



DISPROPORTIONATE COSTS

Regulatory and Policy Challenges

Facing Smaller UK Airports

RABA GROUP **IS** SEEKING STRONGER POLICY RECOGNITION FOR THE UK'S REGIONAL AND BUSINESS AIRPORTS

| | | |
|----------------------------------|-----------------------------------|---------------------|
| Aberdeen | Coventry | Lee-on-Solent |
| Alderney | Dundee | London Biggin Hill |
| Anglesey Airport | Durham Tees Valley | London Oxford |
| Barra | Exeter | London Southend |
| Benbecula | Glasgow Prestwick | Norwich |
| George Best Belfast City Airport | Gloucestershire Airport Staverton | Pembrey |
| Blackpool | Guernsey | Doncaster Sheffield |
| Bournemouth | Humberside | Stornoway |
| Campbeltown | Inverness | Southampton |
| Cardiff | Islay | Sumburgh |
| Carlisle | Isle of Man | Tiree |
| City of Derry | Jersey | Wick John O'Groats |
| Cornwall Airport Newquay | Kirkwall | |



RABA'S OVERARCHING POSITION

A more inclusive approach to aviation policy is required that respects and articulates clear roles for airports of all shapes and sizes.

Acknowledge that the traditional “one size fits all” approach to policy and regulation needs to be changed if a *level playing field* is to be created.

This will allow all airports to better contribute productively to the UK's future aviation and economic needs.

RESPONSE TO GREEN PAPER CONSULTATION BY RABA

This will take the form of a series of topics dealt with in Powerpoint format:

This topic follows here

| Topic | Relevance |
|---|--|
| Regional Access Agenda | Including to an expanded Heathrow, proposed PSO protocols, and UK region to region connectivity all made more urgent by evolution of Flybe / flybmi's demise |
| Disproportionate Costs Issue | The UK airport market is not a level playing field, partly by actions of government and regulators that bears down disproportionately on the smaller/ weaker. |
| Contribution to Economic Development | Potential partners with government. Contribute to regional initiatives such as City Deals and regional equivalents of the Northern Powerhouse that are already underway. |
| Strategic Value of Regional Airports | Raise the policy recognition of regional airports actual and potential roles including business development and employment clusters to secondary and tertiary cities and remote and peripheral areas across the UK |
| Land Use, Terrestrial access at Regional Airports | Counter the bias towards large airport projects |
| Aviation Training and Skills Development | Strong potential role for regional airports to play a significant role |

SMALLER REGIONAL AIRPORTS PROVIDE CRUCIAL INFRASTRUCTURE

Smaller regional airports frequently provide infrastructure that is crucial economically and socially to the regions and communities they serve.

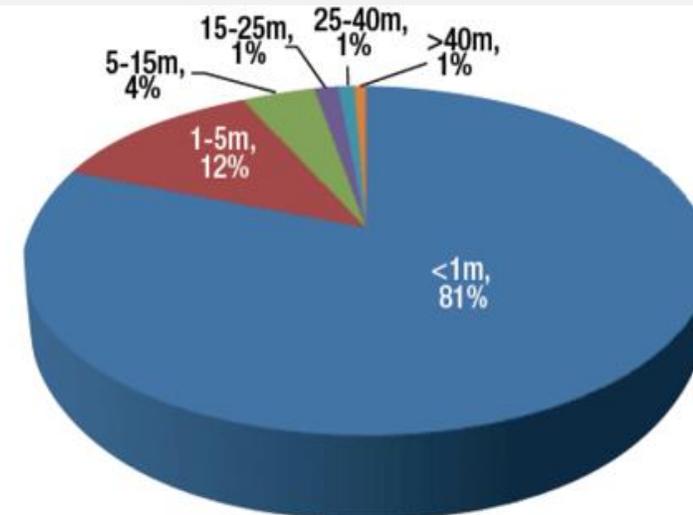
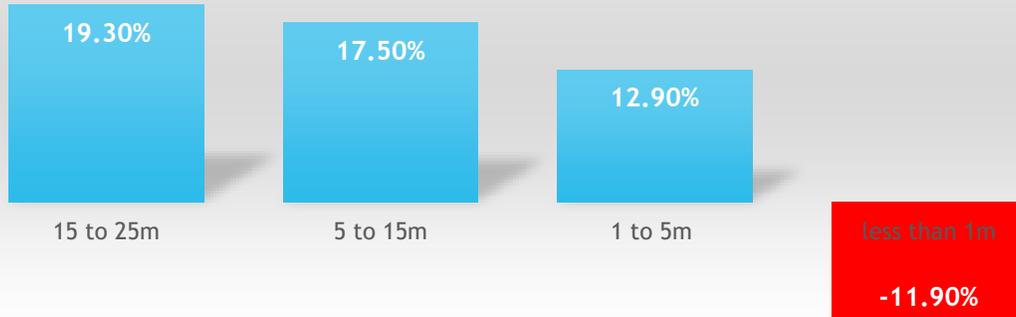
However, the closure of, or cessation of scheduled air services (for example - Plymouth, Coventry, Penzance, Filton, Manston and Blackpool) highlights a difficult commercial climate, a lack of understanding of the strategic value of smaller airports and a failure to grasp the importance of the participation of public authorities in maintaining such infrastructure, ensuring inter-regional and global connectivity and helping to secure and then maximise the wider economic benefits airports can generate.

