



# Transport Committee

## Oral evidence: [Airlines and airports: supporting recovery of the UK aviation sector](#), HC 683

Wednesday 1 December 2021

Ordered by the House of Commons to be published on 1 December 2021.

[Watch the meeting](#)

Members present: Huw Merriman (Chair); Mr Ben Bradshaw; Ruth Cadbury; Simon Jupp; Karl McCartney; Grahame Morris; Gavin Newlands; Greg Smith.

Questions 160–214

### Witnesses

**I:** Clive Coleman, Director, Regional and City Airports; Brian McClean, Director of Communications and Sustainability, AGS Airports; and Kay Ryan, Chief Commercial Officer, Loganair.

Written evidence from witnesses:

– [Loganair](#)



## Examination of witnesses

Witnesses: Clive Coleman, Brian McClean and Kay Ryan.

Q160 **Chair:** This is the Transport Select Committee's evidence session on the future outlook for the UK aviation industry. This morning we are looking at regional connectivity and sustainability.

We have two panels before us. We are delighted to have three representatives from the regional airport and airline industry. I will ask them to introduce themselves for the record. We will start with Kay Ryan.

**Kay Ryan:** Good morning. I am Kay Ryan. I am the chief commercial officer for Loganair. We are headquartered in Scotland and are the UK's largest regional airline, operating 80 routes throughout the UK and Ireland.

Q161 **Chair:** Good morning, Kay. We will try to turn your sound up because it is a little quiet. Let us move on to Brian McClean next.

**Brian McClean:** Good morning, everyone. I am Brian McClean, the director of communications and sustainability for AGS airports, which owns Aberdeen, Glasgow and Southampton airports.

Q162 **Chair:** Good morning, Brian. You are coming across loud and clear. Finally, to Clive Coleman.

**Clive Coleman:** Good morning, everybody. I am Clive Coleman. I am an executive director of Regional and City Airports. The company was created to operate regional airports and to provide connectivity between the regions. We own and operate passenger airports in Falmouth, Exeter and Norwich. We operate a general aviation airport in Coventry. We also operate Solent general aviation airport on behalf of Fareham Borough Council. In the recent past, we have also operated City of Derry airport and Blackpool airport.

Q163 **Chair:** Good morning to all three of you. We were due to be joined by Phil Forster, who is the managing director of Teesside international airport. Sadly, he cannot be with us, but we are delighted to have such good regional representation with the three of you.

I would like to start the first section, which will be on the Government's review of regional air connectivity. It would be remiss of me not to ask you for your views on the latest barriers to international travel, as obviously those have a knock-on for your businesses as well. What are your concerns about the direction of travel now? Kay, we will start with you. Hopefully, the sound is better.

**Kay Ryan:** Is that better? Am I coming across more clearly?

Q164 **Chair:** It is indeed. Thank you.

**Kay Ryan:** Excellent. It is a little bit different for Loganair, given that 95% of our customer base is in the UK. We do not see a huge impact, but



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we still see some, particularly on our connecting traffic. A lot of our routes come into some major hubs—Manchester and Birmingham. That barrier to international traffic is obviously having an effect.

Q165 **Chair:** Brian.

**Brian McClean:** Chair, you said the direction of travel. We are still at a standstill. It is hugely concerning. We understand that things are moving at a fast pace and that people need to react, but we have been at a complete standstill for 20 months. It is another hammer blow to our recovery and to the passenger confidence that had slowly been returning. We are now hearing anecdotal evidence of passengers cancelling or not turning up for flights. We are hugely concerned. We were at a point when we believed that we were starting to regrow and rebuild. This is a real worry for everyone.

Q166 **Chair:** Clive, do you have anything to add?

**Clive Coleman:** I endorse Brian's point. About 70% of our traffic pre-pandemic was international or going to hub airports, so this is a huge concern. There is acceptance that there needed to be some measures. All we ask for is some transparency in how those measures are implemented and adjusted later, as there is more evidence and we become clearer about the impact of this new strain.

Q167 **Chair:** Building on that, I will come back to you, Kay. What specific challenges are there for our domestic air routes in the UK, as compared with the international market, with regard to recovering from the pandemic?

**Kay Ryan:** Unquestionably, there is an issue with customer confidence, to echo Brian's point. Loganair has a very clear customer policy to give reassurance, should domestic travel be affected by any further restrictions, if they come to pass. Hopefully, they will not. It is mainly about customer confidence, but the corporate market has also been massively impacted. It is not just people who are visiting friends and family; it is also corporate travel. The working from home policy, while absolutely necessary and followed by Loganair in a hybrid way, has affected corporate travel quite considerably.

Q168 **Chair:** Brian, what sets you apart in terms of the challenges in the domestic market, as opposed to the international market, or are they similar or identical?

**Brian McClean:** We are a regional airport group. In 2019, we carried just over 13 million passengers; 50% of those passengers were flying on domestic routes, so it is a significant part of our business.

We must not forget, though, that, prior to the impact of the coronavirus, we were dealing with what at the time was the biggest crisis for us—the collapse of Flybe. At AGS, that accounted for about 20% of our business. At Southampton alone, it operated about 90% of the routes. Domestic



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connectivity in the UK was already on the wane. That was compounded by the impact of coronavirus.

What we will see as we come out of this, both domestically and internationally, is fewer airlines, with fewer aircraft. We will see greater consolidation, but there will be the same number of airports. That means that our recovery is going to be intensely competitive, and that is really our concern.

Q169 **Chair:** Clive.

**Clive Coleman:** It is similar. The recent travel restrictions will impact on consumer confidence in booking future holidays. The industry was looking forward to a very large booking period post-Christmas.

