HOUSE OF COMMONS

Transport Committee

Oral evidence: Smaller airports, HC 713

Monday 19 January 2015

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Written evidence from witnesses:

- Airport Operators Association
- British Air Transport Association
- Civil Aviation Authority
- Department for Transport
- Regional and Business Airports Group
- Chartered Institute of Logistics and Transport

Watch the meeting

Members present: Mrs Louise Ellman (Chair); Sarah Champion; Jim Fitzpatrick; Karen Lumley; Jason McCartney; Mr Adrian Sanders; Chloe Smith; Graham Stringer; Martin Vickers

Questions 1-47

Witnesses: **Nathan Stower**, Chief Executive, British Air Transport Association, **Darren Caplan**, Chief Executive, Airport Operators Association, **Iain Osborne**, Group Director for Regulatory Policy, Civil Aviation Authority, **Paul Le Blond**, Chairman, Aviation Forum, Chartered Institute of Logistics and Transport, and **John Spooner**, Chairman, Regional and Business Airports Group, gave evidence.

Q1 **Chair:** Good afternoon and welcome to the Transport Select Committee. I apologise for keeping you waiting. Would you please tell us your names, positions and organisations?

Paul Le Blond: I am Paul Le Blond, chairman of the Aviation Forum of the Chartered Institute of Logistics and Transport.

Darren Caplan: I am Darren Caplan, chief executive of the Airport Operators Association, which is the trade association for UK airports.

Nathan Stower: I am Nathan Stower, chief executive of the British Air Transport Association. We are the trade body for UK airlines.

John Spooner: I am John Spooner, chairman of the Regional and Business Airports Group.

Iain Osborne: I am Iain Osborne, director for regulatory policy with the Civil Aviation Authority.

Q2 **Chair:** In this inquiry, we followed Department for Transport and European Commission guidelines, and defined smaller airports as airports having "fewer than 5 million passengers per annum". This places 40 airports in the scope of the inquiry. Do you think that is a reasonable definition, or would it be better to try to break it down into different types of smaller airports or by functions? Are small airports with fewer than 5 million passengers a useful category?

Paul Le Blond: Of course, any level is going to be somewhat arbitrary. It probably seems a good idea to have a category of smaller airports. I would not suggest any other categorisation. There were some categorisations in the 1978 White Paper which, frankly, did not last. The benefit of a categorisation in terms of numbers is that it is simple and straightforward. There is some evidence that costs per passenger decline quite significantly as you come down towards 3 million and maybe flatten out a bit at around that level. There is also evidence, which I am sure colleagues will tell you about, in relation to the profitability of airports below that sort of level. My basic answer is that, yes, it is a useful categorisation; it is simple and straightforward. Of course, it is a bit arbitrary, but it is a nice round figure.

Q3 **Chair:** Does anybody else have any views on that?

John Spooner: Our group believes that 3 million is the threshold number. In this country in particular, it is possible to be profitable at about 3 million passengers a year, particularly if you have a good mix of property income and general aviation traffic, which is very typical of the kind of airport that we have in this country. Having said that, we also believe that airports without any commercial passengers at all merit special status and should be included in your definition, because they host other aeronautical activities, including air-sea rescue, support for the rigs and various other socially very important flights, such as air ambulances, transplants and a lot of activities in support of the Ministry of Defence and so on. Therefore, we are happy with a 3 million threshold, because certainly in this country, despite the problems with regulatory costs that have already been mentioned, an airport should be profitable or able to break even at about that level.

Q4 **Chair:** Have any problems arisen because of that threshold? There is a European Commission rule that airports with fewer than 3 million passengers a year can host certain state-subsidised routes. Do these numbers create any problem when policy making?

John Spooner: They do to an extent because you also have to look at the type of passenger as well. There is a very strong and clear link between the profitability or commercial success of an airport and the nature of its traffic. If you have a constant volume of traffic travelling, for instance, from a region down to the south-east where the seasonality of traffic is less than holiday charters, it is easier to tailor your costs to the flights; you have more readily forecastable levels of costs which do not fluctuate. If you have inclusive tour passengers, your costs go up, but you can earn additional income from concessions and so on. There is a big link between the type of traffic, the type of passengers, the routes they are on and the cost and income of various airports.

Q5 **Chair:** Would you say that smaller airports have suffered more than larger ones since the 2008 recession?

John Spooner: Yes.

Q6 **Chair:** Would anyone else like to comment on that?

Nathan Stower: Passenger numbers show that quite clearly. Between 2008 and 2013, Heathrow was up by 7% and Gatwick was up by just under 4%. There are exceptions either side. Some of the bigger airports are down. Stansted, Birmingham and Luton were down over that period. On the other side, the majority of smaller airports were down over that period. There were a couple of exceptions within that, but overall the smaller airports have been harder hit by the recession than the larger airports. That is driven by consolidation on some of the less viable routes, where airlines decided to concentrate on the bigger airports where there are thicker routes.