Declining passenger across many smaller regional airports such as PIK, LDY, MME indicates that the market is being polarised towards the larger airports, giving them dominant market power, leaving many parts of the UK with much poorer access to air services (the 97% within 2hr figure in the green paper is misleading) and hence in a less competitive economic position in wider markets

POLICY MUST EXPLICITLY REFERENCE SMALLER AIRPORTS – THEY ARE THE NORM

1. Smaller airports are not exotic or problematic – they are the norm and collectively they are more economically valuable than the General Aviation sector as a whole and many mid-sized or large airports individually.
2. The global norm is for small airports to lose money (yet provide excellent value for money in the form of socio-economic benefits)
3. Central issues need to be connectivity and equity of access, not overweening belief in the immutability of market forces and private ownership. Leading to the consequent derivation of policy which favours larger private enterprises and in doing so creates a uneven playing field.

World average net airport percentage return on turnover. (Source ACI survey 2013)



Source: ACI Airport Economics Survey (2014); ACI World Airport Traffic Database (2014); Simulation based on Official Airline Guide (OAG) scheduled seats (2013);

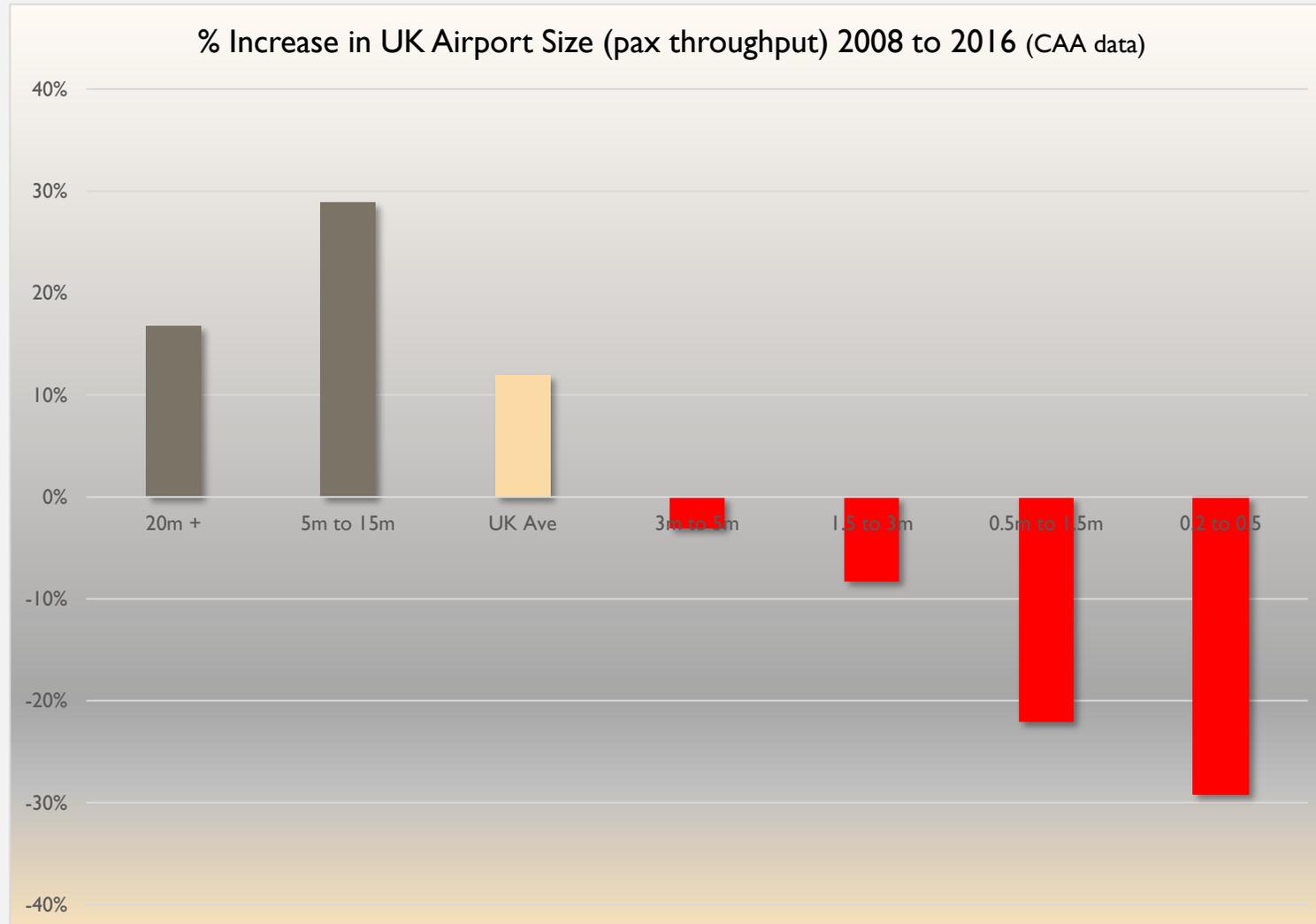
SMALLER AIRPORTS ARE LOCAL, CONVENIENT AND POPULAR TO USE AND BETTER SPREAD GEOGRAPHICALLY

