



where the sky
meets the sea

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Your Ref:

Dear Sirs,

Response from Cornwall Airport Ltd to the Airports Commission's Consultation Document.

Cornwall Airport Ltd (CAL) a 100% owned company of Cornwall Council as the operator of Newquay Cornwall Airport (NQY) welcomes the opportunity to respond to the Consultation Document which was published in November 2014.

In consideration of the questions which have been posed in the consultation NQY does not offer responses to them all but focuses on the key ones, which impact upon our interests. These include the areas around forecasting and the economic appraisal whilst at the same time reaffirming a number of critical arguments, which we made in our response to Discussion Paper 06 in the summer of 2014.

It is also worth noting that NQY is a member of the Regional & Business Airports (RABA) Group and will be a signatory to its response to the consultation. In our response we will highlight some of the nuances which are more aligned to NQY interests but as a general principal the response by RABA is fully supported by the Airport.

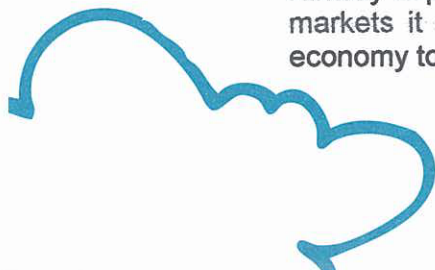
Question 1: What conclusions, if any, do you draw in respect of the three short-listed options?

It is clear that all 3 options have been considered in great depth, and all have significant strengths along with a number of challenges, which would need to be addressed. Each option presents its own difficulties whether that be environmental, financially or political, which we hope won't be the deciding factor in this crucial answer as to how the lack of runway capacity in the south east is to be resolved.

In our view it is almost the consideration of which option offers the best compromise but nonetheless a decision on that option which has to be taken.

From NQY perspective, the overriding factor is how to secure access to the new runway capacity which meets the needs of its defined catchment, the business and markets it serves which will allow one of the UK most peripheral regions and its economy to grow and flourish.

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Cornwall is designated as a Tier 1 region by the European Union and is heavily supported by the European Regional Development Fund (ERDF) programme to develop and diversify its economy. Air transport is a crucial part of the Cornwall & Isles of Scilly Local Enterprise Partnership (LEP) Strategic Economic Plan (SEP) and access to new and existing emerging markets is vital to an expanding economy and to make enterprise more competitive and productive. Access to import and export markets can only be (materially) made with access to the new runway capacity and the global connectivity that it will provide. In order to facilitate such economic expansion and diversity access from NQY is Vital.

NQY has engaged with the scheme promoters at Heathrow and Gatwick to ascertain their commitment to ensuring that regional access is being given due consideration. It is our absolute view, which we will elaborate on further in our response, that any new capacity has to be of the benefit of the whole of UK Plc not just the economic power house of London and regional powerhouses like Manchester.

In this instance we are not differentiating between the two Heathrow schemes as this is assumed that the 'HUB' option would ultimately be operated by Heathrow Airport Limited (HAL) if the Commission determined it to be the recommended option.

In our discussions with the scheme promoters we have been seeking to establish what voluntary measures should (and could) be made by them to ensure that Airports like NQY will benefit from the increased runway capacity. Our discussions to date are considered later.

NQY has been evaluating the options against the evidence provided by both the scheme promoters but also the appraisal documents published by the Commission to inform our own evaluation of which scheme will provide best fit for regional access. Whilst our evaluation has been considerable NQY is not yet in a position where it would make public its support for a preferred solution. The main consideration not to do so is driven by the fact that its discussions on 'voluntary' access to the scheme promoters airport are not yet mature enough to make a final decision on support, which would be vital to our strategy.

It is envisaged that agreement on voluntary measures will be concluded before the General Election and at the latest in advance of the Commission's Final report being submitted to the Government.

As has been stated above, NQY is very clear that any new runway capacity must be for the benefit of UK Plc. The Government has talked extensively about re-balancing the economy, it has failed to do this in other major transport projects e.g. HS2 which has no direct net benefit to the South West and in fact might make the regional less competitive. Only recently (26 January 2015) the Chancellor of the Exchequer visited Newquay town and made public statements that improved accessibility to the region to increase visitor/business numbers was a key target for Government.

The only way that any Government can make that commitment is to ensure its decision on runway capacity provides the tools to ensure such accessibility is realised. To that extent if there is a question mark over whether this is achievable or any evidence of lack of commitment from a scheme promoter to support regional

access, then we will not support that scheme and indeed actively lobby against it because at that point it would not benefit UK Plc.