Q7 **Sarah Champion:** A number of Committee members went to Taiwan to look at their high speed rail, one of the unintended casualties of which was the smaller local airports, which really had a massive downturn. Is HS2 something that you are concerned about for that reason? I have now given you a new thing to be frightened of. Does anyone have any views on that?

Darren Caplan: From the Airport Operators Association view, when you look at the viability of airports and at whether the recession unduly affected smaller airports you also have to look at their ability to bounce back. As the economy has got better, how quickly have the smaller airports managed to come back? Unfortunately, some of them have not managed to do it at all. We have lost Manston; we have lost Blackpool in terms of commercial; we have lost Plymouth; and we have lost Bristol Filton. You have to wonder whether if they could have held on a bit longer they would have seen it through. They were massively affected by the recession. A lot of them were low-cost carriers. I know we will come to it later, but air passenger duty is a key reason, because it really affects the smaller airports particularly. Air passenger duty shot up massively at exactly the time when the recession was kicking in, so the ability to bounce back was a big thing.

Q8 **Sarah Champion:** Specifically with HS2, are you predicting that it is going to have an impact?

Darren Caplan: The AOA sees HS2 as a positive thing. We support all transport infrastructure that can help UK connectivity. It benefits some of our airports. It will obviously benefit Manchester, Birmingham and Leeds, and in the south-east where new capacity goes in, it will benefit that as well. Anywhere we can get more capacity into the system—whether it is rail or air—we would support. We do not see it as a competitor service to aviation. People will fly if they want to fly, and if they want to take a train they will take a train. There is not a lot of displacement for us.

Q9 **Sarah Champion:** I want to look at the wider economic benefits of small airports. Has the benefit that a small airport makes to the regional economy been quantified?

Darren Caplan: Most of our small airport members would say that in terms of economic benefit the airport is crucial to their well-being; whether it is jobs, business growth or local enterprise partnerships stimulating more activity, it is crucial.

Q10 **Sarah Champion:** But has it been quantified? Can you say that an airport contributes x million or x billion to its specific locale and therefore justifies the support that it needs to keep going?

Darren Caplan: For example, Newcastle airport contributes 3,200 jobs on site, and supports 8,000 in the north-east region. It makes a £650 million economic contribution. There is a variety. Aberdeen International airport provides 2,000 jobs on site, and supports a further 4,000 Scottish jobs. Liverpool John Lennon has over 2,000 people working on site. There is a significant drive for prosperity in the Liverpool city region, contributing £170 million to the local economy. You can go down the list and say what the benefits are, but it is also crucial in terms of connectivity. It is not just the figures. It enables businesses and individuals to move around.

Q11 **Sarah Champion:** Mr Spooner, you made the mistake of nodding then, so could I ask you the next question? You will figure out how these panels work. In your experience, do local governments recognise the wider economic benefit of the smaller airports, and do you and your members do anything to lobby them on that point?

John Spooner: Yes, they do—very much so. If you look at the City of Derry airport and Newquay airport for instance, which are the subject of substantial investment and support from their local authorities, both those airports and several others justify support on the basis of studies that have been done to quantify the economic benefit. I do not have the numbers here, but I am very happy to supply them to the Committee.

It is also worth saying that there are three kinds of economic benefit arising from these smaller airports. The first is connectivity, as we said, which is a benefit to the nation as well as to the local region, and then there is aeronautical employment. Something that is often overlooked is the fact that many of the regional airports and airfields are brownfield sites which have been developed for non-aeronautical development. It is not just a small airport phenomenon either, if you look at the airport city at Manchester. You can contrast that with Bournemouth, which is a much smaller airport but still has 200 acres of business park given over to non-aeronautical employment, with 140 employers there. They are extremely attractive sites for general employment development as well.

Q12 **Sarah Champion:** I will follow up with one final question. In the two examples that you gave, do you think that they get support just because they are better at lobbying?

John Spooner: No.

Q13 **Sarah Champion:** Does it contribute?

John Spooner: I think they are very well supported by good communications, and people are aware that businesses like to locate on regional airport sites.

Q14 **Jason McCartney:** Mr Spooner, thank you for mentioning the air ambulances. As somebody who has cycled 300 miles on a charity bike ride to raise money for the Yorkshire air ambulance, I thank you for recognising that.

Mr Stower, you mentioned the economic downturn and that a number of smaller airports had suffered. But there is one that stands out: in the top 11, only one of the smaller airports has increased passenger numbers by double digits, and that is Leeds Bradford airport. I would like to ask each panel member what they think Leeds Bradford airport is doing, and what the others are not doing, to have such big growth in that period.