They address important issues such as:

1. Ensuring comprehensive national connectivity and integration
2. Facilitating equality of access to global markets
3. Delivering regional economic re-balancing
4. Acting as a focal point for aviation related employment and associated economic benefits
5. Promoting social inclusion and access for remote and peripheral areas, and
6. Acting as a focal point for aviation related employment and wider economic benefits, and

These considerations must part of the platform of objectives upon which future policy is developed rather than solely market mechanisms

SMALLER AIRPORTS FACE SPECIAL CHALLENGES



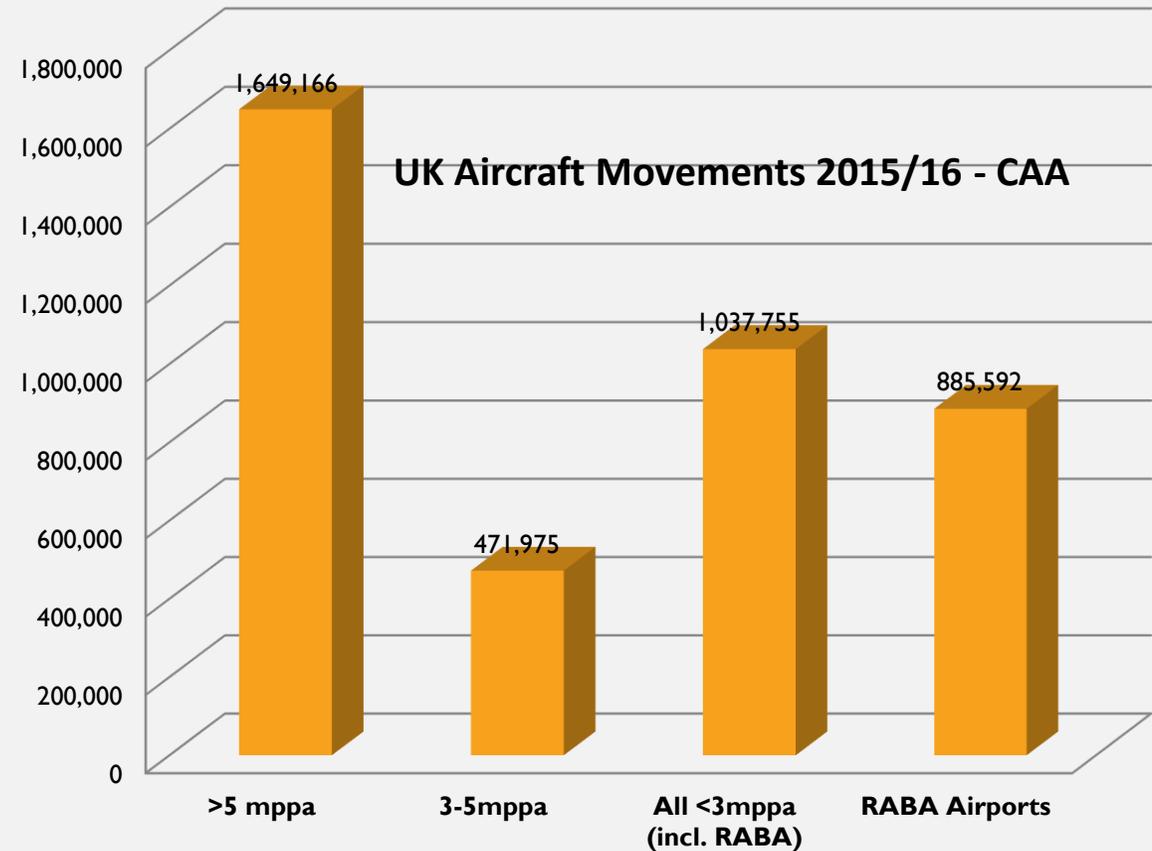
ACTIVITY AT RABA GROUP AND OTHER SMALLER AIRPORTS

In terms of total aircraft movements smaller airports are significant:

