



**SUBMISSION TO TRANSPORT SELECT COMMITTEE
INQUIRY INTO SMALL AIRPORTS**

BY

THE REGIONAL & BUSINESS AIRPORTS GROUP

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John Spooner Chairman

1. The role, needs and socio-economic contribution of smaller regional² and business airports have, in the view of our Group (which has been set up to represent exactly the constituency the Committee's inquiry is investigating) been largely ignored by Government policy makers over the last decade. There is some evidence to suggest that this may have occurred a year or so after publication of the 2003 Air Transport White Paper, when the Department for Transport (DfT) sought to focus all of its available resources on facilitating projects at larger airports in the South East (e.g. new runways at Stansted and Heathrow and surface access schemes such as Airtrack/Heathrow Cross and Stansted Express upgrades).
2. Although the 2003 White Paper represented a sea-change in Government's awareness of, and support for, regional and home nation interest in this part of the aviation sector, the potential progress that could have been made suffered materially from DfT reducing its commitment to seeing the regional aspects of the White Paper implemented once masterplan, PSO and Route Development Fund Guidance had been issued in 2005/06. This appeared to correspond with the publication of reports on regional airports by CAA (CAP758 and 775), which in hindsight wrongly, suggested that regional and smaller airports were in rude health, whilst failing to recognise some of the structural risks, threats, pressures and constraints that airports with less than 5mppa have to face even when the market for air travel is strong, let alone when exposed to a range of 'external shocks' such as market down-turns associated with the 2008/09 Global Financial Crisis, the associated recessionary environment, high oil prices and volcanic eruptions.
3. Attaining long term commercial sustainability is a state to which most owners of smaller regional and business airports, whether publicly or private owned, aspire but few have yet to achieve. As the Cranfield University study in 2002 for the EU first highlighted³ and ACI Europe more recently confirmed⁴, airports with less than

¹ Although only recently constituted current collaborators are Regional and City Airports (i.e. owning or operating Exeter, Norwich, Blackpool, City of Derry and Coventry Airports - and Cardiff Heliport); Peel Airports (i.e. Durham Tees Valley, Robin Hood Doncaster Sheffield); Glasgow Prestwick; Newquay Cornwall Airport; Gloucestershire Airport, and Stobart Airports (i.e. Southend and Carlisle Airports), it is anticipated that other small and medium sized regional and business airports will wish to engage with the group in future.

² The term regional is used herewith geographically rather than in any legal sense. It therefore includes both the regions and the home nations of the UK

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1mppa are rarely profitable unless they have significant non-public transport aeronautical activity or a substantial property portfolio to generate alternative income streams. This is because even low volumes of air traffic generate substantial fixed costs and overheads (a large proportion of which are regulatory), which small airports don't have the economies of scale to cover, and are therefore vulnerable to exaggerated effects of market volatility.

4. It is widely accepted that smaller airports provide important connectivity and employment opportunities and generate material economic benefits for their local economies as a result. However, many parts of the UK are not well served by alternative larger airports because they are over an hour away from an airport offering a good network density of domestic and European business services, or two hours away from one which has a range of leisure and long haul services, and represents a structural problem that merits Government intervention. This could either be direct, as has happened in the case of Newquay, Cardiff, Prestwick and the HIAL airports, or indirect in the form of policies that offer a more propitious financial climate within which smaller airports can flourish.
5. The Regional & Business Airports Group has been formed to promote exactly this agenda – i.e. highlighting the benefits of thriving smaller airports to the communities they serve and the many fiscal, regulatory and policy barriers they face to delivering these desirable outcomes. The RBA Group is open to any UK airport⁵ with less than 3 mppa or 50,000 business movements that shares the Group's interests and policy positions.

The Economic and Social Contribution of Smaller Airports

6. Smaller regional and business airports can and do make a significant contribution to national and international connectivity and to rebalancing the economy. They enable the operation of air services to and from regional communities and generate aviation related employment. They also provide sites that are frequently attractive to non-aviation related businesses, as they value the excellent location and land availability at many of these regional airports. The airports also provide vital, but often unsung, services to energy, medical and communications interests and essential aviation sector services such as aviation training and engineering.
7. Worryingly a number of regional and business airports have recently ceased or curtailed operation despite enormous local support for their continued operation. Plymouth, Manston, Filton, Penzance and Tresco spring to mind. Others such as Blackpool and Prestwick are, or were, under threat and could well go the same way without the injection of new private or public investment and operating support. This trend must be addressed not only so we can harness the full contribution thriving smaller Regional and Business Airports can make to achieving enhanced regional and home nation connectivity and national economic re-balancing. But more than that, from a strategic perspective:

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⁵ Excludes the London Airport System designated airports