Nathan Stower: Leeds Bradford is largely driven by the growth of Jet2—a major northern regional tour operator that has scheduled flights as well. A lot of the growth will be through that. Obviously, British Airways put on a Leeds Bradford-Heathrow service that was previously not there, and some of the growth has been driven by that.

Q15 **Jason McCartney:** Mr Osborne, do you have any thoughts on that in particular?

Iain Osborne: Leeds Bradford is a healthy distance from its competitors. Very many of the small airports that have suffered are uncomfortably close to a larger rival, but even Leeds Bradford is still only capturing a bit more than a third of the short-haul traffic that originates in Yorkshire. It is a key factor for all of these airports that people drive past them to go to other airports. Perhaps Leeds Bradford has been better than others at catching that traffic, but it is an issue for all of them.

Q16 **Jason McCartney:** Does anybody else want to come in on that at all?

Paul Le Blond: Geography is a key answer. It is in the right place; it is in the middle of a very significant catchment area. Other successful airports are in the right place. Regrettably, those that are not doing so well tend to be a bit more remote.

Q17 **Jason McCartney:** I am a Member of Parliament from Yorkshire. In my region, we have seen the demise of Sheffield airport, for example. Do you think, members of the panel, that we have to accept that some of these smaller airports just are not going to be a success because of geography, their catchment area and communications?

Paul Le Blond: The Sheffield area was not remote, of course. It was a very special case.

Q18 **Jason McCartney:** Sure. But in terms of what else was on offer in Doncaster and so on.

Paul Le Blond: Our evidence suggests that there are probably more airports in the north-east region as a whole than can be viable as completely commercial airports, but, as colleagues have said, you can do different things with your assets.

Iain Osborne: The airports that struggle are not in areas where there just is not very much demand; they are in areas where there is demand but somebody else is taking it. The density of airports in this country is unbelievable. We have given you some numbers for that in our submission, so I won't run through them. One needs to bear that in mind as the general context.

Q19 **Chair:** You say it is unbelievable. Does that mean there are too many airports?

Iain Osborne: I would not say too many. Passengers are very well served. People have a lot of choice without travelling very far. This is a small, densely populated island, but we are very fortunate in having as many airports as we do.

Q20 **Jason McCartney:** Just to follow up on that, the Committee have obviously been talking about airport capacity at Heathrow and Gatwick as well. I always bang the drum for the importance of regional airports. I come down on east coast main line trains, as I did this morning, and see passengers with their huge bags going off to Heathrow as well. How are you getting the message across that regional airports have a big role to play, rather than concentrating all the time on expanding Heathrow and Gatwick? Does anyone want to contribute on that point at all?

Paul Le Blond: One of the good points about small airports is that they are simple. You can often walk from the furthest space in the long-term car park to the terminal. People like doing that rather than waiting for a bus. It is just easy to get through the place, and a lot of the smaller airports have as a merit of their operation that it is straightforward and simple. It is often cheap for the airlines to operate, which means that they can pass those cheaper costs on to the passengers. Local people are very keen to use their local airports, and they can trade on that.

Q21 **Jason McCartney:** Am I just being Yorkshire and parochial, or is it a realistic proposition that the bigger regional airports can take up the slack, so that we don't have to go through all this rigmarole of expanding the London airports?

Nathan Stower: That is a different question.

Q22 **Jason McCartney:** Be honest with me.

Nathan Stower: The most important thing is that customers have choice. My members offer very different models. You have Flybe and easyJet flying domestic services, but also flying to hub airports on the near continent—Dublin, Schiphol, Charles de Gaulle and places like that. There is a very clear opportunity for some UK airlines and some of the European airlines like KLM—one of our biggest regional connectors—to feed those hub airports and then have services on. Flybe now has seven codeshares, and you can fly from Inverness to Orlando touching one point but not touching London. You can go from Exeter to Hong Kong from Manchester and on with their codeshare partners. That is a very clear model.

On the other side, Heathrow, Gatwick and the other London airports are equally important. British Airways operates a hub at Heathrow, and connections from Heathrow to a variety of long-haul services are important, too. That can have added benefits, in that if you miss your flight there is a chance that there is another one going soon. There is more frequency. There are benefits in either model, but what is important is that there is the choice of both.

Chair: We have looked at this issue in a different inquiry.

Q23 **Graham Stringer:** It is true that some of the non-profitable smaller airports have been closing. This inquiry was started after Manston closed, and Blackpool has closed. You said that was partly to do with APD and the recession. Isn't the real reason that the land was more valuable for housing in those cases?

