Commission to recognise and endorse the importance of this kind of focused and considerate intervention in its final report to Government on runway options.

In this vain, we also very much welcome the fact London Heathrow has announced their intention to form a Regional Connectivity Taskforce and hope that the Commission will encourage this imaginative initiative as a clear statement of intent from the promoter that seems most likely to be focused on delivering a national hub airport beneficial to all parts of the UK, not just passengers in its local heartland. Our local MP Stephen Gilbert, has set up and will be chairing a new All Party Regional Aviation Group, and we understand one of its first tasks when Parliament returns in the autumn will be for that Group to examine regional air access issues as one of its priorities and to write to the Commission with its conclusions having done so.

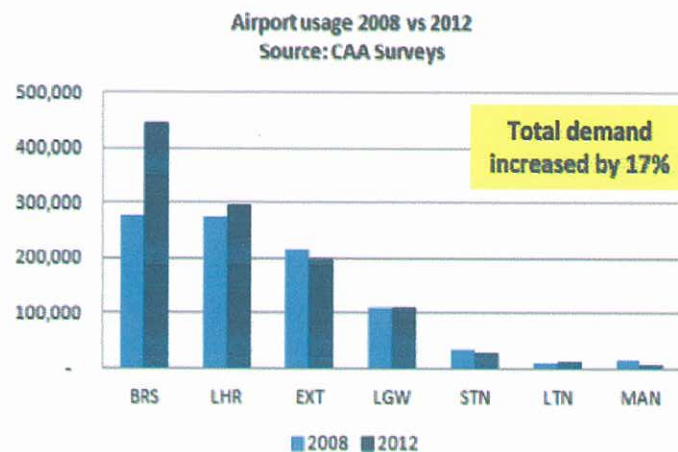
We note, that of the other major protagonists, Transport for London on behalf of the Mayor, are also highlighting in their submissions to the Commission how the whole UK must benefit from any new capacity, not just London. This is welcome, even if the premise that it is based

upon, namely a new four runway hub in the Thames Estuary, seems to us a less likely outcome to our concerns than a third runway at Heathrow.

London Gatwick has yet to go public with its proposals on this issue, but we hope they will recognise its importance and the need to demonstrate these responsibilities just as seriously as the other promoters.

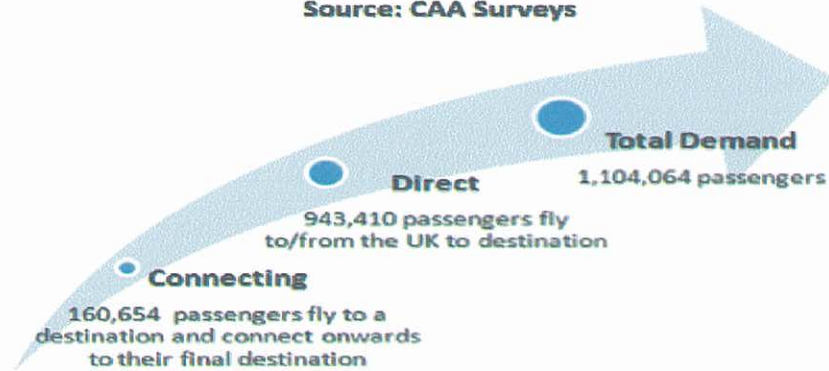
There is little doubt in our minds, that were NQY to have regular (i.e. 3 x daily access) to a UK national hub, and perhaps a complementary hub such as Amsterdam or Dublin, or ideally all three, passenger numbers would quickly begin to rise towards their 2008-09 levels and the extensive one-stop connectivity thus provided would help reduce materially the extent of leakage from the airport's natural catchment area in Cornwall and along the A30 and A38 corridors. The current link to Gatwick does not do this, and there is extensive leakage from the catchment to a range of other south English airports.

The chart below, which compares demand in 2012 with 2008 when the airport's passenger volumes were at their peak demonstrates that total demand from the catchment area has increased by 17%. In other words, passenger volumes at a smaller airport like Cornwall does not represent a fundamental problem of lack of demand, rather they are a function of the ability to access slots at key airports and the pricing of domestic air travel relative to international short haul services caused by APD and airport charges at places like Gatwick, which in our view are designed to price out small regional aircraft particularly in the peak summer months.