It is worth noting that our approach has also taken the consideration of key stakeholder groups who also have an active interest in the subject and our evaluation incorporates their needs not just of our commercial interests but those which are vital to those groups. Discussions with the Cornwall and Isles of Scilly LEP, Cornwall Chamber of Commerce, Devon & Cornwall Business Council, Cornwall Manufacturers Group etc have all identified connectivity not just to London but connectivity to global markets as a key factor in the growth of the economy.

In considering the options we strongly believe that connectivity the regions via airports like NQY is critical and should be given significant weight in the Commission's evaluation.

Question 2: Do you have any suggestions for how the short-listed options could be improved, i.e. their benefits enhanced or negative impacts mitigated?

In our response to Q1 we stated that access to the new runway capacity from NQY is fundamental to our long-term interests and that such access should be a material consideration of the scheme promoters.

In terms of how the options can be improved they should go further than just being a consideration and a commitment should be made by the scheme promoters to how access can be safeguarded i.e. how landing/take-off slots are ring fenced. It needs to be noted that these slots have to be at the right; time, frequency and price.

In answering later questions we address market intervention, if and where necessary, but the guiding principal is that a route should be commercially sustainable. For many regional and peripheral airports the charging mechanisms at the airports of the scheme promoters make viability and sustainability almost impossible.

In our discussions with the scheme promoters, at current and future charging levels, we have made suggestions to consider charging structures which do not prohibit access to operators of these thinner routes and not price them out of the market. One of the charging mechanisms we are proposing is that the charges do not exceed what is charged at the regional airport.

These discussions are ongoing but we seek the commission's support to this approach which does not make regional access cost prohibitive.

By safeguarding access using such a charging structure would go some way to ensuring that air transport serves the objective of re-balancing the economy. Whilst there is a debate on how this can be done within the current legal and statutory framework, during discussion with the scheme promoters both have verbally committed to this, subject to a resolution to satisfy the safeguarding of those slots.

It is considered that the scheme promoters would need to work with NQY (and with RABA) and government to support this process as without that support it is extremely difficult to envisage any change.

We would also encourage the Commission to support the principal of ring fencing of slots in its recommendations contained in its final report to the Government. Through Discussion Paper 06 it has acknowledged the importance of access to the regions

and the evidence which was produced. It is time to make good on that expanded knowledge and recognition of regional aviation and promote this key objective.

The RABA Group has been working on the mechanisms that may need to be considered in order to facilitate access. The following summarise the mechanisms taken from the Group's submission:

- The use of Public Service Obligations. It should be recognised that the PSO does not specially require a subsidy rather the principals of the criteria being applied.
- Making guaranteed regional access a condition of the chosen scheme securing planning approval i.e. Section 106 obligations
- Creating pricing policies that better protect smaller regional aircraft operators
- Re-tasking the CAA (with a new regional connectivity brief)¹ to ensure that this is delivered
- Changing the composition of the slot allocation committee to include regional interests, or
- Negotiating some hybrid package with the Commission, who are likely to wish to engage positively given the UK's leading role in the EU aviation sector, its peripheral location within the EU and its airport geography which sees its largest airports at one end of the country (rather than them sitting centrally as in France, Germany, Italy and Spain).

RABA have concluded that a mix of such approaches may form a solution, but are also clear that there must be a commitment from the Commission and then whichever Government receives its report to deliver on these principals without breaching key single market principles.

It is fundamental that access is secured, not every large scale enterprise wants to be located in London. Access to London and the connectivity a new runway would provide are key to investment decisions. It is clear that this is having a negative impact by not having the policy support. We have seen this in the south west, a foreign direct investment was lost to Cornwall and the NQY Aerohub (Airport Enterprise Zone) because of concerns this enterprise had that in summer 2013 when flybe sold its Gatwick slots to easyJet that NQY would lose its London access.

This was a global media company looking to set up its IT service desk in Cornwall. It was initially creating 50 jobs, with the view to expanding up to 150 jobs over 2-3 years in a brand new 2,000sqm office building to be built on the Airport site. They had 3 Key requirements:

- **connectivity to London and beyond**
- access to superfast broadband
- access to skilled staff

Ultimately in their decision making programme we could not guarantee the London access.