John Spooner: No. None of the airports has been developed for housing. In the case of Teesside—we were talking about Durham Tees Valley a minute ago—one of the reasons it is so small now is that the market has been allowed to price slots at Heathrow such as to make services from the regions less valuable to the airport operator. If you want to protect the future of regional airports, the most important thing you can do is ensure that the new capacity to be developed in the future is reserved for regional services and affordable slots at the right times. I am not aware that the airports you mentioned have been developed for housing.

Darren Caplan: I want to go back on some points. In the UK, we need to get away from this either/or. We need both. The Airports Commission talks about another runway being needed in the south-east by 2030 and a second one by 2050, but we also need decent point-to-point services from airports all over the UK.

What do you do to help the smaller airports flourish? We mentioned APD, and that is one issue. Another is keeping the costs down. All airports, whether their passenger numbers go up or down, have to deal with fixed costs—things like air traffic control, fire and rescue, airport security, runways, lighting, navigation aids, asset maintenance and repair. They have to deal with those whatever happens and however successful they are being, so what is helping them derive income if they are not having a decent crack of the whip, if APD is taking away passengers and if they are struggling to get in fees from airlines, who sometimes make it difficult? That is something that makes it harder for them to trade. There are things like surface access. Is that being prioritised as an issue? We want more people to get to those smaller airports. I know that is something that will come up during the course of this Committee. Things like the planning regime on smaller airports make it very difficult for them to grow. There is a whole variety that goes into making a successful smaller airport. I think Government policy could help them flourish rather than making it more difficult for them.

We are not saying, from the AOA perspective, that it is the worst time in the world for smaller airports. What we are saying is that it has been tough, but it could be so much better if we helped them to flourish, rather than making it difficult for them, directly through Government policy. That is what we will be campaigning for with the election coming up and after the election.

Q24 **Graham Stringer:** Perhaps I can put the question in a slightly different way. I can see that for island communities, or even very isolated communities, airports are vital; whether they need subsidy or not, the community would not survive without them. But when it comes to Blackpool, Manston and some other airports, is it such a great loss if those airports close, because there are large airports that provide a greater range of services? Are we really talking about two different things with the smaller airports—the below 2.5 million category?

Darren Caplan: I am not sure how a region benefits from having less air connectivity; I accept that there is a market element to it. When public money is put in, in certain cases where they have been struggling—for example, Prestwick and Cardiff—we understand those are temporary measures; they are helping them until there are better times ahead. It does not help an area to have less connectivity.

You mentioned lifeline services in the highlands and islands and in Newquay, Cornwall and the south-west. These are crucial to the local areas and we should keep them going. If we have a Government policy regime that is not helping smaller airports, it makes it more difficult for them, but ultimately it is up to the market. They have to succeed on their own merits, by and large.

Nathan Stower: We have to be prepared for failures. We accept that in the airline market. Airlines go out of business and we have to accept that in the airport market. There are strategic decisions that Governments can make, but from a purely commercial and competitive situation you have to expect that there will be failures in a competitive market.

Iain Osborne: I am very sympathetic to your question. At the first level, if somebody in the Fylde no longer has Blackpool on their doorstep, they can still get to Liverpool or Manchester quite easily; but at a second level, choice is a good thing. When you only have one airport, these regional airports tend to be very dependent upon a small number of airline relationships—sometimes one airline—and it can just take one airline changing its commercial strategy and that region has lost its connectivity. It is more fragile when you only have one.

Even when an airport drops below the threshold of being commercial, it is very hard to kill an airport. What tends to happen is what happened at Blackpool; they go into non-commercial services, but they are still there as a potential entrant if the market shifts again or if demand picks up and so forth. It is very sad for the employees, clearly, and nobody sees it as a good thing if a business shrinks, but in terms of the passengers and the dynamics for the local economy it is not necessarily a disaster if an airport drops down, and to some extent is in cold storage.

John Spooner: When Blackpool airport was acquired by Balfour Beatty, it was at a time when slots at Manchester airport were not available for departures first thing in the morning. Essentially, it is a large UK regional airport and the majority of aircraft are based there. They all needed to get out first thing in the morning and there were no slots, which is one of the reasons why Thomson, Ryanair and Jet2 established bases at Blackpool. With the recession, slots were freed up at Manchester. It still has good peak-time availability, but as the economy improves those peak-time slots at Manchester are not going to be available and therefore the overspill is not going to be able to go to Blackpool if it is allowed to close. We all know the difficulties of building new runways.

Q25 **Graham Stringer:** I am profoundly sceptical about that argument. I will not go into detail, but I simply do not believe it. I have a final question. In the future, do you see many more closures of the smaller, less commercially viable airports?