Indeed the same survey demonstrated that the total catchment demand from Plymouth / Newquay was over 1 million, whilst only 175,000 passengers used the airport (in 2013), and this includes those who do live within the airport catchment. Leakage from the core catchment is therefore likely to be over 90% (see below).

Passengers originating from Cornwall and Plymouth 2012 Source: CAA Surveys

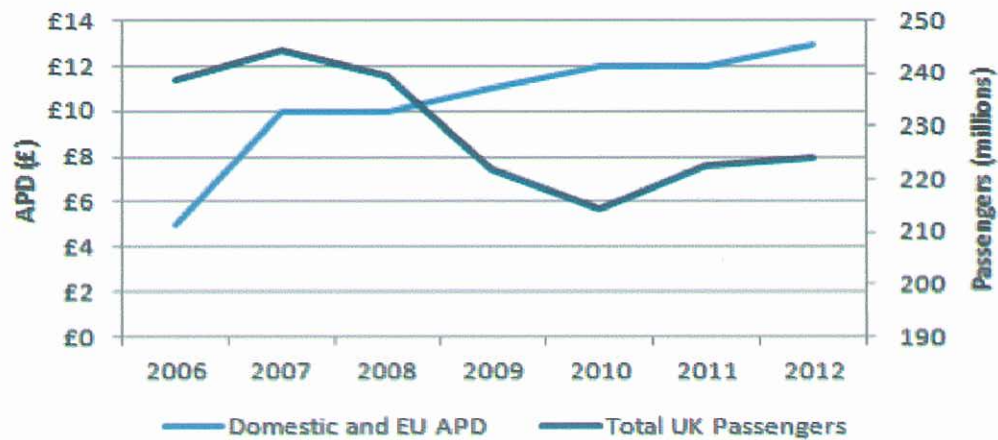


Until, therefore, all regional airports can secure access to one or more substantial hubs this, and particularly one in the UK, they will effectively be prevented from fulfilling their true potential by factors which are beyond their control (i.e. hub capacity and levels of domestic APD). As discussed in the BARA submission the Regional Air Connectivity Fund has been a hugely welcome initiative that we hope the Commission will endorse; like our colleagues in other smaller airports we just wish the process was not so time consuming to get underway!

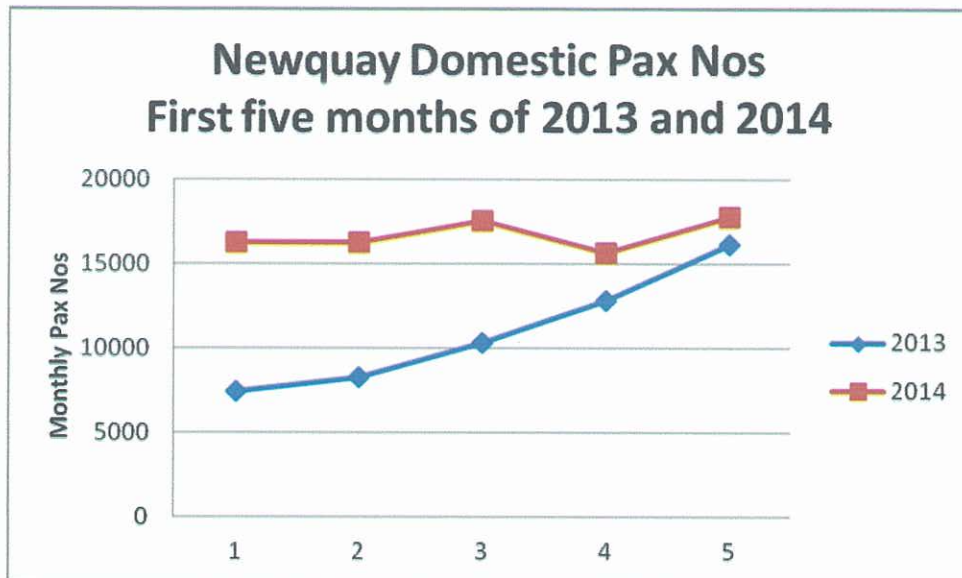
Air Passenger Duty and Passenger Numbers

One of the things we are most disappointed with in DP6 is the attempt made to downplay the effect of APD in the analysis of recent regional aviation trends. The graph below seems to us to show a strong correlation between rising APD and falling passengers. The extent to which interpolation placed on marginally relevant data in DP6 is not accepted. I doubt this would be accepted by our colleagues in other airports or (partner) affected airlines.