- They are major pieces of infrastructure that are almost impossible to build from scratch these days (the majority of our airports are a legacy from the Second World War);
 - support a number of growth industries; and
 - in some cases provide essential lifeline transport links.
8. The RABA Group believes that to allow these under-utilised assets to disappear would be short sighted and is not a strategy that would be replicated amongst our principal economic competitors. Government needs to develop a coherent, long-term, committed and pro-active approach to this sector rather than rely on a series of ad hoc and emergency responses to the obvious symptoms of distress in the sector.
 9. Of the 60 airports reporting traffic movements to the CAA in 2013, 42 (70%) handle less than 3 million passengers per annum. These airports are used by 6% of UK passengers, but this still amounts to 13.5 million passengers per year. Assuming the approximate rule of thumb of 1000 direct jobs per million passengers, this translates into 13,500 jobs that are directly reliant on the sector, and we suspect this is an under-estimate as smaller airports tend to be those that are already the most diversified. When induced and catalytic employment impacts are also considered these airports can be seen to represent major assets to their local economies.
 10. Government policies and rules have been, possibly inadvertently, significantly skewed against the interests of smaller airports. Many are saddled with far higher per passenger costs resulting from fixed and externally imposed government regulation that includes such systemic 'national' needs as aviation security, border control, policing. This despite the fact these airports are commonly serving much thinner routes, less affluent, more aviation dependent, communities and that their peers in Europe have such responsibilities paid for nationally. Air Passenger Duty for a variety of reasons has hit the smaller regional airport sector much harder than the larger regional and international airports. This is in stark contrast to the state subsidies, in the form of road and rail improvements that have been bestowed, often over a sustained period, to larger UK airports.
 11. HS2 is often championed by the anti-aviation lobby, or long haul carriers seeking to preserve slots at Heathrow for inter-continental routes, as the answer to UK regional connectivity, and therefore a reason why the case for supporting smaller regional airports is not as strong as its advocates maintain. While it is true HS2 will prospectively provide improved access to London from regional centres within a 20-mile zone either side of its new purpose-designed sections, and will therefore benefit parts of the Midlands and North of England. What it will not do is address the access needs of regions and nations outwith those corridors even though the benefit case supporting its construction and operation relies heavily on time-savings to justify Central Exchequer funding, and therefore will be contributed to by taxpayers across the UK, including those in peripheral regions such as the far South West, the North of Scotland and Northern Ireland that receive no benefit, but could benefit from aviation based time-savings.

12. HS2 will also not provide adequate access to the global connectivity available from an expanded Heathrow or a new runway at Gatwick. Lack of direct connections and interchange penalties will undermine its value to interlining business traffic from the rest of the UK, which will continue to want 45 minute minimum connect times at a hub. And with Amsterdam, Frankfurt and Paris likely to be increasingly slot constrained by 2025, relying solely on foreign hubs as a source of global connectivity does not offer a sound long term strategic policy for the UK's regions and nations.
13. Government policy should recognise, therefore, that HS2 is not the complete answer to UK connectivity needs, and that air will continue to be a key and uniquely valued transport element for the UK regions for the foreseeable future.
14. In essence, and for the sake of brevity, the R&BA Group suggests that the following policy areas be reviewed for their impact on smaller regional and business airports across the UK.

Required Policy Interventions

Guaranteed Regional Access

15. Ensure that any new runway capacity reserves in perpetuity affordable slots for regional air services, even if provided by smaller aircraft, to the UK's international hub. This access should be considered not just for existing regional services but also for those regions that have been excluded from international hub access over the last twenty years despite a demonstrable track record of commercial viability - we refer to these as the orphan regions. A complete overhaul of UK connectivity is possible once capacity is created by a new South East Runway; this should include consideration of other new links between regional airports and the UK's international hub.
16. The R&BA Group contends that Blackpool, Humberside, Norwich, Carlisle, City of Derry should be included alongside Liverpool, Durham Tees Valley, Inverness, and Newquay in having their hub services re-instated. Indeed, a London hub route from Blackpool would probably transform its fortunes and give it a longer-term future. It would be similarly beneficial for the other airports highlighted as it is estimated that for airports below 1mppa associated revenues could amount to 20-40% of their total. This simple policy would consequently have a huge positive impact on the finances of many smaller airports at a stroke, and staunch the hemorrhaging of their catchments to airports further afield. These long business commutes ensure these regions are less competitive for inward investment, business and international tourism, than they otherwise would be. The policies we advocate should be adopted, therefore, not for the sake of the regional airports incidentally, but to underpin the vitality of these regional UK economies, and ensure that the whole UK (rather than just favoured parts) is truly able to be an internationalized and well connected economy.
17. There are a range of policy measures that may need put in place to ensure this is achievable in an EU compliant way that this submission does not have space to air, but we believe that the Committee may find it helpful to be familiarized with the key

issues around PSOs, planning conditions, slot committees and slot allocations, and airport fee regulation to protect the requisite smaller regional aircraft, that collectively may be required to deliver on this key policy goal.