Domestically, we are impacted by Flybe. Exeter airport was the home of Flybe, and domestic traffic accounted for about 50% of our flights at Exeter. We covered capacity on most of the routes that were affected, but with significantly lower frequencies and capacity. For example, Manchester-Exeter, which was one of our major trunk routes, used to operate at four per day. It is now four per week, which is not ideal and does not really work for business connectivity. We have those challenges. Yes, the routes might be operated, but at very low frequency. People will turn to alternative means unless we can improve frequency.

Q170 **Chair:** Kay, I will come to you, but I will put this to you as well. We can then combine the two. We have heard from the railway industry that they are seeing a change in their market—more leisure, perhaps compensating for fewer commuters/business. Are you seeing a change in your base as well? By all means, start your answer with the point you wanted to make.

**Kay Ryan:** I was going to add to Clive's comment that, while the majority of the Flybe domestic routes have been picked up—45 out of a total of 47 Flybe routes, with Loganair picking up 17 of them—there has been a severe reduction in seat availability on those routes. That was happening because, to be frank, Flybe could not make them work with the frequency and capacity that it had. That is why it went bust. A consolidation was automatic. If you then layer over that the pandemic, the frequency of flights goes from five a day to two. There has been a double impact on connectivity, whether it be internally or with international flights.

What was your second question, Chair?

Q171 **Chair:** I am sorry; that is my fault. I thought that might happen. The second question is whether you have seen a change in your base market. Are you seeing more leisure replacing business, or has the leisure not picked up?

**Kay Ryan:** It would appear to be the case, but for us the data is still not clear, purely because there are far more people doing a staycation this year. That is public knowledge. While it is backfilling international and



corporate, we have no data to suggest that that will continue into next year. If the international does not backfill and the corporate does not return to a degree, I do not think that the amount of travel we have within the UK is sustainable.

Q172 **Chair:** Clive, is it the same for you? Is it too early to tell?

**Clive Coleman:** Anecdotally, because the routes are operating at a very low frequency—a number per week, rather than a number per day—that suits a leisure market. It does not suit a business market. There will be some travel. The routes are predominantly people staycating or visiting friends and family. They do not work for business.

Q173 **Chair:** Brian, do you have anything to add finally before I pass on to Gavin Newlands?

**Brian McClean:** In terms of where we are, I mentioned the fact that previously we had 13 million passengers as a group. In Glasgow, we will finish this year with about 1.9 million passengers. The last time we carried that level of passengers was in 1973. This has set us back decades. We have not had any period of stability over the past 20 months. We have not been able to get going at any point. It has been stop-start, so it is quite difficult to tell how it is going to pan out, but certainly the majority of our flights over the past 20 months have been domestic, given the international restrictions.

**Chair:** Before I hand over to Gavin, I will do what I always forget to do at the start and ask whether Members have anything they wish to register through a declaration of interest.

**Gavin Newlands:** That is interesting. I had just noted that I should do that. For the record, I am the MP for Glasgow airport. Loganair is also based in my constituency. I have known Brian for, probably, six and a half years, pretty much since I was elected an MP. That is on the record.

Moving to the question—

**Chair:** I am sorry, Gavin. You may not be the only one with a declaration of interest.

**Simon Jupp:** Good morning. I am the MP for Exeter airport. My family owns a travel business, although I have no financial or direct involvement in it.

**Chair:** Back to you, Gavin.

Q174 **Gavin Newlands:** Thank you. I want to move to questions about connectivity. Irrespective of your political views, the Union connectivity review had some recommendations on increasing connectivity, specifically between England and the other home nations. With that in mind, can I ask what steps all levels of government—central Government, devolved Administrations and local authorities—can take to support that aim and domestic air routes? I will start with Clive.



**Clive Coleman:** It is a very good recommendation. It is something we have been pushing for for a very long time, because the PSO routes in England and, I believe, Northern Ireland had to be London-centric. In other words, you could not fly region to region. You could only fly if London was one of the connections. It was a devolved responsibility for the other two nations, which could operate other routes; hence, a number in the highlands and islands and the Anglesey to Cardiff route.

We have been pushing for a long time that, where there might be a viable route, it needs some assistance. There are two types of PSO routes. There are those that are lifeline services, say, from Derry to London, or Newquay to London. There are other routes region to region that are very difficult for an airline to start off without losing a considerable sum of money in the start-up phase. It needs some assistance to get the route started and viable.

We have always sought a new approach to PSO routes that would allow initial funding, but operating region to region to make the routes sustainable and financially viable for the airline, ultimately, to operate on a fully commercial basis. We think that it is a good recommendation to break the link that means they all have to be London-centric in England, because there are long distances. For example, Exeter to the north-east of England is a long way by train. For day-to-day business, an airlink is the only viable solution. We think that kind of option would help to make a sustainable route and would increase frequency.

You might say that we have some of these routes operating already, which is true. The issue is that it is not at the right frequency to support business and investment going both ways across those routes. We strongly support that recommendation.

Q175 **Gavin Newlands:** You focused your answer on PSOs. Is there anything else that Government can do to support that?

**Clive Coleman:** Definitely. About five years ago, the Department for Transport started its route development fund, a support mechanism, which was overly complicated at that stage and allowed a small amount of funding for routes. Ultimately, only about five routes operated. The only one that stuck for a long time was between Exeter and Norwich. The reason that they did not stick was that there was not a lot of money. It did not really give airlines the support that they required during the start-up phase, when new routes historically lose money; they have to bed in over a year or two.

