



Smaller airports

Oral evidence: [Smaller airports](#), HC 713

Monday 23 February 2015

Ordered by the House of Commons to be published on 23 February 2015.

Written evidence from witnesses:

- [Department for Transport](#)

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Members present: Mrs Louise Ellman (Chair); Jim Fitzpatrick; Karl McCartney; Graham Stringer; Martin Vickers;

Questions 198-264

Witnesses: **Mr Robert Goodwill MP**, Parliamentary Under-Secretary of State, Department for Transport, and **Ben Smith**, Deputy Director Aviation Policy and Delivery, Department for Transport, gave evidence.

Q198 **Chair:** Good afternoon and welcome to the Transport Select Committee. Would you please give your names and positions for our formal records?

Mr Goodwill: I am Robert Goodwill, Parliamentary Under-Secretary of State for the Department for Transport and the Aviation Minister.

Ben Smith: I am Benjamin Smith. I am the Deputy Director for Aviation Policy and Delivery at the Department for Transport.

Q199 **Chair:** Minister, I understand that you want to make a statement.

Mr Goodwill: Yes, very briefly. I welcome the fact that the Committee are carrying out this particular inquiry and producing a report. Much of the coverage of airports in this country is focused on the south-east and what the Davies Commission may come up with as a solution to that particular problem, but it needs to be recognised that we very much value the role of what I like to call our regional international airports, not least because I represent a constituency in the north of the country. We are very pleased indeed that you are conducting this particular inquiry at the moment.

Q200 **Chair:** Thank you very much. The UK has a relatively large number of smaller airports in quite a small area. Do you think that means there is a problem about the survival of individual airports? It is not just small airports but all airports, in fact.

Mr Goodwill: It is true that per head of population we do have more airports, but airports work in an intensely competitive environment and it is about providing choice, so I am

very comfortable with the fact that we have a large number of airports. Indeed, we have a very vibrant aviation industry. Since the recession we have seen big increases in passenger numbers. We were the place where low-cost airlines started, and having airports in which they could operate was part of that particular process. While there will be competition, and we will see people doing very well—for example, Southend have done phenomenally well—other airports have done less well. As we live in a vibrant, competitive environment, unlike many parts of Europe where local authorities control their airports, we are in a good place and I am very comfortable with the fact that we have a large number of airports.

As I go around the country I visit a number of airports. I have been to Leeds Bradford, to Doncaster, to Newquay, and to Biggin Hill, which is one of the smaller airports; I have been to a lot of airports. Everywhere I go I get a very positive and upbeat story about how they have plans to invest and plans for better connectivity, and how they see a real and viable future for them in the vast majority of cases.

Q201 Chair: What projections have the Department made about expansion and passenger growth in smaller airports?

Mr Goodwill: It very much depends on which airport you are looking at and the competitive environment they are in. Certainly if you look at airports close to Manchester airport, they do feel their big brother breathing down their neck. In other areas like Newcastle airport, where they have been doing particularly well, they do not have a very close competitor to breathe down their neck in the same way.

It is also interesting that airports that have connections to some of the hub airports in the south-east are particularly keen to develop. One of the things that has been holding back some airports is the lack of connectivity through to Heathrow and Gatwick. On the other hand, we have seen KLM step up to the mark, and some of the other airlines on the continent. To an extent, they are taking advantage of the APD distortions in the market and therefore shipping people across to Schiphol, Charles de Gaulle or Brussels. Some of the regional airports that do not have the benefit of getting through to Heathrow or Gatwick have those alternatives. For example, Manston had a KLM flight, which meant that people could fly to almost anywhere in the world via that big international hub.

Q202 Chair: Do you see small airports as strategic assets that the state should intervene to support if they are struggling?

Mr Goodwill: They are strategic assets from a business point of view. Just looking at my own constituency, which is about as far away from an airport as you can get, they very much see the advantage of being able to fly in their customers and investors, or people who are seeking employment, particularly in specialist areas, to an airport that is close to them. Certainly if you are in the north-west or the north-east, you do not see Heathrow as being a particularly good location to bring people in. From a business point of view that is very important indeed, and our local enterprise partnerships recognise that. Indeed many of them are backing bids for better surface connectivity, whether that be rail, road or improved bus services, to enable their airports to be more accessible not only to people who may want to go on holiday, or see friends or family, but as an important business activity that is based at those airports.

Q203 Chair: During our inquiry we have heard that smaller airports have suffered much more than the larger ones since the recession. What do you think could be the reason for that?

Mr Goodwill: Some of the tour operators and the airlines themselves have had to cut back. Therefore they may have looked at routes where they do not have the same high level of passenger numbers, and that has therefore had an effect on some of those. Of course, conversely, some airlines such as Flybe, for example, have sold slots at Gatwick and used that money to invest in putting on additional services to some smaller regional airports. There has been an upside as well as a downside.