1.0m movements for airports less than 3mppa

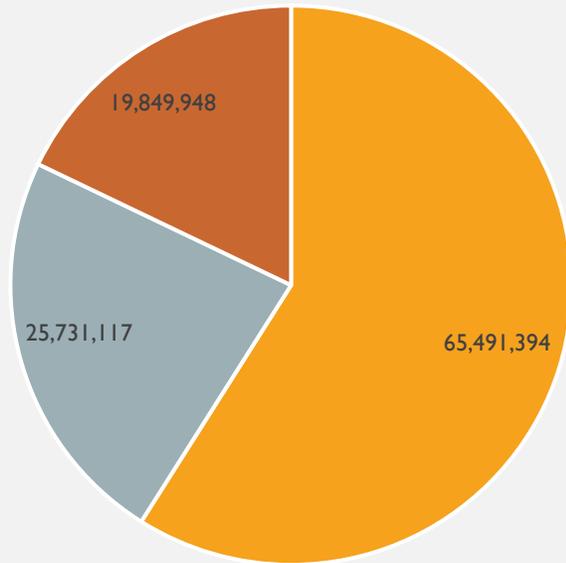
VS

2.1m movements for airports over 3mppa airports



PASSENGER THROUGHPUT OF RABA GROUP AND OTHER SMALLER AIRPORTS

Annual Pax Throughput of non London Airports



■ >5mppa ■ 3-5mppa ■ <3mppa

Smaller airports cater for 19.85m pax in 2016

This equates to 18.4% of passengers using non-London airports

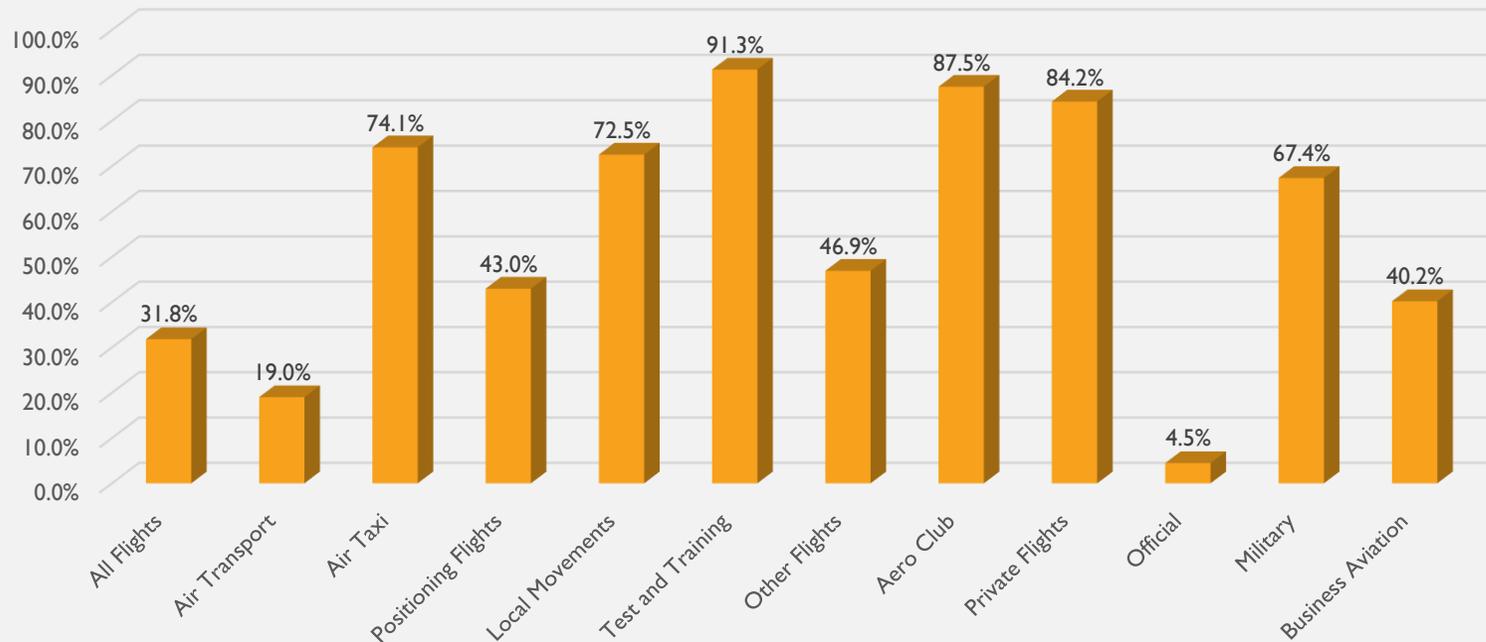
and

6.7% of total UK passengers.

RABA MEMBERS DELIVER A HIGH % OF OTHER IMPORTANT AVIATION MISSIONS

In terms of non-core aviation activities, small airports are much more significant players than larger ones.