We see another solution to that as a more flexible PSO arrangement or another version of the route development fund, where APD could be free on new routes. It might be graded in over time. For the first few years, it would be APD-free. In the long term, APD might, unfortunately, have to come on to those routes, but there would not be a loss to the Treasury, because if the route did not exist it would not have that income, anyway. Ultimately, it would get income, once the route was embedded. Not



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having APD is a simple saving that airlines would support because it allows them more flexibility and makes routes more commercially viable.

- Q176 **Gavin Newlands:** Brian, can I come to you? We know from Clive's answer that the UK Government only fund PSOs that fly to and from London. Any PSOs in Scotland are funded either by the Scottish Government or by councils. Can you answer the same question? How can all levels of government support this? Perhaps you could move beyond PSOs as well.

**Brian McClean:** On the PSOs, I agree absolutely with Clive. The way they are set out at the moment is quite cumbersome and restrictive. We need to look at how we connect regions within the UK. Only yesterday, Russell Borthwick, the chief exec of Aberdeen chamber of commerce, commented that he is really concerned that Aberdeen will become a northern outpost if we do not restore connectivity. Part of that is domestic.

I agree that we need to look at the return of a route development fund. Clive is absolutely right. It takes a number of years for a route to become profitable, so we need to help and incentivise routes to come back into place. A lot of the routes we are talking about are routes that are not easily done by rail: Aberdeen down to Southampton and the flights that we have to Belfast from our airports in Scotland and Southampton. If we are really serious about levelling up within the UK, we need to look at relaxing the rules around PSOs and at some form of route development fund. APD, which I am sure we will come on to shortly, is another lever we could look at.

- Q177 **Gavin Newlands:** Kay, Loganair flies a lot of PSO routes within Scotland. Correct me if I am wrong, but I think that the UK Government provide a Dundee-City flight. I think that is a UK Government PSO. Your take on this will be very interesting, so I put the same question to you.

**Kay Ryan:** We also operate the Derry to London Stansted PSO. Sir Peter Hendry's report was good in that it recognised the need for change on the PSO. As Clive and Brian said, PSOs are incredibly complicated. I have done more than I care to remember. Going back to the route development fund, only one or two airports succeeded in getting that over the line. It was terribly complicated. It was based on reduced airport fees and there was no recognition of start-up. Clive made the point that that is incredibly important. These routes are what we would call thin by definition, otherwise they would not need a PSO. They take time to start and to gather customer demand.

The recommendation for an open PSO, with no APD, is a very good one. I have another suggestion. Traditionally, PSOs take into account only point-to-point traffic. Should the route be allowed to have different rules around it or should funding be completely dictated by how many passengers travel from A to B? In a lot of cases, people are going onwards from that, so allowing connecting traffic to be taken into account



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when awarding a PSO, open or otherwise, is particularly important, very much so now that the UK is out of the EU. That would certainly be of benefit.

My other point goes back to what Gavin said and our experiences of lifeline PSOs in Scotland. In Scotland, they have an air discount for personal use. While the route might be a designated PSO, people living in those places actually enjoy a discount on travel. Perhaps that should be accounted for if there are to be changes to the PSOs. It is common in Europe. They do it particularly well in Sweden for their regional flying. They allow the discounts that are extended by local government to be used when booking PSO flights. As always, it is not quite as straightforward as saying, "Let's just take APD off and let everyone apply for them." There are quite a few variables that should also be taken into account from the PSO.

My last point is about speed. They take a month of Sundays. Clive and I have had experience of this. We got one emergency PSO agreed and signed off in three days, I think.

**Clive Coleman:** Yes, three days.

**Kay Ryan:** We can move at pace, but, traditionally, it can take three, four or five months. That is too slow in the current market.

Q178 **Gavin Newlands:** I was going to ask about the air discount scheme, so the fact that you brought it up unprompted is very useful. Thanks for that.

I am conscious of time, so this is a brief last question from me in this section before we have to move on. I will start with Brian in Glasgow. What domestic air routes experienced the lowest volumes of air traffic during the pandemic? Are any of those routes potentially at risk unless perhaps they are reclassified as PSO routes?

**Brian McClean:** From Glasgow, Birmingham was probably the route that suffered most. The routes that were most popular were those to the London airports, particularly London Heathrow. We stayed open during the pandemic when perhaps it did not make financial sense to do so. The passengers who were travelling were key workers—people travelling to support the energy sector up in Aberdeen—so I do not think that we can use the past 20 months to gauge the real sense of demand for each of the routes. If you look at the top 10 domestic routes out of Glasgow, you have Heathrow and Gatwick at the top, followed by Bristol, Belfast and some of the other London airports. Then we are down to Birmingham, probably, in 10th place.

Q179 **Gavin Newlands:** Kay, which Loganair routes have suffered the most during the pandemic?

**Kay Ryan:** They have all suffered. Loganair is the only airline that flew throughout the pandemic. We always had an aircraft all year. We are



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possibly closer to customer demand than most because we were flying lifeline routes for people going to hospital, essential work and essential appointments. They continued.

I would say that we are at about 75% to 85% of our 2019 levels, but I cannot see the other 20%, which is quite considerable and is the difference between a route working or not, coming back any time soon. That is the concern.

**Q180 Gavin Newlands:** Clive, before we move on, can you say briefly whether there is any specific route that you think is at risk?

**Clive Coleman:** I think there are two. At Norwich airport, it is some of the routes that connect the oil and gas industry in the southern North sea to Scotland. Loganair operates Aberdeen, but it has other connections to Edinburgh and connections to Manchester, which we have not been able to restart. At Exeter, our challenge is specifically out of hub airports. I do not mean the London hubs. I mean allowing international or intercontinental connectivity from Exeter through Dublin, Amsterdam and Paris. Those have yet to recover. That is a challenge for us and for the local community.