By and large, as I go around the country, I get a very upbeat position from the very many airports that I go to. Certainly they are all looking to invest in the future. They are looking at putting in new car parking facilities. Hotels are being built. At Newcastle for example, where I was at the beginning of last year, they are looking at expanding business opportunities not only for aviation-related business but also for businesses that just want to be at the airport, because they have access to facilities at the airport. They have conference facilities and the ability to get people in and out quickly. I genuinely get a very upbeat and positive message around the country from those airports. If you look at the figures, they are seeing their passenger numbers grow and certainly recovering very strongly since those dark days of the recession.

Q204 Jim Fitzpatrick: I want to move on to APD, which the Minister mentioned in his first answer. Can you give us an assessment of where you think APD is? You said it was having an impact in that some people were moving to the continent in order to try to avoid it. The airlines and airports are saying that because it is a departure tax for internal flights it is a double hit for passengers. There was a comment in the autumn statement about child APD being alleviated. Can you give us an assessment of where you think APD is? I want to move on in a minute to it being devolved to Scotland, and Scotland saying that they are going to abolish it, which you might want to incorporate in your answer. I am keen to see where the Department is, especially given that it is a Treasury issue. Obviously the Department for Transport have a very keen interest in trying to help the Treasury make the right decisions.

Mr Goodwill: If the Chancellor of the Exchequer or one of the other Treasury Ministers were sat here, they would first of all need to make the point that the revenue from APD is a very important part in our wish to reduce the deficit and get the public finances back into some semblance of order. Indeed, some of it is a tax which is collected from foreigners, so from a political point of view it is probably a less unpopular tax than others.

It is of course, in many people's view, a distortion of the market. Any tax is a distortion of the market. As I mentioned earlier, the fact that if I fly from Newcastle to the USA via Schiphol I will be paying less APD than if I fly from Newcastle via Heathrow is one of the distortions in the market from which some regional airports are benefiting to an extent, because they are able to fly people to Charles de Gaulle, Schiphol or Brussels in order for them to take their onward journey. It is a distortion of the market, and I do not think anyone could argue against that.

The Treasury has obviously reacted to that by simplifying the banding. We now no longer have the rather bizarre situation that you pay less APD to fly to some Caribbean destinations than to Hawaii because the APD banding was based on the location of the capital city and not the distance that was actually flown. We have seen more help given,

which will start on 1 April, where children under the age of 15 will not pay APD, and then a year later that will be reduced to 12. That has been recognition of the impact that APD can have on families, particularly as we are very keen for them not to go on holiday during term time when flights are cheaper.

The Treasury does recognise that this is quite a politically charged issue. Indeed, there have been campaigns by airlines themselves to encourage their passengers to make representations to their MP. I know that some of my colleagues have been a little bit irritated that all the charges, including airport charges, fuel charges and everything else, have been portrayed as Government red tape and a burden put on the industry. The fact remains that APD is a tax that raises revenue for the Exchequer. It is part of our long-term economic plan, and I am sure that the Chancellor will keep it under review.

Q205 Jim Fitzpatrick: And devolving the raising of the tax to Edinburgh and the impact on airports in the north of England.

Mr Goodwill: Obviously we are at the start of a process in terms of the devolution. It is not something that is going to happen next week. As that process continues, it seems likely that we should give some thought to what would happen if we had different levels of APD in Scotland and/or Wales. I know it is of particular concern to our friends at Newcastle airport and Bristol airport, where they have the possibility not only of passengers travelling from another airport not so very far away but of airlines themselves switching. That would have a major impact. I have seen some figures saying that it could be as much as 25% at some airports, but that was assuming that the devolved Administrations would use the maximum flexibility available to them to abolish APD. That may not be as far as they would go, but it is certainly of some concern.

The measures we could put in place to address that are very much constrained by EU competition law. The Committee may recall that some time ago the UK looked at abolishing APD on return domestic flights, and that was ruled to be not within the flexibilities that EU law would allow. Therefore, there is limited scope on what we could do to address that particular issue, other than of course the Chancellor of the Exchequer himself cutting APD in England as well, to engage in tax competition. You will probably have to get the Chancellor or Mr Gauke along to give evidence along those lines. I would not dare encroach upon the issues that the Treasury themselves are in charge of, but we have been looking at the impacts it would have and what mitigation could be put in place. We are pretty much limited by EU competition rules in terms of England. We do not have a regional federal structure in England. We do not have tax-raising powers for the north-east, the north-west or wherever, so it is not something that would allow the north-east to reciprocate in terms of cutting their taxes.

Q206 Jim Fitzpatrick: Given the smaller airports you mentioned in respect of any devolved powers to Edinburgh or to Cardiff, is it your assessment that any change to APD in the devolved Assemblies will have a bigger impact on smaller airports than it will on the larger airports?

Mr Goodwill: It would certainly have an impact on airports that were geographically close. The two that would spring to mind would be Bristol—which I do not think is a small airport under the terms of this particular remit—and certainly Newcastle airport. I think the impact would be more severe were airlines themselves to move their operating

point rather than looking at passengers moving. Certainly with the Newcastle/Edinburgh situation, if you live in the north-east—Newcastle—it is a long way to go to Edinburgh. It is unlikely that the APD would be sufficient, but with some of the profit margins that the low-cost carriers are operating on, £13 is an attractive amount of money for them to consider relocating their operation.