RABA Member's % Significance in various categories of ATMs

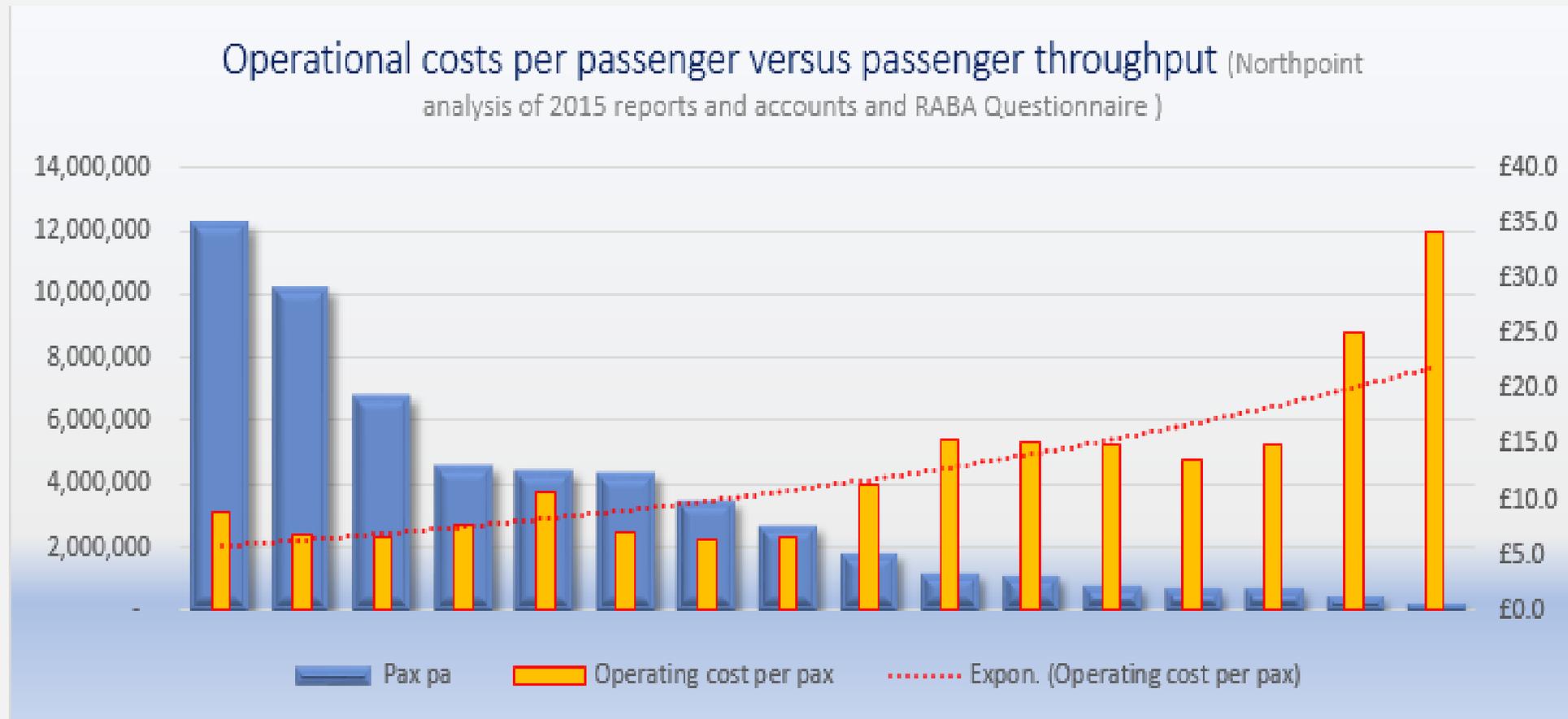


Apart from scheduled aviation, smaller UK airports serve a majority, or close to majority, of UK aviation needs. **National Policy (and regulation) invariably fails to recognise this.**