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



We understand only too well that it is a combination of the recession, APD and slot shortages at key London airports that impacted on our passenger numbers not ten-minute improvements to rail times or free Wi-Fi. Can a whole industry really be wrong?



CAA data

As the chart above shows, even taking into account the Dawlish effect, which is apparent until the beginning of April, when the line re-opened, passenger numbers are still up 21% in April and nearly 10% in May on the year before. This double digit growth is forecast to continue at least through the core summer months. In 2013 UK passenger throughput was itself up 6% over 2012 and the County is witnessing increased leisure and tourism visitor numbers and we are confident, therefore, that our passenger numbers will continue to rebound as our passenger survey consistently show, that 25% of them would not have come to Cornwall without an air link, and these passengers are disproportionately the short break high spending visitors Cornwall is seeking to attract.

This upward trend in the regional aviation market is against the upturn in the economy where discretionary spend in aviation terms typically lags 6-12 months behind coming out of the recessionary period.

Of course the argument about the need for APD at all is another matter, but the attempt to dismiss its significance as a key factor affecting regional demand in our view is wholly inappropriate.

It is often forgotten by those who look at the aviation from 'outside the fence' rather than within it, that the vast majority of the sector runs on high turnover and costs and very small margins, and that is especially the case at smaller regional airports. Consequently, it is not the fact that £13 (one-way APD) is only 10-15% of the cost of a typical domestic sector that is important, it is the fact that even half of that amount could double the yield per passenger on most routes or make others viable which would otherwise have incurred losses. The returns made by London airports like Heathrow and Gatwick are a world away from what is achievable at any airport of less than 3mppa. It is for that reason, that ignoring a vital fiscal intervention tool which has proven in Ireland and the Netherlands to be extremely effective, the Commission should be embracing changes as a means that will help optimise use of local airports and reduce pressures on larger London ones until new capacity can be put in place.

Tourism

It is worth bearing in mind that 30% of Cornwall's employment is directly or indirectly tourism related, that it is the 5th most popular UK tourism destination in terms of visitor numbers, after London, Scotland, Lake District and Devon, but is by far the most dependent economically

on the visitor economy. There are typically around 5 million leisure and tourism visitors to the County each year. Crucially, however only 5% of those numbers are from overseas – the market is resoundingly domestic in focus and year after year Cornwall is nominated as the favourite destination for domestic holidays, winning the British Travel Awards top UK holiday region five years in a row. The significance of this in the context of issues raised in DP6 is twofold:

- First, the absence of a major hub connection makes it extremely difficult to increase foreign visitors, even though the evidence illustrates that Cornwall has a strong profile within Germany and the Benelux area and there is clear evidence of unmet demand from these source countries with a major issue being connectivity. Whereas domestic visitors spend on average £264 per night, typically stay an average of 5.1 nights and arrive by car, 65% of international visitors arrive by air (few of them directly), they spend more at £457 per night and they stay for 7.5 nights¹.
- Second APD directly and disproportionately impacts the key domestic short break market that the County needs to develop if it is to move away from being just a short season, low value holiday destination characterised by the low paid and predominantly temporary jobs that are associated with it. For this market the domestic APD 'double whammy' has a hugely damaging effect and surely the Commission must recognise that this is an issue which the Government needs to address. Hiding behind a 15 year old legal opinion hardly represents enlightened or pro-active policy to improve the contribution of regional airports to the UK's overall capacity needs.

A recent study by Barclays' Retail and Hospitality & Leisure sector teams, is identifying major growth potential in domestic tourism largely driven by continuing pressures on the cost of living. The biggest beneficiaries of this outside London are potentially Scotland, Northern Ireland and the far South West with domestic tourism expenditure expected to grow by 25% to over £108 billion by 2017.



