RESPONSE TO DISCUSSION PAPER [By email to airport.utilisation@airports.gsi.gov.uk by 25 July.]

UTILISATION OF THE UK'S EXISTING AIRPORT CAPACITY

Introduction

The Heart of the South West Local Enterprise Partnership welcomes the opportunity to respond to Discussion Paper 06: Utilisation of the UK's Existing Airport Capacity. This response has been compiled following discussion with Exeter airport and local authorities in its area.

The Heart of the South West covers the area of Somerset, Devon, Plymouth and Torbay, in the South West Peninsula. We have a population of 1.7m and economy measured at £27.4bn in 2012, 2.3% of the England total.

The Heart of the South West is experiencing significant growth in population, up almost 6% between 2001 and 2011, and this trend is set to continue. However our productivity as measured in GVA per head is only 74% of the UK average, reflecting the distance from markets in London and the South East, and abroad.

Following the closure of Plymouth airport in 2012 there is one regional airport in the Heart of the South West area, at Exeter. There is significant leakage out of the LEP area to use other airports, primarily Bristol and London airports, especially Heathrow.

Strategic Economic Plan and Growth Deal

Improved connectivity is a top priority for the Local Enterprise Partnership, as indicated in our Strategic Economic Plan and Growth Deal bid, submitted to Government in March 2014. The first of our five key Proposals to Government is our aim to achieve transformational investment which will secure Strategic Connectivity for us to compete on the Global Stage.

Within this Proposal we recognise the fact that access to international markets and supply chains requires international transport connections. We therefore need improved connectivity to airports and improved air services – particularly with regard to the regional airports of Exeter and Bristol, and international hubs, primarily London Heathrow, but also Manchester, Paris and Amsterdam.

We recognise in our Growth Deal Proposal that regional airports need a critical mass to be viable. The LEP committed, in the Growth Deal, to:-

- Work with Exeter Airport and Devon County Council to promote measures that support development of Exeter airport
- Work with Network Rail, franchise operators and others to understand the demand for rail journeys to Heathrow airport and promote the case for the Western Rail Access

We are also seeking commitment from Government to:-

- Reconsider the case for rebalancing Air Passenger Duty (APD) to improve the viability of air services from regional airports

- Develop the Western Rail Access to Heathrow to allow seamless, fast rail services from Plymouth, Paignton, Exeter and Taunton

The outcomes we are seeking are:-
- To support the viability of Exeter airport ad encourage business development in a surrounding cluster
- To provide easier access to Europe and long haul destinations, and hence to global markets

Response to Questions in the Consultation Document

Reduction in travel from Regional Airports to London Airports

Commission question: Is the Commission correct to identify a reduction in air connectivity between the UK regions and the London airport network over the last decade? How do recent new routes to the capital, and the stabilisation in passenger numbers on domestic routes to and from London since 2010, affect this analysis*?*

We broadly support the conclusions drawn in Chapter 1 concerning the reduction in air connectivity between London and the UK regions. We agree that factors influencing the reduction in air connectivity between London and the regions include:-
- Regions outside the South East have been hit harder by the recession and are taking longer to recover.
- Capacity constraints at London airports, in that slot allocations favour larger planes, which are not used on domestic routes due to the limited scale of passenger demand.
- Doubling of Air Passenger Duty in 2007, with domestic flights experiencing a double hit, has depressed demand for domestic travel to London.
- Improvements in other modes (see below re rail) and lengthening check-in times at airports.
- Passengers using non-London hubs.

In particular there has been, in many regions, an emphasis on securing faster and more reliable rail services, so for access to London itself (rather than to London airports for onward connections) rail can often offer comparable or better point to point journey times, greater flexibility on departure times, and a more consistent work environment (less time at terminals, more time on travel mode).

It might be judged that Exeter is beginning to buck the identified trend for regional airports, as evidenced by the announcement of the new Flybe service to London City (para 1.12). This is perhaps an indication of confidence in Exeter and its subregion, reflecting the fact that the city is an employment hub supporting a population of more than 500,000 people, having grown at 6.6% per annum between 1999 and 2009 (compared with a national average of 4.6% pa), thereby creating 19,000 additional jobs. Exeter's Core Strategy provides for at least 12,000 additional dwellings, 60 hectares of employment land and up to 40,000 square metres of net retail floorspace by 2026.