Jim Fitzpatrick: Can I put a supplementary? How many of the 40 or so airports are dependent on public subsidy of one description or another, given Mr Osborne's qualification that it is very difficult to kill off an airport? How many are dependent on public subsidy, and how many are in jeopardy, as Mr Stringer just asked? Is that quantifiable?

Paul Le Blond: The two classic examples are Cardiff and Prestwick, which are well known, and owned by the respective Governments there, so they clearly are. There may be other cases where there is some element of public support, but in relation to Mr Stringer's question I think it is inevitable that there will be some—if not closures—downgradings of the sort that has been mentioned for Blackpool, for example. Fortunately, they are not complete closures. It would be a great shame if those facilities were completely closed. You can do other things; you can do specialist things. You may be able to get rid of a bit of the land for other developments without destroying the whole airport.

Chair: Do any of you want to name any airports that you think are at risk? No. I thought that might be the case.

Q26 **Martin Vickers:** Mr Spooner mentioned the importance of air-sea rescue and supporting the oil rigs and so on, which is crucial to Humberside airport in my constituency, and obviously affects viability. You also mentioned the role that local authorities can play. I think I am right in saying that North Lincolnshire council still have a shareholding in Humberside airport. Of course, it is more and more the local enterprise partnerships that play a role in the economic development of the area. Do you think they have sufficient capacity and links with the industry to do that?

John Spooner: From our perspective, the LEPs have been extremely supportive of their regional airports. They have been very supportive in the all-party regional aviation group, where they have written in support of regional aviation. They have helped with grant funding for improvements in access. I think they are virtually without question supportive of their own regional airports. The relationship, whilst it continues to mature, is a very positive and constructive one, and is getting closer.

Q27 **Martin Vickers:** The question of viability was mentioned, particularly of airports that serve island communities; I do not know about the specific finances of individual airports—Orkney, Shetland, the Isles of Scilly and all those little communities—but if they are not viable and are reliant on some form of subsidy, are there ways that the industry itself can generate additional income and support those communities, rather than looking to Government all the time?

Darren Caplan: I want to clarify something in your previous question about what local authorities and LEPs can do. First, they are crucial to planning, among other things. Secondly, they are crucial to surface access. If you want surface access to any of the smaller airports, the LEPs need to be brought on board alongside the airport operator, Network Rail, the Highways Agency, the DFT and so on and so forth. For airports that are reliant on PSO, it is true to say that, without it, people would not be able to get around on those islands. That is how it is going to be for the foreseeable future. I am not sure how you get away from the model. They are absolutely reliant upon public subsidy in order to shepherd people backwards and forwards across those islands and the highlands and islands.

Q28 **Martin Vickers:** Does the subsidy to some extent kill off commercial enterprise within the industry? Could the industry itself do more to build up the business and therefore the viability of those island airports?

Paul Le Blond: Airports are entirely dependent upon the airlines to provide the services. If your airline does not want to provide services, there is very little you can do about it. There is a scheme—I am afraid I do not know the details—called the Scottish air discount scheme, which I believe operates in the highlands and islands and provides a direct subsidy to the individual traveller. That is an interesting area, but of course the airlines still provide the service on a commercial basis. It is just that the fare has a degree of subsidy.

The UK airline industry—my colleague from BATA will confirm this—is a highly competitive, very flexible and very dynamic industry. There are a lot of new airlines that start and there are a number of airlines that stop. They start and stop at different airports. It is an industry that exploits opportunities when they arise. I do not think there is anything more that the airline industry can do, unless the airport is able to somehow provide some sort of subsidy for it.

Q29 **Karen Lumley:** Do you think that, when chairing the Airports Commission, Sir Howard Davies paid enough attention to the smaller airports?

Paul Le Blond: In his interim report, he said that smaller airports were not within the remit, but, having said that, he then went on to produce discussion paper 06, which did indeed consider a number of airports and called for evidence, and a fair amount has been put to him. What we have not yet seen are the conclusions in his final report. It would be very worth while the Committee recommending to the Commission that they pick up the point about smaller airports in their final report, based on their work in discussion paper 06 and the responses to it.

Nathan Stower: While that is true, there was quite a bit of discussion in the interim report about other policy measures you might take, as Mr McCartney said earlier, to distribute traffic away from the south-east. To be fair, he looked at a number of possible policy levers in the interim report. He did not find much joy when he analysed them, but he did give them reasonable weight in his interim report.

Darren Caplan: I would go back a bit further in time to the DFT demand forecasts in 2013. Those show that airports in the south-east will start filling up by 2030, which is why you have this time line, but some airports outside the south-east will start filling up from 2040 onwards. That includes airports like East Midlands, which comes under your definition of 5 million. There is recognition outside the Airports Commission that it is not just a south-east issue; it is about demand across the country and where it is going to be in 35 or 40 years' time. In order to build runways and infrastructure, which you cannot do in five minutes, you have to plan massively ahead. We should be starting to think about demand issues in the long term outside the south-east, as well as the issues being dealt with by the Airports Commission.