ILLUSTRATIVE DATA

The skewed cost burden effect of policy and regulation

REGULATION IMPOSES DISPROPORTIONATE COSTS ON THE OPERATION OF SMALLER AIRPORTS

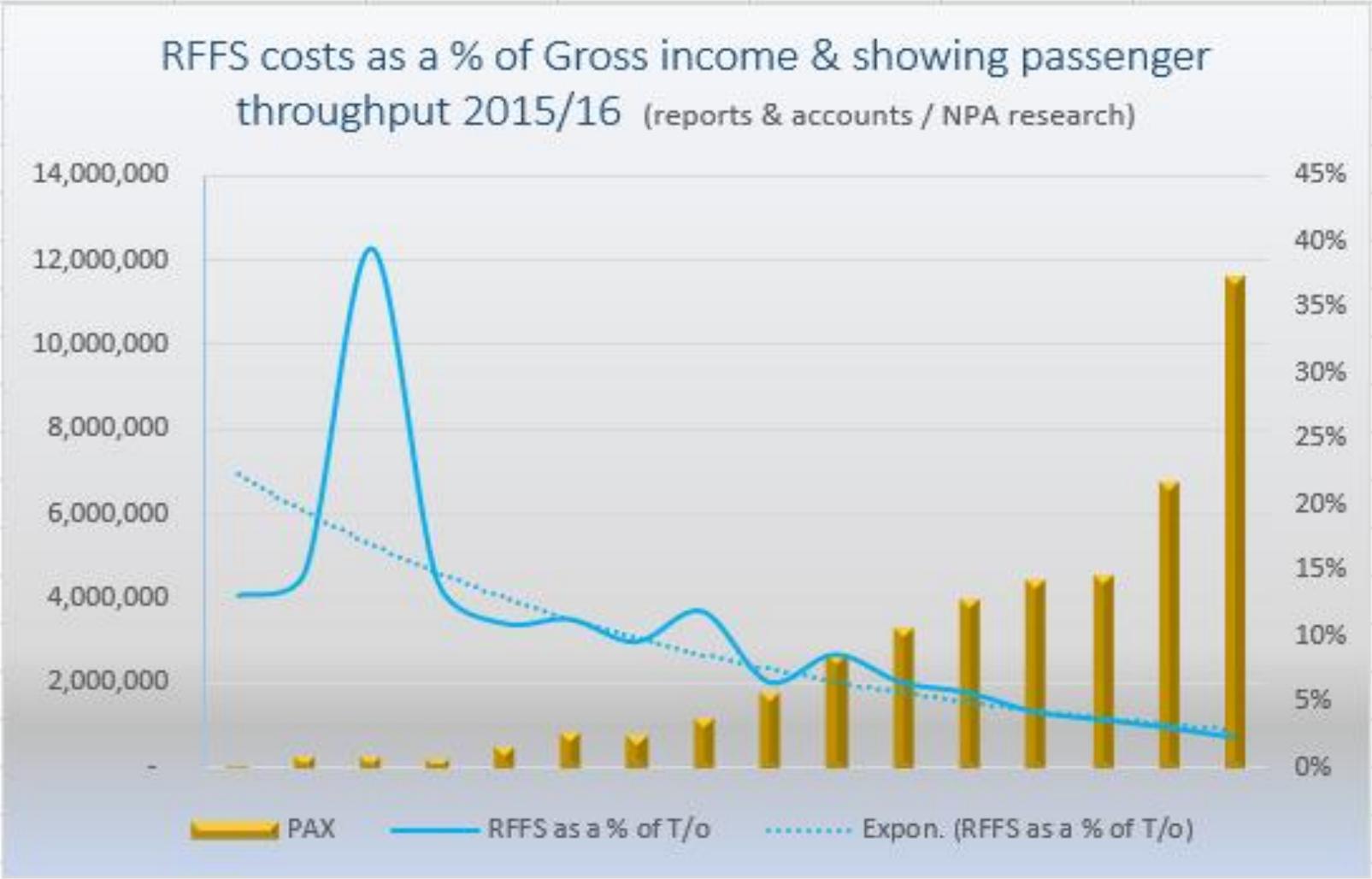


OPERATIONAL COSTS PER PASSENGER

Min and Max Operational Ave Cost Range per pax Clustered by Airport Size 2015
(Northpoint analysis)



RFFS COSTS AS A PROPORTION OF GROSS INCOME AT SMALL & MEDIUM SIZED REGIONAL AIRPORTS



ATC COSTS AS PROPORTION OF GROSS INCOME AT SMALL AND MEDIUM SIZED REGIONAL AIRPORTS



BENCHMARKING SECURITY, BORDER AGENCY, POLICING POLICY

- There is no consistent pattern in Europe of how these external state impose requirements are covered (Some EU benchmarking is included in the Appendix to this Powerpoint).
- But in the UK, airports - and particularly smaller airports - meet a far greater share of the regulatory cost burden than in most other EU countries. They are even expected to meet capital costs when the EU's own guidelines specifically exempt expenditure on such activities from state aid notification.
- Moreover, there seems to be a never-ending expectation that airports will pick up ever increasing costs associated with of regulatory changes. A few recent examples are: Level 3 security machines and associated building alterations, Border Force service-level charges, CTC security changes, APC levy, rogue drone defence and prospectively from the Aviation 2050 Green Paper charges associated with the Passenger Charter and ASM (see Appendix)

When an airport has a turnover of £0.5-25m, the effects of these costs are much more significant than for those with turnovers of £30m - £300m

US DOT APRC STUDY – SMALLER AIRPORTS

Summary of net compliance costs for the small airport industry

In the USA National policy dictates that:

“Government Grants do ameliorate some of the costs”

| Compliance Category | Total Cost (\$ Millions) ¹ | Estimated Non-airport Payments (\$ Millions) ² | Industry Net Cost (\$ Millions) ² |
|--------------------------------|--|--|--|
| FAA/DOT | \$1,459.5 | \$965.7 | \$493.8 |
| Security | \$610.8 | \$417.6 | \$193.2 |
| Environmental | \$90.2 | \$57.6 | \$32.6 |
| Occupational Safety and Health | \$11.7 | \$2.4 | \$9.3 |
| Total Compliance Costs | \$2,172.2 | \$1,443.4 | \$728.8 |

¹ Includes initial and recurring costs where applicable.

² Column totals may not add up due to rounding.

USACRP study on the Impact of Regulatory Compliance Costs on Small Airports

POLICY RECOMMENDATIONS

Government is anything but powerless to address

THE IMPORTANCE OF POLICY ACKNOWLEDGING THE IMPERFECTIONS OF MARKET MECHANISMS

In UK regional aviation, where thick routes and head to head competition between airlines (or airports) is rare, free markets fail to allocate resources efficiently due to:

1. The oligopolistic character of the UK airport sector creating significant barriers to entry & market distortions associated with unfettered scale economies
2. Capacity constraints at airports caused by the land use planning system
3. Imbalances in treatment of Transport Modes relating to investment, subsidy, security, passenger rights. The rail/air subsidy regulation imbalance is instructive. (e.g. ERAA 2011 - Air and rail: Setting the record straight report)
4. Disproportionate regulatory and tax cost burdens permitting larger airports to exploit their market power (see the recent RABA Group report on this issue)
5. Domestic traffic is declining due to APD and other modes being favourably treated and yet viable services to LHR cannot be served due to slot shortages

POLITICAL MEASURES

RABA considers the key aero-political objectives must be to:

- Maintain a thriving regional and business airport sector
- Safeguard and enhance the UK's position as a pre-eminent power in the aviation and aerospace
- Uphold EASA [CAA] oversight and leadership of safety regulation within the industry.
- Maintain competition in the provision of air services from UK airports while creatively adapting state aid restrictions to facilitate public sector investment in airports of 3mppa or less and routes serving these airports