**Chair:** Brian, you said that we would no doubt get on to air passenger duty. We are indeed, with Simon Jupp.

**Q181 Simon Jupp:** Thank you very much for that introduction, Chair. The Government's welcome 50% cut in air passenger duty was in the most recent Budget, of course. It was a bit of a surprise to many, after the APD review. What effect do you think it will have on regional air connectivity? Kay, I will come to you first.

**Kay Ryan:** We welcome it, obviously, on the domestic flying side. It will make a difference on routes that are on the critical list. Clive referred to Edinburgh-Norwich, which is one of our routes. It will allow sustainability for routes that have been impacted and were low demand to start with but are quite necessary for a lot of businesses. They are not big enough to warrant a four a day service on a 100-seater aircraft, but they need a service. Without this cut in APD, Loganair would have struggled to keep flying at least 45 routes that we currently operate, so it is very welcome for us.

The one thing that I would note is the delayed implementation, particularly on the domestic side. I am not sure why it is not going to be implemented before 2023. I understand the historical reasons, and that airlines traditionally say, "We need a long lead-in time when we have no bookings." Well, we have no bookings. That is here and now. This is the one time when it could be brought forward, particularly on the domestic side.

**Q182 Simon Jupp:** That is interesting. Can I come to Brian next? It is the same question about the impact of the decision. Could you also touch on the point about the delayed implementation? That was one of my further



questions.

**Brian McClean:** I absolutely agree with everything Kay said. It is a welcome step, but why wait until April 2023? We are facing a real challenge right now, so it would help if this was brought forward and introduced next year. It will make some of the thin routes viable. We had an anomaly that needed to be corrected for domestic routes and the double whammy of passengers paying it on both legs. In fact, a passenger flying on a return trip to London is paying more in aviation tax than a passenger flying from the UK to Spain or elsewhere in Europe. That needed to be addressed.

What we also need addressed is the fact that there is still a distortion in the market. At Aberdeen airport, in particular, we are operating in a distorted market, given the close proximity of Inverness, which is currently exempt from APD. In 2018, British Airways withdrew a route from Aberdeen and lifted and shifted it to Inverness. In its press release, it cited the APD exemption as the reason for the move. That is quite clear. It is harming our ability to hold on to routes, let alone to try to secure additional ones. Fair play to Inverness. It is a perfect example of how the removal of APD can actually stimulate investment from airlines. Once you get that, you get wider economic growth, prosperity and social inclusion. We are pleased that it was addressed, but it needs to be brought forward to April next year.

Q183 **Simon Jupp:** Clive, recently I was at a meeting at the Future Skills Centre just up the road from Exeter airport, which I know you operate, in my constituency. The sole campaign that I got from that meeting was that the APD cut was needed. The Government have now agreed to do it. Obviously, that is welcome. It will be good for Exeter airport and the other airports that you operate. Do you also share the concern that it could be too late by the time it is implemented in 2023?

**Clive Coleman:** Absolutely. I completely agree with Kay and Brian that it is very welcome. The issue is, why wait at least 18 months to implement it? Next year is going to be recovery. As I said, we have only about half the capacity that we used to operate, and probably less than 20% of the domestic passengers we carried normally. Next year is critical for recovery; airports and airlines need all the help we can get. Waiting a year is just delaying that part of the recovery.

Some of the larger low-cost carriers—easyJet and Ryanair—can operate high-volume trunk routes from London to Scotland, for example. It is easier for them to swallow and to play the economics of a higher APD on the very thin routes that operate from the regions, such as Exeter. To emphasise the point that Kay made, these routes are very thin, and just a small reduction in APD is hugely helpful and usually tips the balance, making a route viable, versus not viable. That is really the help we need. Yes, it is great that APD is being reduced, but why wait a year?

Q184 **Simon Jupp:** You mentioned the help that you need. Alongside this, you



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have had the business rates reduction extended, too. What other support are you looking for from Government?

**Clive Coleman:** Yes, the business rate reduction was hugely helpful for a couple of airports, although Scotland, Ireland and Wales had complete exemption from business rates right at the start; English airports, yes, benefited from AGOSS but it was late coming, and we had to go through a fairly complex application process. Not all airports have received the rate reduction, or they have only received a proportion of it. It has been helpful, but not to the same extent as from the devolved Administrations.

The other help is creativeness around PSOs. I do not really want to go over this again, but just repeat that it will stimulate some of the other routes. It is not just an APD reduction. An APD holiday would be helpful on certain routes, or more creative ways for route development—in other words, to increase frequencies on other routes. We can come up with a creative solution where there was an APD holiday on those routes.

Q185 **Simon Jupp:** Brian, I will come to you next. Alongside APD and the cut, which is obviously very welcome, what else have you been asking for and what else have you wanted to see in support?

**Brian McClean:** We could look at it in two pockets. If we look at support for Covid, Clive rightly mentioned the rates relief that we received, first, for Aberdeen and Glasgow. The Scottish Government moved very quickly, and it was very welcome, to provide that rates relief. I have to say that it is still a small amount. It only covered a small amount of our overall losses, but it was very welcome. We would love to see that, and we need to see that, extended into the next financial year. Southampton also benefited from rates relief.

Looking forward to how we restore connectivity, I echo the points that Clive made. We need targeted route development support to get connections up and running that are really going to drive forward the economic recovery of the regions. There is the PSO piece as well, and how we can make it more flexible.