This initiative by Flybe in introducing the Exeter to London City service indirectly supports the conclusion in paragraph 1.22 of the paper that the failure of *most* regional domestic connections to experience a recent uplift in traffic is because regions outside the south east were more severely affected by the recession and are taking longer to recover. Exeter was less affected and has been recovering well, and the new service is undoubtedly a response to that.

The new Flybe service to London City may also reflect the fact that Exeter and the South West Peninsula is unlikely to benefit from "order of magnitude" improvements in rail connectivity, which will be achieved in other parts of the country through electrification (Great Western main line and Midland main line) or HS2.

Commission Question: How do respondents view these trends developing in the future?

Is the Commission's analysis of the multiple factors influencing domestic air connectivity between London and the UK regions accurate? Of the factors outlined, which are the most significant or important for explaining how the market has developed?

We believe that the paper is right to identify (in paragraph 1.34) an increasing demand in point-to-point connections to the capital, citing the Flybe service from Exeter to London City as evidence of this. While not providing anything like the number of onward connections as Heathrow, London City is well placed for the capital's main business districts and to be able to fly direct to this central airport will enable door-to-door journey times for the business traveller to compete effectively with the train.

That will remain the case notwithstanding planned and aspirational improvements to rail transport between Exeter and London. The western rail link to Heathrow will provide a more direct link to that airport by train, and improved rolling stock (such as the new Intercity Express Project) will enable journey times to London to be improved. These factors may make it unlikely that an Exeter to Heathrow air connection will be established in future, but should not affect the attractiveness of the London City flights for point-to-point travel. Likewise, improvements that are being considered to the A303 trunk road, including additional dualling (see below), would benefit journey times and reliability to Heathrow, but a car journey would still not be able to compete with a flight to London City.

The scope for innovation to satisfy the increasing demand for point to point services should also be borne in mind, either through the introduction of new routes or new developments in aircraft technology.

Commission question: What additional factors, if any, should the Commission be mindful of? Is overall transport connectivity between London and the regions at an appropriate level? What are the social or economic consequences of changes to air connectivity? Can respondents provide any comparisons or other evidence to support their response?

Much of the south west peninsular suffers from poor connectivity. Road links east of Exeter comprise the M5 and the A303/30, the latter containing significant single carriageway sections. The improvements which are currently subject to feasibility work by Government would, over time, see the A303 upgraded to dual carriageway to Ilminster, and via the A358 to Taunton, but may not include dualling between Ilminster and Exeter. This would leave the M5 as the only dual carriageway road into the peninsula.

Both of the rail links to Exeter (from London Paddington via Taunton and from London Waterloo via Salisbury) have suffered repeatedly from flooding and landslips during the last two to three years, in addition to the well-publicised closure at Dawlish during spring 2014. The majority of the Salisbury to Exeter route is single track, reducing its usefulness as a diversionary route.

The main road and rail routes are therefore extremely vulnerable to interruption by weather and other factors. By contrast, Exeter International Airport has a good weather record. Following the closure of Plymouth airport, Exeter is the only airport between Bristol and Newquay. Its record for reliability makes the new London City service a much-needed and welcomed additional link to the capital, and potentially a key element of ensuring resilience of business connectivity to London.

General reductions in travel from Regional airports to non-London destinations

Commission question: What future trends do respondents envisage in domestic air connectivity excluding routes into London? How relevant are the factors explored in relation to London and the regions for these other domestic routes? Is the Commission correct in its analysis of changing purposes of travel and routes types at non- London airports?