Such investment has currently been lost to the UK as the company reorganised the resources it had to create the capacity it needed rather than look elsewhere. The

¹ Currently, the CAA Economic Regulation Group is solely focused on the economics and functioning of markets – unless that is the Secretary of State directs them otherwise. So presently, it has no remit to look at any social policies or the effects of slot systems and airport pricing regimes on regional accessibility.

potential growth was lost, How can this be good for the UK and local economy and how many other examples of lost investment are there around the country?

The Commission at the very least in our view needs to support the slot objective in its recommendations.

We would encourage the Commission to support our slot safeguarding objectives by going further, considering our approaches and setting out how it would view the change to the current frameworks.

Question 3: Do you have any comments on how the Commission has carried out its appraisal?

No specific comments, however due consideration is given in Question 4.

Question 4: In your view, are there any relevant factors that have not been fully addressed by the Commission to date?

In answering the question there is also overlap in to Question 3 (*Do you have any comments how the Commission has carried out its appraisal?*) where we feel that whilst the analysis was well thought and diligently explored it did not necessarily go far enough.

The sale of flybe's slots at Gatwick to easyJet highlighted the issue of regional aviation and the potential for a number of regional and peripheral airports to lose their access to London and their onward connectivity. Business groups, regional stakeholders and Government recognised an impending crisis which could have had significant economic repercussions in those areas. The Commission's own publication of DP06 acknowledged the challenges faced.

Since these events there has been much focus on the regional aviation debate with a number of forums/inquiry being established to examine the importance of regional aviation. The publication of DP06 was closely followed by the call for evidence by the House of Commons Transport Select Committee² in to the impact of regional aviation. In the early part of 2014 the All Party Parliamentary Group on regional aviation was established again to examine the impact. More recently the National Connectivity Task Force is considering in great detail (we hope) the roles that regional aviation plays and the weighting of consideration that the Commission should be giving in its deliberations.

The Commission will receive submissions and we would hope that in its final report the Commission will consider these as vital pieces of evidence to support decisions.

We would also point out that a lot of the economic benefits focus on the scheme promoters outputs and doesn't consider in any great detail the benefits from the regions which is consistent with our view that it needs to consider UK Plc and how that benefit could be translated in to the regions.

The economic benefits of connectivity to London from the regions are well documented. In NQY case the government accepted the economic rationale for the Public Service Obligation (PSO) route to Gatwick.

² The RABA Group has included in its response the evidence and key points which were made to the Transport Select Committee which NQY was a key contributor.

This vital route benefits from PSO subsidy until October 2018 and without this core service the owner, Cornwall Council would not be able to justify the ongoing running cost (operating subsidy) to the tax payer and the airport would close. We were able to demonstrate that the overall contribution to the Cornwall's economy was over £50m, supporting 370 FTE jobs on the airport site and creating £6m worth of business efficiencies. These vital economic contributions need to be considered in the wider context of the Commission's decision making process.

The London route currently serves circa 100,000 passengers per annum. When considering the new runway capacity and the connectivity which that capacity will undoubtedly bring, our forecasts suggest that a 25% increase (125,000 passengers) on the 'London' route would be achieved in the base scenario should NQY be given 'safeguarded' access to the new runway capacity.

Whilst we support the notion of allowing market forces to operate without intervention, due consideration has to be given to the wider economic good. Consequently we would urge the Commission to not simply rely on commercial viability as a measure of what is required to address regional access needs as some markets are simply too small but where there is a much wider benefit the Commission factors this in to its recommendations. Good demand can still result in the market failing to deliver to a real economic need.

We are also cognisant of the perception and challenge from larger regional airports in respect of intervention, which benefit the regions or the investment in public infrastructure which may also benefit airports like NQY. In response to any criticism or complaint that the market is being distorted we would draw to the Commission's attention that a number of these airports have previously benefited from the public subsidy either directly through grants or by infrastructure provision e.g. Manchester Airport Transport Interchange, the diversion of the A45 at Birmingham Airport and some of these airports will be a significant beneficiary from government projects like HS2 e.g. Birmingham Airport. NQY stands no net benefit from such projects so an effect of re-balancing can be justifiably defended against such opposition.

Question 5: Do you have any comments on how the Commission has carried out its appraisal of specific topics?

We fully agree with the RABA response to this question and therefore for ease we wish to cross reference their response to Appendix A of our submission.