Q30 **Mr Sanders:** Airports come and airports go: Exeter airport, extremely successful; Plymouth City, closed. Is that because there were too many airports or were there other factors?

Darren Caplan: Sorry, which one did you say was closed?

Q31 **Mr Sanders:** Plymouth City airport, serving a city of a quarter of a million people. Exeter airport, next to a city of 100,000 people, is a success; Plymouth City airport closes. Is that a reflection that there were too many airports or were there other factors?

Chair: What is the reason why some of the smaller airports are closing and others are not? Southend is an example of something that has improved a great deal and become more successful; others have closed. Is there any specific reason for this difference?

Iain Osborne: The number of airports is the root cause, but it is not the proximate cause. The proximate cause is quite complicated, but the decisions of airlines are crucial. Flybe's success and strategy is essential to understanding Exeter's success. Similarly, Southend has grown on the basis of a commercial decision by easyJet. You cannot talk about airports separately from airlines in that respect.

Q32 **Mr Sanders:** But is there a need for a number of smaller airports to exist, or are you happy for market forces to dictate that smaller airports will close because of decisions by airlines?

Iain Osborne: From a CAA point of view, I emphasise what I said earlier: the airports we see in difficulties are not those that would really leave passengers high and dry if they shut. In the highlands and islands, for example, arrangements have been made because it is essential. The ones that get into difficulties are the ones that are very close to another thriving airport, and from the passenger point of view it does not make an enormous difference. It makes some difference because you can end up with less competition, less choice and therefore a fragile system. What tends to happen is that the airline on the losing side does not blink out of existence; it drops down to a semi-dormant state. It is still there, to some extent, disciplining the market.

John Spooner: The majority of airports that have failed did so during the recent recession. In the case of Plymouth, which you just described, it was a special airport with a particularly short runway—a STOLport really—and stopped operating even though Exeter and Plymouth serve the same market.

The problem we have is that, as the economy has fared particularly badly, the small airports caught pneumonia when the rest of the country caught a cold, so to speak. What the Regional and Business Airports Group is calling for is support for ancillary income streams, from property development and so on, to keep airports going during these less than ideal times. When growth returns, we will see smaller regional airports grow much more quickly than larger ones, but when traffic contracts, it contracts mostly from the small airports, and that is why most of them suffer disproportionately.

Darren Caplan: We support a competitive market. To build on John's point, if you look at airports like Bournemouth, they have successfully diversified; they have one third commercial, a third GA and a third cargo. Humberside have gone strongly into helicopters to supplement their income. Biggin Hill and Farnborough both have a strong aerospace component on their sites. That is what they are doing. We want all these airports to prosper and do well. As was mentioned in previous answers, local communities and local economies want these airports to succeed. We would support as many airports as required, and if they are doing well they will succeed.

Q33 **Mr Sanders:** On an earlier question, none of you seemed to be that concerned about the impact of High Speed 2—how that could impact on regional airports in the north. Have you not factored in that it could have a significant impact on certain airports, such as Leeds Bradford, perhaps Manchester and maybe East Midlands?

Darren Caplan: For some of our airports it actually increases their catchment area. We know there was a recent parliamentary debate about rail access to Leeds Bradford airport. That is being pushed as much as possible. HS2 as a negative issue is not one that has been raised with us. Rather than saying it is a threat, it is about how we can get all these smaller airports linked better to the system. On surface access, we need the local authorities, the airports, Network Rail, the Highways Agency, the local enterprise partnerships and the DFT all getting together and raising the priority of the issue locally. That is how they will get more passengers. HS2 specifically has not been raised with us as an issue.

Q34 **Chair:** Is enough work being done on looking at surface access, with or without High Speed 2? Are local authorities, local enterprise partnerships and others working together on looking at surface access to airports?

Darren Caplan: We do not think so. We produced a paper and we can submit it. In fact, I think we sent it to the Committee, but we can send it again. There are four points—if I could make them very quickly—that we think should happen on surface access.

First, we think DFT needs to assess where there are gaps in present and future demand in terms of road and rail access to airports. Where are the gaps at the moment? Secondly, road and rail route studies should include airport access and reflect air passenger traffic; and where those studies take place nationally, where airports link into those route studies. Thirdly, how will surface access products be prioritised in Government infrastructure plans together with Network Rail and the Highways Agency? That is crucial. A big issue at the moment is infrastructure generally. We should be prioritising at a high level where airports fit into the general consideration of infrastructure by the DFT and the Government generally.