We broadly support the conclusions of the analysis presented in chapters 1 and 2. We recognise that the pattern experienced at many regional airports has been one of strong growth to the mid-2000s, then stagnation or contraction. While this contraction occurred at the same time as the recession, it seems that there may have been a number of contributory factors occurring at about the same time:-

- The doubling of Air Passenger Duty (see below)
- The impact of the recession on the volume of business travel (businesses concentrating on core tasks rather than seeking to expand, etc)
- The impact of the recession on personal travel (holidays, visiting friends and relatives)
- The fragility of the business models of lower costs airlines

In particular, we have previously highlighted the disproportionate impact of APD on domestic flights and therefore on regional airports. In early 2013 Flybe announced it was shedding around 300 staff (100 in Exeter), due to financial pressures and particularly APD, for which its bill of £68m represented over 18% of its ticket revenues. Comparable figures (from "The Economic Impact of APD", PWC for the major UK airlines, Feb 2013) were about 11% for Easyjet and 7% for BA, and as low as 1% for Lufthansa, Air France and KLM.

We have previously argued (in our response to the earlier Commission consultation) for differential APD as a way of diverting flights and traffic from the congested south east to other regional airports with more capacity. We recognise that APD is an important source of revenue for Treasury, and hence had advocated a re-balancing with reduced levels of APD charged at regional airports offset by slightly higher levels at the main London airports. We were disappointed that the Commission appeared not to have an appetite for this, but welcome the recommendation in the Interim Report that APD should be set nationally and not devolved to the Welsh Assembly Government. The HMRC study in October 2012, "Modelling the Effects of Price Differentials at UK Airports", predicted a loss of traffic from Exeter (and Bristol) airport to Cardiff in the event that APD at Cardiff were reduced to zero. The current paper recognises the financial pressures on small regional airports and it would be potentially disastrous to the south west peninsula to allow Exeter airport to be undermined in this way.

Attention is drawn in para 1.45 to reductions in routes from some airports, including Exeter, to European destinations. One factor which may account reductions in demand on such routes is a lower propensity for UK residents to relocate to "sunshine destinations", either permanently or for periods of each year, given the post-recession conditions in, for example, Spain.

The paper is correct in identifying (in paragraph 1.37) growth in traffic from regional airports to foreign hubs, but it should be noted that other UK airports are also developing a hub role. Exeter, for example, has two flights a day to Paris CDG but also three a day to Manchester. These provide numerous onward connections, including through Flybe's code sharing arrangements with Etihad and Air France.

The importance of Regional Airports

Commission question: Is the Commission right to identify particular financial challenges for smaller airports? Can respondents corroborate or refute any of the Commission's evidence on financial pressures at regional airports? Is the Commission accurate in its analysis of the market dynamics affecting the non-London airports sector?

Experience in the South West is very much in line with the analysis in Chapter 2, that smaller regional airports have faced a challenging financial climate, and are likely to do so for the foreseeable future.

It is undoubtedly the case that the failure to sustain the trend of growing patronage widely experienced in the decade up to 2007 has been a severe setback to regional airports, prejudicing the delivery of their development plans and imposing significant financial pressures for some, particularly where business models were based around diminishing rates of income per passenger.

This is likely to be a continuing issue at the smaller regional airports, given that they have to maintain significant fixed assets such as runways and taxiways, air traffic control systems, safety and fire services, terminal facilities including baggage handling and security, irrespective of the number of flights and passengers using the airport.

At the same time, the paper correctly identifies the benefits generated by airports for the wider economy:-

- Economic benefits –employment, both direct and indirect, the latter by facilitating movement of goods and services, trade, investment and inward tourism.
- Improving quality of life for residents by making travel easier.

Consequently, the closure of an airport is bad for a region, especially one as geographically large and relatively isolated as the South West peninsula. For example, the loss of connectivity experienced through the closure of Plymouth airport was not just a blow to the city's business community in terms of connectivity, but also posed a reputational issue in terms of the city's ability to attract inward investment.

In this context, therefore, the continued operation of Exeter airport and its links to both domestic and European centres, such as Manchester, Edinburgh, Paris and Amsterdam, is fundamentally important for the Heart of the South West.

Our situation is very different from some other parts of England, where there are several regional airports in reasonably close proximity. In the case of Exeter, Bristol airport is some 66 miles away, to the north-east, while Newquay, the only other regional airport in the South West Peninsula, is 88 miles south-west of Exeter.