The UK distribution of visitors breaks down as follows:

• South West	28%
• South East (including London)	26%
• West Midlands	13%
• North West England	8%
• Yorkshire and Humberside	5%
• East of England	5%
• Wales	5%
• Scotland	1%
• North East England	1%

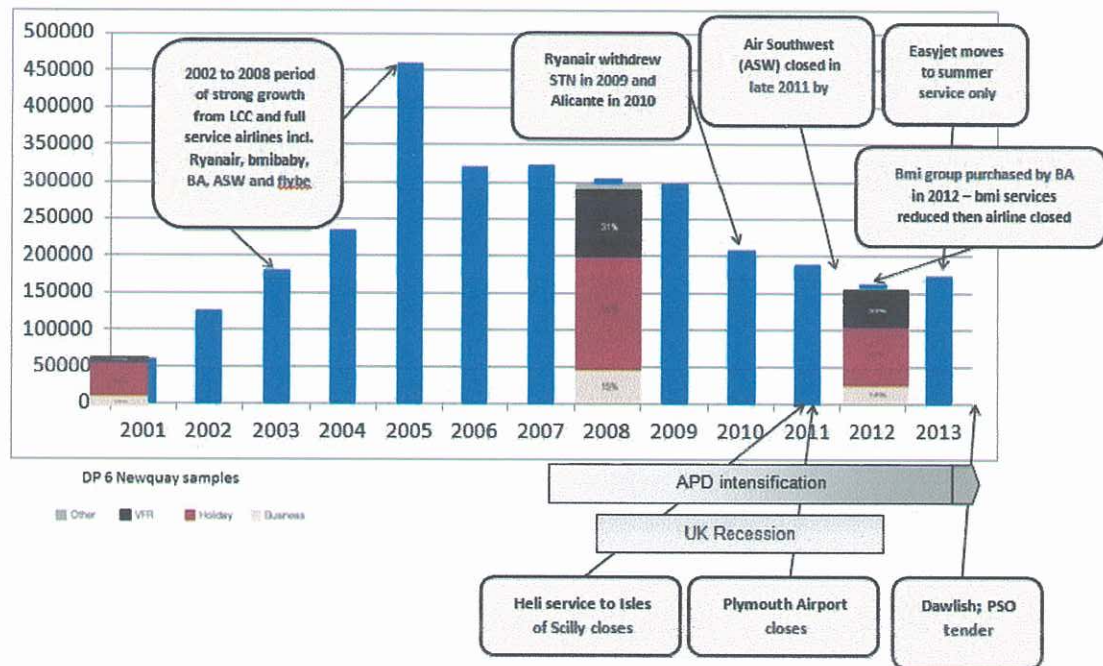
But if these three key regional markets are to be able to take advantage of this potential opportunity, given their distance from the major population centres in the UK, cost effective air travel needs to be an option in the transport mix for visitors, and for many places in those regions that is being constrained by slot shortages or high rates of taxation on domestic flights.

¹ Cornwall Visitor Survey 2012

Newquay and the Application of DP6 Analysis to it.

Discussion Paper 6 took an interest in the different mix of business, leisure and VFR traffic on domestic routes. Figures 1.6 and 1.7 were presented to highlight a trend of declining business traffic on such services with Scottish airports and selected airports in the Southwest (presumably Newquay, Plymouth and Exeter), used to illustrate the point.

We disagree with the approach and the extrapolations and interpolations that the Commission have made on the back of it. Firstly it ignores the fact that for NQY, for a lot of leisure traffic, is actually business traffic – see the section on tourism above; and secondly it ignores a multitude of other factors influencing traffic volumes and mix as set out in the graphic below.



It leads us to ask an important question. What is the Commission's point As it is far from clear?. The forgoing and the slightly incoherent conclusion to DP6, lead us to conclude the Commission still does not have a clear focus on the important relationship between regional airports and air services and its core task of assessing the need for, and best location of, a new runway in the South East.

The discourse about Flybe's initiative at London City Airport in DP6 is another example of this. The picture the Commission paints is that it is a game changer and should be welcomed as such. However, while we hope this venture by Flybe is successful – not least for our neighbouring Airport in Exeter which is to get its first flights to London as a result, the project is as yet unproven, and we see it merely as another example of traffic to London having to be disaggregated, because of the central problem of the lack of affordable access to London's most important airports and especially a Heathrow hub.