Fourthly, we should develop a single online portal allowing consumers to plan journeys door to door and book a single integrated ticket. This is happening in Germany and in other countries. Why can't the consumer find a way of getting door to door from their house or business to their destination, and book it through in a single way? You might find you take all kinds of routes to get somewhere because of that. There are a few things that can be done, and they do not necessarily cost a huge amount of money. It is about increasing the priority of the issue, driving it forward and facilitating it locally.

Q35 **Chair:** Who should do it though? Who should be responsible for doing that?

Darren Caplan: The DFT could be a prime mover in this, but everyone needs to be involved. The airport will obviously push it locally. The local authorities, local enterprise partnerships, Network Rail and the Highways Agency should all be getting together and asking how it can benefit people.

There is an issue to do with who funds surface access. The aviation policy framework, which came out in 2013, says that the airports should fund surface access unless you can prove there are local beneficiaries that benefit from public money going into it. There will be local beneficiaries to any scheme going to an airport because it brings more people to the area, so you will have more people benefiting the economy of that area; and local people will often benefit from commuter services as well. We think this is a win-win situation. There is no loss in raising the profile and doing more in this area. If public money is needed locally at an airport to help with surface access that benefits everyone, that should be forthcoming, too. It is on a case-by-case basis, but driven nationally—driven by DFT.

Q36 **Chair:** We have heard from the aviation sector over a long period that air passenger duty is a major problem, particularly for smaller airports. Would any of you like to give us any views on that? Recently, the Government announced some changes in air passenger duty in relation to children. Do you think that has solved the situation or is there still more to do?

Nathan Stower: I will not rehearse all the arguments on APD because I know the Committee has heard them for a long time. The abolition of bands C and D and the abolition of tax on children are steps in the right direction. They are financially relatively small steps in terms of tax-take and revenue, which is probably why they have been delivered. I am not going to knock that, but they are relatively small steps and the fact remains that the level of taxation is still going to be very uncompetitive when you look at the world, particularly Europe. Our rates are twice the next highest in Europe, which is Germany, and we are one of the most uncompetitive in the world. They are steps in the right direction, but the direction needs to be towards getting rid of the tax altogether.

Q37 **Chair:** Would anybody else like to say anything about air passenger duty?

Darren Caplan: There are concerns on two levels: in terms of how it affects consumers and passenger numbers, and in relation to how it affects our connectivity. We know of several examples where airlines have decided not to route to the UK, or they are flying less frequently, because the APD is too high. We did a study a year ago. We have Southampton talking about domestic routes being adversely affected by APD. The City of Derry airport said that Ryanair made it clear that they would not add any new UK routes until something happened on APD. Cambridge airport—these are all airports within your remit—said that "in attracting airlines to start up new routes to Europe, the high taxes of operating to the UK are leading carriers to explore European markets for new routes rather than the UK".

I draw your attention to some figures. In 2006-07, APD was £970 million for the Treasury. It is forecast that by 2018, it will be £3.9 billion, which is a huge increase, about 400%, in a fairly short period of time. It is great that it is going in the right direction. It is very good that bands C and D are coming down. It is very good that child APD for the under-12s is being cut this year, and that child APD for the under-16s is being cut next year, but the fact still remains that we are the highest taxed aviation sector in the world. It goes up every year. The biggest single thing that could help our airports of all sizes is a review of APD and a reduction of APD.

My final point is this. Before I came here today I asked several small airports, "What is the single biggest issue? You can say anything. Surface access? Planning?" APD comes back again and again. It is the airlines that are being charged, and they are saying that APD is the thing affecting their growth. It is a big issue.

Q38 **Jim Fitzpatrick:** There is a proposal in the Smith Commission to devolve APD to the Scottish Government. That must have an impact on English smaller airports.

Darren Caplan: We are very clear in the AOA that a cut anywhere in the UK should be matched by cuts everywhere in the UK immediately. As soon as any cut comes through, it should be matched by the UK Government. We are lobbying the Treasury on that. We ask the Select Committee to do the same thing. We should be positive about APD in the sense that we have had gains in the last few years. We were told in 2010 that the Treasury would not budge at all on this issue, but we have had three cuts in the last year. I would say to everyone here: keep lobbying the Treasury and keep making the case. I think we are getting our arguments across, but APD particularly affects small airports, not least because they are very much more reliant on low-cost services and it is a high proportion of their fare.

Jason McCartney: I do not think it is the role of the Committee to lobby the Treasury.

Darren Caplan: I think there could also be internal discussions.

Q39 **Chair:** Mr Le Blond?

Paul Le Blond: May I make a point on APD? Domestic travel is of course taxed twice, in the sense that for a return trip both journeys are subject to APD. That particularly affects small airports with links to London. Although I will not suggest that you lobby the Treasury, you should certainly lobby the DFT to speak to their colleagues in the Treasury to see if they can find a way of ensuring that domestic APD is different from international.