We would also confirm that we are undertaking our own forecasting, specifically for the NQY scenario accessing new capacity as a mechanism to engage with the scheme promoters on the affordable slot allocation as described in the answer to Question 1.

Whilst the Commission's recent forecast publications assist in the understanding our own base forecasts are more optimistic, largely driven by the additional 'London connectivity' passenger.

In parallel to RABA we wait with interest to see the Task Force work which will we hope bring a clearer forecasting model for regional airports.

Question 6: Do you have any comments on the Commission's sustainability assessments, including methodology and results?

No comments.

Question 7: Do you have any comments on the Commission's business cases, including methodology and results?

No comments.

Question 8: Do you have any other comments?

We applaud the work that the Commission has carried out over the last couple of years; an unenviable task undertaken in a very diligent manner.

I would reiterate a number of points raised in this response and also in our response to DP06 that any recommendation made by the Commission should be done so that benefits cover the whole of UK Plc and include those regional and peripheral areas like NQY.

We urge the commission to support access from regional airports to its preferred scheme promoter and make recommendations on the mechanisms considered in our response to Question 2 to facilitate such access.

In addition, give support to the negotiation that airports like NQY are having with the scheme promoters on affordable access to the capacity and make recommendations to the government to ensure that this happens and safeguards the future access.

The Commission's findings will probably be the last opportunity to find a resolution to this ongoing debate, the decision has to be the right one and the decision has to be of benefit to the whole of the UK and not just the south east.

I look forward to reading your final report in the summer.



Newquay Cornwall Airport - Cornwall Airport Limited

Annex A

Q5: Do you have any comments on how the Commission has carried out its appraisal of specific topics?

RABA Group notes that the Commission has not comprehensively examined regional connectivity to any meaningful extent in its forecasting and appraisal processes to date. The additional forecasting data published most recently, does not offer significant detail, although it does seem to suggest some rather more plausible model outputs by airport than from DfT's NAPAM model than hitherto. RABA Group hopes that the National Connectivity Task Force's work will fill this and other key gaps in the Commission's analysis and would urge them to give appropriate weight to its analysis and recommendations.

RABA Group is concerned at how the Commission plans to use the strategic airline competition and choice scenarios developed for it under the OECD's umbrella. Some of these scenarios represent no more than theoretical outcomes and therefore cannot be given the same weightings as others. In our view Figure 6.1 from the second OECD report therefore becomes critical:

Figure 6.1. Likelihood of the airline responses under different aviation scenarios as defined by the Airports Commission

	Heathrow Option			Gatwick Option		
	Response 1	Response 2	Response 3	Response 4	Response 5	Response 6
Scenarios:	Hub carrier growth at Heathrow, point-to-point growth at Gatwick.	Two hub operations at Heathrow, point-to-point growth at Gatwick.	Point-to-point growth at Heathrow and Gatwick, Heathrow remains network hub.	Hub operation at Heathrow and a competing hub operation at Gatwick.	Partnerships – Gatwick becomes a low-cost "gateway", Heathrow remains the network hub.	Gatwick point-to-point growth, Heathrow remains the network hub.
A Assessment of Need	+	o	o	o	+	o
B Global Growth	+	o	–	+	+	o
C Relative Decline of Europe	o	–	o +	–	+	+
D Low-Cost is King	– o	–	+	–	+	o
E Global Fragmentation	o +	–	–	–	o	+
Overall likelihood of airline response across scenarios	+	–	– o	–	+	+

Key:

- + High likelihood
- o Moderate likelihood
- Low likelihood

Of the various future global market scenarios, RABA Group believes that Global Growth and Global Fragmentation are the most likely. The demise of EU hubs in favour of the Middle East is much discussed - but ignores the fact that with the

possible exception in the future of Istanbul, the Middle East hubs are dependent on highly mobile interlining traffic to a dangerous degree. The under-pinning point-to-point market is small and diminishing as these airports grow. Political instability, oil price effects on their economies, changing airline technologies that offer the prospect of twin-engine long haul aircraft being used to fly from secondary cities into EU hubs or hub by-passing the Middle East hubs as markets in China and India develop sufficiently to support direct routes.

The UK should certainly not be adopting a strategic approach that depends for its success on these hubs remaining as dynamic and dominant as they are today. If it does it is the UK regions that are likely to suffer disproportionately from any shift in market trends.

With this in mind, we believe Heathrow Response 3 and Gatwick Response 5 are the most likely outcomes and should be used for appraisal purposes.