UK POLICY SHIBBOLETHS THAT SHOULD BE REVIEWED

- ✓ **Private ownership should be the default governance model for UK airports** – there is a pre-conception that the UK airports sector is pre-dominantly privately owned. There also appears to be a view that invariably private is a better form of stewardship for key infrastructure assets. In our view both presumptions are wrong and could produce weak policy, because they fail to recognise the broad mix of ownership models tailored to different functional and geographical requirements. Indeed various forms of public / private partnerships have much to commend them.
- ✓ **Over-reliance on market forces** – the industry is highly regulated and many places structurally monopolistic/oligopolistic in nature – this results in dis-economies, market distortions and difficulty in accessing to resources and securing associated wider benefits of value to many.
- ✓ **Targeted interventions needed and welcomed** - Govt needs to be less recalcitrant and more proactive where interventions can bring strategic operational, economic/tourism, social and environmental benefits - PSOs, RDFs, surface access, skills, financial support for strategically important small airports (e.g. islands, aerospace centres, military joint use) and facilitate realisation of airport related development to help long term commercial sustainability. There is great scope for low cost, positive, high value interventions that would attract local support.
- ✓ **Greater engagement is required to ensure airport policy is integrated with industrial/city/regional policy** - to ensure the wider economic benefits airports offer through enhanced connectivity and role as economic gateways and employment clusters are properly and fully exploited (e.g. growth partnerships, Freeport/Free Trade Zones, Enterprise zones, range of simplified planning policies).

POLITICAL MEASURES

- Facilitate and contribute financially where appropriate to enhanced road access and public transport to smaller aerodromes and airports recognising that such entities act as gateways and growth poles for regional economic growth – a HIF style fund should be established for small and medium sized airports to bid for.
- Ensure that responsibility for funding Border Control is borne by the State and that all UK Airports are provided with equitable services to meet individual needs.
- Review police force charges for regional airport security owing to concerns with risk evaluations, inconsistency in outcomes and differential charging by local forces.
- Address the disproportionate costs of regulation and the use of 'one size fits all' policy designs. A differentiated approach resulting in proportionate solutions should be found in areas such as Rescue and Fire Services, Security and Policing, Border Force requirements, Air traffic requirements, Air Navigation, etc.

*More detail is provided in the 2018 RABA Report “**Regulatory and Policy Challenges Facing Smaller UK Airports**”*

WHAT GOVERNMENT CAN DO

Where there is demonstrable market failure government can intervene in two main ways:-

1. Use fiscal measures

We would strongly urge government to find compensatory formula to level the playing field for small airports.

2. Use legislation

The second approach is to use the White Paper, SI's, regulation, Guidance and changes in procedure and practice to explicitly recognise that airports below a certain size need to be treated differently and compensated accordingly.

FISCAL MEASURES - DIFFERENTIAL APD

DfT/HMT have the potential to devise fiscal strategies to protect more regions, airports and routes that are commercially vulnerable by adopting a more flexible approach to raising tax from UK aviation. The 'Azores Case' has been invoked to justify UK inaction but the French do not agree ...

French Airport Tax (taxe d'aéroport, also referred to as TA) is charged on the carriage of passengers, from an aerodrome situated on French territory (Metropolitan France, French overseas departments and collectivities), on board commercially operated flights. TA applies to passengers departing on board commercial aircraft from an aerodrome situated on French territory (Metropolitan France, French overseas departments and collectivities). Airports with traffic below a yearly average of 5000 units (1 unit equals 1 passenger or 100 kg of freight) are outside of the scope of the scheme. All other airports are grouped into three classes depending on traffic volume. These airports have different tax rates applied to them.

Class 1 comprises the big three Parisian airports (LFPB, LFPG or LFPO). The per passenger rate for class 1 airports amounts to € 11.50.

Class 2 airports (such as Lyon, Marseilles, Nice or Toulouse) charge between € 7.40 and € 8.57 per passenger.

There is a different rate for the remaining Class 3 airports.

TA is not to be confused with the landing and passenger charges paid through the handler to the airport operator. The competent authority administering TA is the French Civil Aviation Authority DGAC. Subject to TA are commercial operators embarking passengers on French soil. There exists no de-minimis threshold for aircraft below a certain weight. With regard to exemptions, TA follows the same rules as the French Civil Aviation Tax (TAC) see below. It does not apply to non-commercial operators as these are exempt. Several other flight and passenger exemptions apply, most notably, the exemption of flights following a tech stop or a forced landing due to bad weather or mechanical failure. Flight crew and children below the age of two are also exempt.

UK POLICY APPROACHES TO REVIEW

Regional airports contribute tens of millions of GVA annually to their catchments, despite being burdened with expensive regulation, business rates, insurance premiums and air passenger duty and in many cases pushed into significant commercial losses.

Government should be able to recognise that alleviating some or all of these fiscal burdens on nationally, regionally and locally important infrastructure, which acts as trading gateway, employment cluster and inward investment focus, is likely to be a very cost effective way of encouraging growth in regional economies.

Joined up government needs to ensure that central government, local government, border force, local police forces and other **government departments do not use 'regulatory power' and appeals to 'safety' inappropriately to extract revenue** from airport operators who are obliged by law to be compliant with a raft of licenses and other approvals for different departments in order to remain open.