There is an economic imperative to ensure that accessibility to air services is maintained through retaining regional airports in more peripheral areas, such as the South West peninsula.

Is the Commission correct to identify a broad trend, especially since 2007, in larger regional airports retaining or building their route networks, whilst smaller regional airports' route networks shrink? What explanations can respondents provide for this trend?

We share the analysis that the larger regional airports – such as Bristol in the South West – have returned to a pattern of growing patronage, while the recovery of patronage at the smaller regional airports is continuing to be much slower. This is partly a reflection of the fact that the larger airports can command a population catchment sufficiently great for operators to expand the range of destinations served, and to reach beyond Europe.

It is also true that smaller regional airports are limited to a small number of airlines, with normally just one or two dominant operators accounting for a major proportion of their traffic. As a consequence, patronage at those smaller airports is inevitably linked to the strength of those carriers, and their view of market opportunities. In contrast, larger regional airports will usually have a larger number of airlines, which will be interested in different markets.

Larger regional airports are also likely to be able to generate greater income per passenger from terminal facilities, as the greater throughput will mean they can offer a significantly greater range of retail and catering opportunities. That increased income is, in turn, likely to make those airports more able to reach agreements with airlines about introducing new routes.

Commission question: Can respondents provide any evidence to counter or support the Commission's analysis of the UK population having quick access to relatively high numbers of airports, or to build on the Commission's comparison between the UK and other countries' airport networks? What analysis ought the national or local Government undertake when faced with a potential airport closure? In the longer term, what is an appropriate, adequate or ideal shape for the UK's airport system? Is consolidation of the airport network desirable, inevitable, both or neither?

Given the volatility in trends of patronage of air travel generally, and at regional airports in particular, one might be wary about establishing a template of the "ideal" pattern of provision of regional airports in the UK. This is clearly influenced by a large number of factors, many of which are not in Government's control.

However, given the importance of air connectivity for business, both outbound and into the UK, there may be a logic in having a "connectivity test" to guide whether there is a case for intervention in the event of a potential airport closure. Such a test would presumably involve evaluating the economic and social consequences of closure of an airport, with the loss of the services it supports, and analysing the cost of retaining those services through keeping the airport open.

Commission question on how the connectivity provided by these airports can be enhanced, and on the options to intervene in this sector. Has the Commission correctly identified the major options to support or bolster the regional airports sector?

The paper helpfully identifies a number of forms that state aid can take, which could be beneficial in enhancing growth at smaller regional airports:-

- Subsidies to provide lower landing fees.
- Funds for marketing.
- Investment aid in infrastructure including surface access.
- Operating aid to support or develop routes.

Given the significant role of the Heart of the South West as a tourist destination, one opportunity might be the use of support for marketing and lower landing fees to stimulate inbound tourist flights into the regional airports of the South West.

The paper identifies surface access improvements as a potential beneficiary of public funds, and these could take the form of support for capital investment in transport infrastructure, or revenue support for public transport services. Smaller regional airports generate patchy demand for public transport access, and at the same time, downward pressure on local authority transport budgets is putting supported bus services at risk.

For example, Exeter International Airport benefits from a bus service to and from the city, that operates approximately hourly throughout the working day. While this service pattern is appropriate for general bus users, it does not mesh particularly well with flight arrivals and departures, which begin early in the morning, continue late into the evening, and are not regularly distributed throughout the day.

With the exception of a few peak time journeys which are well used (helped by location of significant employment at and near the airport), the bus service carries low numbers of passengers and is dependent on County Council support. Continued pressure on local authority finances will inevitably put services like this at risk.

There may be a case for targeted Government support to ensure that smaller regional airports maintain an appropriate level of public transport accessibility, with links to railway stations and adjacent major settlements. In the case of Exeter there could be a case for an express bus link to Plymouth (partly in mitigation for the closure of Plymouth airport) and a shuttle bus linking to the new Cranbrook railway station, which is opening later in 2014 and will be less than 2 miles from the airport. At present, however, the scope for such integrated transport initiatives is prejudiced by lack of public funding.