Q186 **Simon Jupp:** We are getting a PSO theme this morning. Kay, I will come to you next.

**Kay Ryan:** I echo entirely what Brian said. More flexibility on PSOs. Unquestionably, they need to be quicker. They need to be better informed by taking into account the needs of the wider region and wider businesses and how they benefit, not purely passenger numbers. Levelling up is about that. A lot of the solutions for regions need that to do local UK and international business.

I do not know if you are going to come on to this later. My ask would be a review of the UK's emissions trading scheme. It is not particularly pertinent to my colleagues from the airports, but for an airline it is hugely important.



**Q187 Simon Jupp:** Obviously, the last nearly two years have been really damaging for the aviation industry, whether you run an airline, a travel agent or an airport. The APD cut that the Government will introduce in 2023 has been criticised quite widely by environmentalists over its potential impact on net-zero targets. I can understand where they are coming from to a point, but I think many in the industry—I would welcome your views—would see this cut as a lifeline for an industry that has been heavily hammered over the last two years. Without it, perhaps it would set back reform further. We all want cleaner and greener aviation. Is there anything you want to add, Kay?

**Kay Ryan:** I do not see APD as an environmental tax, that's for sure. The ETS is what that is for, and that currently allows a 35% tax on fuel. As an airline, we are committed to being carbon neutral by 2040. We were the first airline to introduce a mandatory offset charge to our customers. It is £1, which is small change but makes a big difference. We are committed to doing that.

The needs of airlines are different. It is not a one size fits all. I am aware, as I am sure everybody else is, that there is a lot of research and support for SAF—sustainable aviation fuel—and that is absolutely right and necessary. For domestic airlines with smaller aircraft, investment in research and development on hydrogen-powered and electrical-powered aircraft will bring environmental improvement much quicker. We believe that by the end of this decade there will be the ability to have those types of powered aircraft for domestic routes. Research and development for that would be hugely beneficial.

I think transparency about CO<sub>2</sub> emissions to the public is terribly important. Government data in 2019 showed 1.6 million tonnes of domestic flying CO<sub>2</sub> emissions. It was 3 million tonnes for trains and 122 million tonnes for road journeys. Those conversations are not being had. I do not know of any airline that is not committed to making a difference and doing what they can. We are. We have a stated aim and we have plans in place to do so, but I think a bit more transparency that we are not the fount of all evil and that we are making plans to change things would be very welcome.

**Chair:** Thank you. We are into the second part of our session. I ask Members to put some of the questions selectively rather than to all three witnesses. I will the witnesses to be briefer with the answers in order to fit everything in. Before we move on to regional airports, Ben wants to come in.

**Q188 Mr Bradshaw:** Kay, finally on APD, my criticism of it has been not only that it was levied doubly on domestic flights compared with international flights, but that it is not really an environmental tax, is it? It does not do anything to incentivise airlines to develop, use or buy more efficient fuel or efficient and environmentally friendly aircraft, or even ensure that they have full flights.



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In an ideal world, assuming that the industry was not going to pay any more, or that through the passengers you were not going to pay any more, what would be the ideal climate change or environmental tax on the airline industry that would drive forward such change in incentives?

**Kay Ryan:** I think any tax needs to recognise what the company is doing. Some companies are making great strides to offset their carbon and have been putting plans in place. I stated earlier that APD is not an environmental tax, but one could argue that maybe airlines that do not have an offset plan in place do not benefit from it quite as much. I think there are things that can be done.

Q189 **Mr Bradshaw:** What about levying it per flight rather than per passenger? Would that not incentivise companies to fill planes more?

**Kay Ryan:** It comes back to the one-size-does-not-fit-all scenario. There are such extremes in aircraft sizes. I was going to say that our smallest aircraft is 34 seats, but it is actually 16. Our largest is 70. Trying to put a plan in place to address that against the aircraft that our friends at easyJet or Virgin are flying around is not practical.

Q190 **Mr Bradshaw:** Brian, you have specific responsibility for sustainability issues. Have you given any thought to what the ideal climate change/environmental tax on the airline industry would look like?

**Brian McClean:** To your first point, Ben, I absolutely agree that APD is not an environmental tax. It does not incentivise cleaner, greener aircraft. Why couldn't we make it the case that it does? Why don't we use it for what it was actually introduced back in the mid-1990s? I know that the Treasury is not a fan of hypothecation, but could we not use some of the tax-take from APD to incentivise the development of hydrogen/electric flight to help support the scaling-up of our sustainable aviation fuel industry in the UK? I genuinely believe that is something we should be looking at.

**Mr Bradshaw:** Thank you.

**Chair:** We are running behind schedule; my apologies. Perhaps we could take the next section to 10.20. We are going to start with Simon, and then we have Gavin and Ruth to fit in as well, so could you all be kind to each other? Regional airports.

Q191 **Simon Jupp:** I will keep it brief, Chair. I want to delve into the unique challenges faced by regional airports in comparison to, say, international hubs and the bigger airports in this country. Clive, what are the challenges that you see in airports like Norwich, Bournemouth and Exeter that will be different from those faced by Heathrow and Gatwick?

**Clive Coleman:** The biggest challenge is that all airports have very high fixed costs. No matter if you handle one aircraft a day or 40 aircraft a day, the high fixed costs remain constant; in other words, for things like air traffic control, fire and security, there is a fixed cost irrespective. Heathrow and Gatwick have had great difficulties in the pandemic and



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have lost large numbers, but their recovery will be faster. They are covering their fixed costs, whereas we have far fewer flights. Until flights increase, it is more difficult to cover fixed costs. That is one angle.