18. In the Interim, and independent of this longer term goal, the Government should use Public Service Obligations more expansively and effectively to protect regional, national and international access. Current UK Government interpretations of EU PSO regulations is far more restrictive than to the detriment of UK Regional Airports. Recent Newquay – Gatwick and Dundee – Stansted PSOs and the establishment of a Regional Air Connectivity Fund (RACF) are encouraging but more needs to be done. In essence we think policy could better support the needs of smaller regional and business airports if:

- i. PSOs took into account connectivity generally, including international connectivity, rather than just connectivity to London, as currently, in their assessment criteria.
- ii. DFT Value for Money evaluations and other criteria, were refined to be facilitative, rather than obstructive, to PSO implementation.
- iii. PSOs to international hubs such as Amsterdam, Paris or Dublin were allowed to ensure regions can effectively link with the world, whilst London is unable to cater for this need.
- iv. Regional Access (to London AND the world) is recognised as a national rather than regional problem with the onus therefore being placed on a coherent national response rather than uncoordinated regional initiatives.

Air Passenger Duty

19. Given the word limit for submissions, we will not rehearse the many arguments against the “one size fits all” basis of this tax, except to underline that the smaller regional airports, and domestic regional aviation, have suffered more extensively than any other sector at the hands of this essentially anti-region measure. Some of our group such as Glasgow Prestwick, Newquay and City of Derry Airports are perhaps the greatest victims of this state intervention (which is made all the worse for City of Derry as it is located on the same land mass as and less than five miles from another EU State which levies no APD). In the absence of complete abolition of APD we would direct the Committee’s attention to possible schemes of Differential APD, whereby smaller airports below a certain passenger throughput threshold are excluded from the tax and the shortfall is either accepted by the Treasury, as being minor, or is made up by adjusting rates at the more resilient and congested airports in the London system.

Enterprise Zones and Planning Regimes

20. Many LEPs (and their equivalents in the devolved administrations) hold their regional airports, almost it seems no matter how small, in central positions in their strategic plans. These airports are essentially brownfield sites, sometimes reliant upon state subsidy, that seem ideal candidates for the development of other roles than just aviation to justify their existence. Government policy could recognise and facilitate this process.

21. Our Group is home to a range of aviation⁶ and non-aviation⁷ activities on their sites. A drive around the perimeter of Coventry Airport and its commercial and distribution businesses will graphically underline the business potential of our regional airport sites.
22. The Newquay Aerohub Enterprise Zone is often held up as an example of airport diversification. The NQY/EZ is proving that it is likely to be the only realistic way to get the airport towards the break even point in the short to medium term; that said we are also clear that the EZ would not work successfully without the passenger services that make it accessible. It is estimated that the combination of the airport and EZ is generating £48m GVA and has created 170 new jobs on the Airport since 2012. Property income has doubled in 3 years.
23. The lessons are clear: regional airports may be developed as the focal points for economic clusters or technopoles (like the Aerohub at NQY), and supported with EZ's and growth funding there is no reason why all smaller regional airports should not be used in this way. Glasgow Prestwick, Gloucestershire, Cardiff and Bournemouth are all good examples of sustainable business clusters being developed on well located and supported regional airport sites. Government policy should nurture and extend this beneficial trend.
24. The Committee could urge the government to more consciously support these initiatives with Enterprise Zone and growth funding status wherever practicable⁸.

International Tourism

25. Regional Tourist interests recognize the key role that aviation has in delivering tourists to their region either through direct flights or via hubs. It is also recognised that most tourists tend not to travel too far from their arrival airport. It is also recognised that airborne tourists average spend is much higher than their terrestrial car borne or public transport delivered equivalents. Finally it is also recognised that modern trends in tourism such as more frequent but shorter breaks militates against regions that are hard to access.
26. Regional airports can deliver this key regional benefit, particularly if they are well plugged into international air networks. LEPs and national and regional tourism bodies should be asked to devise strategies that exploit the opportunities regional airports provide and find funding to help support mutually beneficial destination marketing initiatives

⁶ Aircrew flight training; Flight crew, engineering and support staff ground training; Airport fire training; Training in Tourism and Hospitality; aeronautical Engineering; The maintenance of airframes, engines and avionics; Deep engineering and overhaul of aircraft and systems

⁷ Hotels; Banking; Retail; Vehicle maintenance; Academies; Storage and Distribution; Professional Services; Utilities; Manufacturing; Regional National and International offices

⁸ "Instead, we need a much more sophisticated regeneration strategy, with swathes of the country turned into deregulated, low or even zero tax enterprise zones" – Allister Heath Daily Telegraph 3/06/2014

Regulatory Cost Burden

Finally, R&BA would like the Committee to advocate to Government that the CAA be tasked with an in-depth review of the regulatory cost base faced by smaller regional airports and to identify ways in which this can be materially reduced and brought in line with European competitor benchmarks. We believe that it should be possible to identify regulatory changes that could reduce the cost base for such airports by 15-20% without any material impact on safety, security or border controls.

Conclusions

27. So while the R&BA Group is very pleased the Select Committee has highlighted the plight of smaller regional airports as a matter for concern and policy review, we are equally keen that they use the opportunity their Inquiry and Report provides, to urge the Airport's Commission and Government to incorporate the needs of these important local, regional and national assets within their strategic policy thinking, rather than continue to adopt an arms length approach to policy as we believe they have in the last decade.
28. This submission sets out a number of key areas where judicious and cost-effective policy interventions could produce substantive local and regional benefits and help to provide a framework for smaller airports to secure a more sustainable commercial future for them and the communities they serve.