A failure to act will inevitably lead to more airport closures or to increased losses being borne by other public authorities, resulting in wider adverse economic effects.

POLICY SUGGESTIONS

Costs associated with the integrity of the system (Security, ATC, Policing) should be borne proportionately by beneficiaries of the system, based on the turnover or profitability of each airport.

Inflexibility in the form of 'one size fits all' policy from government inevitably imposes unnecessary costs.

A properly briefed taskforce could undertake graduated risk assessments that could drive down costs in all directions. The main inhibitors appear to be that government and regulators prioritise retaining existing simplicity over embracing complexity and devising policy that is fair and works within the grain of the sector.

Technology offers some promise of future cost savings and government should facilitate smaller airports being able to make those upfront investments to reap subsequent savings.

Many smaller and regional airports have made significant efforts to cut costs arising from regulatory and service permits. **They should be incentivised to maintain this productive effort.**

GENERIC CONSULTATION QUESTIONS

Q. How could the policy proposals be improved to maximise their impact and effectiveness in addressing the issues that have been identified?

Design Compensatory Policy Support for smaller regional airports

Q. How should the proposals described be prioritised, based on their importance and urgency?

Ensure UK domestic and regional aviation is healthy – signs that both regional airports and airlines are under stress

Q. Are you aware of any relevant additional evidence that should be taken into account?

More detail is provided in the 2018 RABA Report “Regulatory and Policy Challenges Facing Smaller UK Airports”

Q. What implementation issues need to be considered and how should these be approached?

How about a taskforce or department to consider and report on these issues?

Q. What burdens, both financial and regulatory, are likely to need to be managed and how might those be addressed?

Systemic costs should be borne by the system’s beneficiaries in proportionate ways

Q. Are there any options or policy approaches that have not been included in this chapter that should be considered for inclusion in the aviation strategy?

Differential APD would be a simple way to address a raft of issues

Q. Looking ahead to 2050, are there any other long term challenges which need to be addressed?

Government facilitation of regional airport technology innovation to contain costs – eg remote ATC; Security etc.

GENERIC CONSULTATION QUESTIONS

Q. To what extent do these proposals provide the right approach to support the complex and varied role that airports play in their regions?

We have outlined, what we see as, some of the current policy blindspots in this submission

Q. To what extent does the proposed Passenger Charter adequately address the issues that are most important to passengers?

Passengers prefer to fly local (using a convenient regional airport) – current policy makes this increasingly less likely

Q. How should the operating model for border service be designed to improve the passenger experience?

The cost model for this national service should be borne proportionately, based upon ability to pay



The Regulatory and Policy Challenges Facing Smaller UK Airports

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June 2019

APPENDIX – EU BENCHMARKING

There is no consistent pattern in Europe of how costs of aviation security are covered. In the UK airports are responsible for security costs, which are usually recovered through fees and charges to airlines.

The very low German security charges are due to the fact that the costs of security services are mainly borne by the Federal budget.

Some airports recover only infrastructural costs from security charges (Belgrade), and for some small and regional airports there are no security charges at all (Montenegro airports, Bornholm).

In France there is one national average fixed charge for security, as in Sweden where the Swedish Transport Agency has set the security charge by a levelling system, i.e. the fee is the same at all airports regardless of size, which is achieved by distributing the total costs over the total number of departing passengers (STA, 2009). Even though the airports Arlanda and Bromma in Stockholm reported reduced security costs (Securitas, 2011), the security charge per passenger increased overall from 30 SEK in 2007 to 38 SEK in 2011.

APPENDIX – EU BENCHMARKING

Spain with 150 million passengers in 2011 has the lowest charge/pax while Iceland has the highest with only 3 million passengers. This could be an indication for economies of scale. At the Spanish AENA airports the security forces are a mix of Civil Guard, National Police, regional and local police and recently also private security guards. AENA annual reports show substantial investments in the airport security system for the last ten years. It seems likely that in Spanish security costs are covered mostly through security charges (AENA, 2010), the same holds for Isavia international airports (Keflavik International Airport, 2006).

Iceland is exempted from European regulation regarding security inspections for domestic flights, this lowers the total security costs for Isavia airports significantly.

Finavia, the Finnish airport operator, covers the security costs through security charges. Due to increasing security costs, security charges were substantially increased in 2003, 2006 and 2007, but have remained relatively stable since then. Finavia's Board of Directors even decided to reduce security charges by approximately 10% in September 2009.

AGENCIES BILLING REGIONAL AIRPORTS

There has been a recent trend for the Border Force to attempt to charge smaller airports, where permanent manning is not needed the costs for their services. Once again this trend hits smaller airports harder than larger airports, where these costs are covered by existing Border force budgets.

Charging for policing, also appears to vary significantly across the country and to be rather subjective in its assessments and billing approaches. A straw poll of members noted that some member airports contributed nothing for policing, whilst others were contributing up to £350,000 p.a. .

The main weaknesses in current approach is the built-in systematic bias for local forces to increase their funding by requiring third parties to help them out.

Also the issue of exploiting market power seems pertinent.

Some more objective criteria, and appeal procedures, would seem to be required.