The other angle is that, historically, although there have been shocks to the aviation system from things like the Gulf war and 9/11, the market bounced back very quickly. After the global financial crisis, and certainly after Covid, the market is going to have a very long, hard, drawn-out recovery. Regional airports are the first to lose capacity because airlines, quite understandably, migrate to the larger airports, the hubs or larger regionals where the thicker routes are more viable. It takes longer for capacity to come back to the regions. We have also had some of the low-cost carriers coming in on some of the non-traditional, low-cost carrier markets and taking capacity away from smaller airlines like Loganair, which is a challenge in itself. Finally, some of the larger airports that have probably never had to give discounts to attract airlines through their fees and charges are probably now giving discounts because they have lost so much traffic.

To echo a point that Brian made very early on, there is less capacity but the same number of airports. There are going to be a lot of airports fighting for perhaps very limited capacity. Airlines can have a fixed capacity and they can take it wherever they like, to whoever offers the best deal. Airports have to be in the marketplace to attract that capacity. That is probably one of our challenges.

The final point is staffing. Unfortunately, we lost nearly an airport's worth of staff in the first lockdown. With the end of the furlough scheme in September, we introduced our own schemes to retain staff through this very lean winter period at our airports, on the grounds that we did not want to lay off staff and then have to re-recruit for next summer, which we hope will be a recovery. We are bearing that cost at the moment, simply because of the difficulties with recruiting in the future. Frankly, that has put our fixed costs up even higher. We are operating a very high fixed-cost business and fighting to achieve demand and capacity in a very competitive market.

Q192 **Simon Jupp:** Thank you, Clive. Brian, I have the same question for you. In comparison to your Heathrows and your Gatwicks, what challenges are you facing in recovery that are distinctively different? I am guessing that they are very similar to Clive's, given that your airports are a similar size.

**Brian McClean:** Yes. The regional airports group is facing exactly the same challenges as Clive's. It is the point made earlier about the consolidation and contraction that we are seeing in the market. If we look at the European market and the number of seats that are available in the first quarter of next year and compare that with the seats that were available in the first quarter of 2019, there are 44 million fewer seats in the market. Now, there are the same number of airports scrabbling over them and trying to attract airlines into their airports. That is what we are up against.



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We arrived at that statistic last week before the news came out over the weekend about Omicron. You can see that we are extremely worried about developments at the moment. On the fixed cost base, I absolutely agree with Clive. That is a challenge. It is 20 months in, and we have taken on an extreme amount of debt as a group. It is very challenging.

Q193 **Simon Jupp:** Touching on that point, Brian, about the changes over the weekend and what came in yesterday, clearly there is no furlough scheme to fall back on. The business grants are not there. The support has wound down, but the issues still remain for the industry. You both talked, for example, about changes in staffing levels in your airports. Do you see any further staffing levels having to change? Are you worried about that in the coming months, Brian?

**Brian McClean:** We went through a huge redundancy programme at the end of last year. Across our airports alone, we lost 3,000 direct and indirect jobs. The people we have at the moment are the team we need to make sure that our airports can continue to operate. It goes back to the point, again, that it does not matter if you have 10 flights a day or 100 flights a day, you still need a security team; you still need fire cover; and you still need a terminal team. You still have to have a certain number of staff, and that is where we have got to.

Q194 **Simon Jupp:** Clive, the same question to you. I know there were staff changes and cutbacks at Exeter airport, but are you foreseeing any more of that in the future?

**Clive Coleman:** It is too early to say at the moment. We are hoping that the current problem, if it lasts through the winter, does not get worse for next summer. We are very much focused on growing for next summer. Our challenge will come if the nightmare scenario happens that we face further restrictions all the way through next summer. That would be very difficult for our staffing situation.

Perhaps I could add one other point about what would help regional airports on some of the regulatory costs we bear. At one point, at the start of the pandemic, there was a mandate to change and upgrade security equipment. The CAA deferred that, which was very helpful. We now think it is coming back soon. While it is hugely important to have up-to-date security equipment and new generation security equipment, it is a significant capital investment cost to bear for an airport when it is difficult to fund it. Another ask we would like to make of Government is to consider, with some of that essential expenditure, some help and relief in funding those requirements.

**Simon Jupp:** Thank you.

Q195 **Ruth Cadbury:** Levelling up is the major political mantra at the moment. You have all painted a picture of the vulnerability of regional airports and smaller airlines. Is there a risk that, unless there is some specific action to protect some airports and routes, what recovery there is will be disproportionately based back at airports like Heathrow? What do you



think should be done about that? I will go to Clive first.

**Clive Coleman:** Absolutely, there is that risk. As I said, after every shock to the aviation system, the recovery always starts at the large airports, which is where the more viable routes are, where the thick routes are and where the airlines can make more money. They will focus on those routes, which is completely understandable given their business model. It is not a criticism.

The challenge is how long it takes for routes to become viable again at the smaller regionals. I suppose that is why we keep coming back to PSOs. It is not about the existing arrangements for PSOs. It is about a much more flexible arrangement for route development support that makes it attractive to airlines to operate thin routes from regional airports through reducing APD or having an APD holiday on those routes. Many can operate the routes without a direct subsidy, but removing APD completely in the start-up phase would help the economic case; otherwise, I fear it will take a lot longer than in previous aviation shocks to rebuild capacity at regional airports.

I agree, yes, that levelling up is the mantra. It is not just London to the regions, where there are good transport links that radiate out of London. Region-to-region connectivity is vital as well.

Q196 **Ruth Cadbury:** Brian, do you have anything to add?