Q40 **Chair:** The Treasury say that they would lose £3 billion if APD were to be abolished. Are there any alternative aviation taxes you would like to suggest that we could pass on?

Paul Le Blond: I would not suggest, and would argue very strongly against, either VAT or fuel tax. Fuel tax is not permissible under the Chicago convention for international journeys, but it is permissible for domestic flights. Of course, if you did that, you would simply be making domestic travel more expensive and international travel less so—similarly with VAT, which tends to be a national tax rather than anything else.

Darren Caplan: We also dispute the idea that it would cost the Treasury revenue. You may be aware that the PricewaterhouseCoopers report, which I think you have previously seen as a Committee, says that APD reform can significantly boost UK GDP—by 0.46% in the first year, continuing to 2020, amounting to at least £16 billion in the first three years; 60,000 extra jobs would be created, and even after allowing for the loss of APD revenue, you could get an increase of £500 million in the first year. We would say that over the course of a five-year Parliament, you would not necessarily lose income; you could end up at the end of that five years with more APD revenue by reducing it.

Q41 **Chair:** If there was expansion at either Heathrow or Gatwick, would that necessarily mean there were more connections or slots that went to airports in the regions?

Iain Osborne: It would depend on how the capacity was released, which is a key question to which the Airports Commission will apply its mind, but also that Government would need to think about in implementing. If a lot of slots were released all at once, it would completely change the dynamics for regional aviation in the country, but it would also change the dynamics for a lot of other routes. I do not know whether that is what airports will do, left to their own devices.

Q42 **Chair:** How could that work to benefit airports in the regions?

Iain Osborne: The role of declaring capacity is currently delegated to airports themselves in the UK. They say how much capacity there is, and then there is a collaborative process between airports, NATS and the airlines to decide who is going to get the slots. If the role is left with the airports, I would have thought that capacity—slots—will be released at a pace that sustains the overall economics, because it is not in any of the commercial players' interests to drive down values.

Slots regulation allows the role of declaring capacity to be taken by public authorities, in which case you might get more of a policy wraparound in how those decisions are taken.

Clearly, the interests of regional aviation are one of the factors in there, but it plugs into much bigger questions about how tens of billions-worth of investment is to be financed, and really how the whole route network is developed for the UK as an aviation hub.

Paul Le Blond: It is entirely legitimate for any condition of any planning permission, or any permission for additional runway capacity, to include a reservation or ring-fencing for slots for domestic flights. The number of slots required for a double daily service to a reasonable number of small airports would be a very small proportion of any additional capacity created. It is entirely legitimate for that ring-fencing to happen. That is, if I may say so, an entirely different matter from whether those services would be operated and commercially viable, but it is legitimate for them to be reserved—ring-fenced.

Q43 **Chair:** Mr Osborne, can that be done? Is that permitted?

Iain Osborne: If you don't mind, I will write to the Committee on that. My first thought is that I am not sure it can, but I think it is an important point and I do not want to give you the wrong answer.

Q44 **Chair:** It would be helpful if you could write because the issue does recur.

Nathan Stower: The other dynamic is that there is obviously a 50% new entrants rule on new slots. It would depend on who the new entrants were, and whether they were interested in operating domestic services. Finally, the Airports Commission have said that under both the Gatwick and Heathrow options passenger charges will increase. The question will then be how much they increase and whether that makes domestic services harder to operate or easier to operate. That is another dynamic.

John Spooner: We have had discussions with both Heathrow and Gatwick, who are actively considering our suggestion that slots be ring-fenced. It is not just having a number of slots that is important; it is the time they are available, so that passengers from the regions can make connections with global waves of aircraft leaving. It is also important that they are made available at the right price. Again, we have discussed with both Heathrow and Gatwick the principle of the same charge being levied at each end of the route. If a regional airport can attract a service by levying a certain charge per passenger, that should be the charge levied at the London end. Both of the airports that we have spoken to about this—Heathrow and Gatwick—are actively considering it.

Q45 **Chair:** Mr Osborne, could you help us on a slightly different issue? At another session we are going to be looking at Manston airport. Could you tell us how many emergency landings there have been at Manston?

Iain Osborne: I asked our safety colleagues. We do not keep data for general aviation emergency landings, only for commercial ones. For commercial ones, the answer is none.

Q46 **Chair:** None. How long have you been keeping records?

Iain Osborne: I am not sure whether I have that in my brief.

Q47 **Chair:** Again, if you could let us know, that would be helpful

Iain Osborne: I am sorry, I do have that information. The records go back to 1976.

Chair: Thank you very much.