What the Commission needs to focus on, is not minor distractions such as this, but imaginative solutions that increase the contribution regional airports can make to the UK's overall aviation capacity needs. These include:

- providing a step change in hub access from smaller regional airports, whether by using an underused London facility as a temporary regional satellite until slots can be made available on the new runway, or the RACF to help establish and if needs be maintain access to international hubs like Amsterdam, Paris and Dublin;
- reducing the discriminatory cost burden imposed on smaller airports by having one size fits all regulations on border controls, safety and security – a more overtly risk based approach and one in which the state recognises the fixed cost penalties it is imposing on small businesses compared with their larger counter-parts, would be very helpful;
- as would assistance in helping regional airports to reduce their dependence on passenger throughput for their long term viability.

The latter is especially significant in the context of NQY. DP6 notes that Enterprise Zones (via the Local Enterprise Partnerships) have already been granted to Manchester, Cardiff, Newquay and RAF St Athan, and seeks examples of best practice in this regard, but the benefits being brought to NQY by business diversification, is not well represented in the Paper.

The Aerohub (EZ) at NQY is proving that it is likely to be the only realistic way to get the airport to truly diversify and break even in the short to medium term; that said we are also clear that the EZ would not work successfully without the passenger services and the civilian airport services that make it accessible. The airport is a major differentiator to the offer and EZ brand and creates a unique site for inward investment that simply doesn't exist elsewhere in Cornwall. So far we estimate the combination of the airport and EZ is generating £48m GVA and 170 new jobs on the Airport have been created since EZ status was granted in 2012. Average wages are £34,000pa twice the Cornwall average. During this period income from non- aeronautical activities has increased significantly. For example property income has doubled since 2010. This value and impact has been recognised within Cornwall and the Isles of Scilly Strategic Economic Plan, with the airport and EZ being of the highest priority and this has been further recognised with the LEP's most recent Growth Deal with a further £2m being allocated to improve access to the airport and EZ.

The lessons are clear: Develop regional airports as the focal points for economic clusters (like the Aerohub EZ at NQY), and support these with EZ's and growth funding; there is no reason why all smaller regional airports should not be used in this way. There is clear evidence that airports are a catalyst for economic activity but this is often not recognised on sites in more peripheral locations. In addition do not neglect route development and passengers service provision, because it is these that are crucial to the attraction of the location in the first place. So reduce APD at smaller airports, maintain the RACF, allow access to a well located and connected London airport and also to another international hub. Then you will have an effective and economically beneficial entity, contributing to wider connectivity measures and the re-balancing of the UK economy. The answer is not as Birmingham and Bristol would have you believe closing airports and sacrificing the substantial contribution that airports like NQY make to local accessibility and economic outputs.

Conclusions

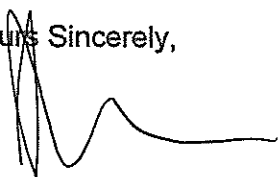
In 2005 Cornwall (County) Council made a huge decision with its local and EU partners to invest in the long term development of NQY. Their resolve has been tested during a particularly difficult economic period, but there are now signs of green-shoots and that the airport can become the transformational project it was always envisioned to be. They, like CAL are now looking to the Commission to make equally far-sighted and positive

recommendations to Government about the role of such smaller regional airports around the UK, not to castigate their potential and diminish their prospective role. We hope the Commission will dismiss those descending voices that don't fully appreciate the regional dynamic and the roles that those airports play in supporting the local economies and instead listen to those who do know what is required:

- Lower APD from smaller airports
- Route development and PSO support
- Enterprise Zone or other initiatives to promote growth at airports
- A reduced regulatory cost burden from Government and Regulators
- Access to a UK hub – in perpetuity
- A new dialectic that departs from the anti-regional tradition that has been so prevalent in DfT and the CAA
- A regional airport champion within Government to ensure this occurs.

The BARA submission will consider in detail how some of these initiatives can be achieved and explains that in almost every regard it is simply a case of political will to change policy, rather than some gargantuan legal fight or treaty re-negotiation that is required. We hope the Commission is willing to engage with us and our fellow BARA members to discuss in detail just how that can be achieved.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'A D Titterington', with a stylized, wavy line extending to the right.

A D Titterington
Managing Director
Newquay Cornwall Airport - Cornwall Airport Limited