**Brian McClean:** I agree with Clive. I have no doubt that the airlines will start queuing up again to fly into the London airports more quickly than they will to the regional airports. The Airport Operators Association asked the Steer group to do a report into the recovery of aviation in the UK. They said that it may be 2025 before we return to pre-pandemic levels, but they cautioned that it will be much more difficult for regional airports. In actual fact, they said that the recovery in Scotland would be among the slowest of the UK regions and nations. We are geographically challenged as well just by where we are, at Glasgow and Aberdeen. That involves longer flying, longer sector lengths, more fuel costs and more staff costs. It is much more difficult for the regional airports.

Q197 **Ruth Cadbury:** Kay, are you worried about that trend reflected for the smaller airlines as well?

**Kay Ryan:** Yes, completely. Are routes at risk? Yes, they are. It is early days with the recovery but, as Clive said, a temporary APD holiday for some might be worth a review, or indeed the scheme that the Northern Ireland Government had in place for their airports this summer, where they gave financial support based on load factor. That completely takes into account the size of aircraft. To maintain frequency throughout the summer, there was a subsidy in place if your load factor fell below a certain level. It was a very good scheme. It was very straightforward and easy to manage and monitor. It certainly helped us keep aircraft flying into Belfast.



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**Chair:** Thank you. Over to you, Gavin.

Q198 **Gavin Newlands:** Ruth has covered many of the points I was going to ask. From an evidence point of view, in the summer Airlines UK said that without support roughly 600 routes would potentially go, and 80% of those routes would be from regional airports. Has that been borne out by the facts? Do we have any updated evidence on that? If not, is it something you can find out and update us on?

**Brian McClean:** We can see that happening right before our eyes. Glasgow airport always had transatlantic routes. We have lost them all. We will see some Canadian flights come back next year, but we will not have a direct route to America until 2023 at the earliest. We lost 70% of our international routes. We lost 50% of our domestic routes. The facts in the report from Airlines UK have been borne out. We see that with the decisions being made by the airlines.

Q199 **Gavin Newlands:** Clive, do you have anything to add? I am conscious of the time.

**Clive Coleman:** Very similar. Our major loss at the moment is at the hub airports of Dublin, Amsterdam and Paris. That was all about getting connectivity into the regions. That has been a loss from one of our airports, in Exeter.

**Chair:** Thank you. Our last section is on regional connectivity and sustainability, which will be expertly led by Grahame Morris.

Q200 **Grahame Morris:** Thanks, Chair. Before I ask about UK greenhouse gas emissions, I want to clarify an issue in a response to my colleague, Simon Jupp. Both Clive and Brian mentioned the levels of redundancies in regional airports. You mentioned some specific figures and the pressures of furlough ending. Might I ask Kay for clarification from Loganair's perspective?

If there is, as we all hope, an upturn in demand from regional airports, both domestically and internationally, do you have the right level of staffing, given the numbers of redundancies we have seen across the industry with the end of furlough? Do you have the right level of skills among the workforce to be able to cater for that upturn in demand?

**Kay Ryan:** We do, yes, at the moment. As I said earlier, we are flying at some 80% of our capacity, customer-wise. If you are flying three times a day as opposed to four, which you normally would, you need the same number of pilots; you need the same number of aircraft. Our way of managing slower demand was to reduce frequency. Our concern is that the recovery will not come soon enough to allow the slimmer routes to survive. Without support, that will mean consolidation, routes disappearing, aircraft going back to lessors and staff being made redundant. It is a question of when. We are fully capable of scaling up. We are actively looking at how we scale down if we have to.

Q201 **Grahame Morris:** Thanks for that. I would like to go on to ask my



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questions about greenhouse gas emissions. In fact, in an earlier answer Brian touched on this. In the context of rising greenhouse gas emissions, a case is being made that we should explore viable rail alternatives to air travel, particularly for domestic customers. You mentioned the example of Belfast where rail travel would not be a viable alternative, but what is your response from the industry's point of view to that contention?

**Brian McClean:** We absolutely need to acknowledge the fact that a large number of the domestic routes we serve are not easily done by rail. When those journeys get down to about three and a half hours on rail, that is when you will see people tip over from flights on to the trains. If you look at Heathrow, 40% of the passengers who are flying from our airports in Scotland down to Heathrow are using it as a hub to fly onwards.

First of all, we need to acknowledge the work that the industry is doing. This is an industry that needs to change, wants to change, and is changing. At our airports, we are carbon neutral. We have reduced our carbon footprint by over 50% since 2018. That is not including the impact of Covid.

I know you have Andy Jefferson coming up after us. In February last year, as an industry we set out what was, at the time, the first national aviation net-zero road map in the world. We have a clear and compelling road map, and we know what we need to do to achieve it. The industry is taking huge steps to address its climate change responsibilities.

Q202 **Grahame Morris:** Thanks, Brian. I will put the same question to Clive. I understand that there are certain routes in Scotland and Northern Ireland where there is not a viable rail alternative. Perhaps in the south of England, in areas where journey times, as Brian mentioned, are three and a half hours or less, what is your view in respect of the regional airports' role in that?

**Clive Coleman:** I am very similar to Brian on this. Looking at the Union connectivity report—the Hendry report—one of the slight disappointments was that he was looking at it, quite rightly, by saying that we should move, if it is viable, to rail connections, surface connections, rather than air. I think he was looking through a lens to, say, 30 years' time when £90 billion or whatever has been spent in the rail industry to improve speed times.

Scotland and particularly Northern Ireland have no viable rail service, but if you are in the south-west of England, like Exeter, or the very east of England in Norwich, transport to diametrically opposite parts of the United Kingdom is very difficult by rail or car. It takes a long time. Therefore, sometimes aviation and air travel is the only viable alternative, particularly for business travellers who might want to be there and back in a day. It does not work going there and back by train in a day. There has to be a period of time while the rail industry invests



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in speeds, and times become lower, when aviation on some of those routes is the only viable solution.

Q203 **Grahame Morris:** I understand. Thank you for that statement. Kay, very briefly, what is the impact of domestic flights on UK greenhouse gases, and what are we doing to address that?

**Kay Ryan:** Three in five domestic flights cross water. That is an indisputable fact. Domestic flying is necessary. I completely echo Brian and Clive's point that rail needs to improve its environmental credentials too. Aviation has a habit of self-righting. Glasgow to Manchester was a route that we used to operate, in fact. The only reason that people flew with us was that the reliability of the train service was shocking. They got their act together, adjusted their pricing and we stopped flying. There is direct evidence to show that it works.

**Grahame Morris:** I fully sympathise with that, having spent nine hours getting down from the north-east. Thank you for your evidence.

**Chair:** That might have been the weather, at least in part.

**Grahame Morris:** It has been a combination of things.

**Chair:** We digress.

Q204 **Greg Smith:** Mindful of time, I am going to keep this really brief. The Government's own jet zero consultation talked about how public service obligation routes could be used for the early roll-out of zero-emission aircraft. It would be interesting to get your take on whether that is a good idea, or whether using the public service obligation routes as essential guinea pigs is asking for trouble. Perhaps we can start with Kay.

**Kay Ryan:** It is an interesting point. Some of our PSOs are very short distances, so in fact they would be ideal guinea pigs, for want of a better word, to monitor that. We happen to operate the shortest flight in the world at two minutes. It is over water. I would say that is a fantastic use of either hydrogen or electrical. It depends on the route.

Q205 **Greg Smith:** Clive.

**Clive Coleman:** Very similar. It could be a good idea as long as it is viable. There might be an additional cost. I am sure there would be an additional cost in technology as well, and that might be a way of supporting it. I would be supportive in principle.

Q206 **Greg Smith:** What do you predict the cost differential to be? I know it is early days and the technology is not polished, but do you have some modelling that suggests what the cost differential could be?

**Clive Coleman:** No. I think it is too early. There are groups looking at this. We and Loganair are in the same grouping—2Zero—which is hybrid aircraft, hydrogen aircraft and electric aircraft. Test flying was carried out in the south-west and Scotland earlier this year. That is moving to the next stage with a slightly larger aircraft and is all about making the



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technology work, as well as understanding the costs and the infrastructure changes that are required at airports.

Q207 **Greg Smith:** Thank you. Brian, what are your thoughts on that?

**Brian McClean:** I agree. I know we have already touched on the unique challenges facing regional airports, but in the transition to net zero there are unique opportunities as well because of the lifeline services and the sector lengths those flights present. We could be a real testbed for the development of hydrogen/electric flight while we also look at how we scale up sustainable aviation fuel. We would be supportive.

Q208 **Greg Smith:** In one word from each of you, off the back of what you have just said, and given the challenges we have talked about earlier in this session, is being used as guinea pigs on the public service obligation flights, a great opportunity or a hideous burden? Brian, what is your one-word answer?

**Brian McClean:** Great opportunity.

Q209 **Greg Smith:** Kay?

**Kay Ryan:** Seconded.

Q210 **Greg Smith:** Clive?

**Clive Coleman:** Yes, creative opportunity.

**Greg Smith:** There is some consensus to end my bit.

**Chair:** Thank you, Greg. Are there any other points about anything that has come up that anyone wants to comment on?

Q211 **Karl McCartney:** I am going to come back to Kay, to pick up on something that my colleague Ben Bradshaw asked about. With passenger duty, thinking about carrots and sticks, would one way of incentivising be to tax empty seats proportionately in aircraft? Then it would not matter what size aircraft it was. I know that your business models will no doubt be that you want to fly full aircraft, but if you taxed the empty seats would that be a way of incentivising environmental friendliness?

**Kay Ryan:** Not for Loganair, purely because of the size of aircraft. The economics of smaller aircraft mean that they need higher fares. Smaller aircraft operate on domestic routes because they are thinner, so you do not generally have low-cost carriers such as Ryanair or easyJet operating them. They can afford to spread their costs over 200 or 300 seats at 50 quid a seat, but we cannot with 50 or 60 seats. That would not work for us at all, I am afraid, purely because of the economics of operating a smaller aircraft when we still have proportionately higher fuel and airport costs.

**Karl McCartney:** Thank you.

Q212 **Chair:** Does anybody else want to come in? The last question is from me. You have given us a lot of evidence, a lot of ideas and a lot of



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suggestions. Could I ask you, in 30 seconds, to pick one of those ideas, or maybe a new one, that would assist you in the long-term growth of your industry? We will start with Brian.

**Brian McClean:** It has to be regional route development support. We would widen that to international routes as well, but route development support is what we need.

Q213 **Chair:** Thank you. Kay.

**Kay Ryan:** Route development support and review the emissions trading scheme.

Q214 **Chair:** Thank you. Clive.

**Clive Coleman:** Yes, it is probably not just growth; it is initial recovery and sustainability leading to growth. It would be route development support.

**Chair:** Route development support wins the day. We will certainly make a note of that. Brian, Kay and Clive, thank you so much for all the evidence you have given us. We wish you and your teams all the very best. Thank you again and enjoy the rest of your day.