Q207 Chair: Belfast International airport are concerned about the impact of air passenger duty on their growth because airports in the Republic do not have APD. Do you share that concern?

Mr Goodwill: I thought we'd devolved APD for the—

Ben Smith: Only for the transatlantics.

Mr Goodwill: It would have a similar effect if the Republic were engaged in the same sort of competition as we have seen. As my colleague Mr Smith has just pointed out, the transatlantic flights do not pay APD, and, therefore, if Northern Ireland were themselves to look at devolved powers, that is something they might want to address.

When you set up a system where you have tax competition, the evidence around the world is that it tends to force taxes down. The same would apply to corporation tax, where the Republic of Ireland have very competitive rates and Northern Ireland are affected by that. By and large, I see tax competition as a positive thing, as long as the people who are affected by it are able to respond by also addressing their tax levels. As I say, this is a matter that I am sure the Treasury will be continuously considering to ensure that any distortions are addressed within the whole tax system.

Q208 Chair: I am sure the Department have an influence on that—it's transport policy.

Mr Goodwill: Were it to be the case that we had such an influence on the Treasury—but we certainly have negotiations and discussions with them.

Q209 Graham Stringer: I would like to ask some questions about Manston, but while we are on APD are you aware, Minister, that the airports had a study done by consultants? I think it was Ernst & Young but it may have been another one of the consultants. It showed that, if APD was abolished in this country, the benefits elsewhere in the economy would more than compensate for that loss. Are you aware of that report?

Mr Goodwill: Yes, and I have seen those figures. Obviously the Treasury take those into account. Similar arguments have been made about cutting corporation tax and income tax. You may recall, Mr Stringer, that—

Q210 Graham Stringer: I just wanted to know if you were aware of it; you clearly are.

Mr Goodwill: Yes.

Q211 Graham Stringer: As the Minister in the Department for Transport responsible for aviation, do you make representations to the Treasury along the lines of that report?

Mr Goodwill: Certainly I have had a number of conversations with Treasury Ministers, not least because I get lots of mail from colleagues complaining about APD, and I engage with airports who themselves complain about APD. It is always the first item on the agenda

when I meet with the airport operators or the airlines, and I always give them the same answer—that it is a Treasury matter—but we then go on to discuss it, and I feed those discussions into the Treasury. They are aware that this is a politically charged tax and one that many political parties want to talk about. As in the case of many taxes, including the top rate of income tax, just because you put a tax up does not mean that you are going to get more money back from it.

Q212 Graham Stringer: It is not just politically sensitive. It might be counterproductive, in that it might actually raise less tax than if you did not have the tax. You can tell me if I am wrong, but I interpret your answer to mean that you are making representations to the Treasury to reduce or lower this tax. Do you think we can expect any change in the near future?

Mr Goodwill: It is probably a case of “Watch this space”. We also need to bear in mind that it is a non-regressive tax. The people who pay it, by and large, are not the poorest in our society, unlike VAT on chocolate biscuits, for example, which is paid by the very poorest. Therefore, if APD were to be cut, it might mean that other taxes which are more distortive and regressive might be increased elsewhere. I get lots of people coming to me with all sorts of suggestions about how we can cut tax. I rarely get people coming to me with good suggestions about where we can increase tax. Indeed, look what happened when we started going into the area of pasties and caravans. They seemed like low-hanging fruit and pretty easy to operate, but when you start looking at areas of tax to increase you often find that there are unforeseen side-effects and implications.

Q213 Graham Stringer: We are in favour of progressive taxes, and not in favour of taxes that reduce the tax intake. Can I move on to Manston? What discussions have you had about Manston, either with the owners, Kent county council or the local council?

Mr Goodwill: I have spoken twice on the telephone with Mrs Gloag—one of those times was in the vestibule of a train at Birmingham New Street station so it was not a very audible conversation on either side. I have spoken at length with Iris Johnston, the leader of Thanet council during the time they were looking towards the compulsory purchase. I have had a meeting with RiverOak, the investors who were keen to come in and rescue the airport—if that is the right word to use—in my office with Sir Roger Gale, who accompanied them. I have had a number of conversations with Sir Roger, and others with Laura Sandys and Craig Mackinlay, who is our parliamentary candidate down there, to see what can be done. I have had a lot of conversations about it; indeed, I had a meeting this morning with Mr Hayes, the Minister of State, who went down to Manston in December and continues to take a keen interest on behalf of the Prime Minister, who also takes a very keen interest in the future of Manston.

Q214 Graham Stringer: What is the Department’s objective in these discussions?

Mr Goodwill: To do everything we can to facilitate a rescue deal so that aviation can continue at Manston, if that be possible; to ensure, for example, that were aviation to be restored to Manston, the Civil Aviation Authority would do everything in their power to ensure that the regulation and licensing was facilitated quickly and efficiently so that there could be no problems in that regard. We need to make sure we explore all possible avenues.

The paperwork that Thanet council looked at before they rejected the compulsory purchase is now in the Department, and we are looking to see what we can do with that. I have not reviewed it myself, but certainly we need to explore what can be done in the future. What has been absolutely apparent is that unlike many airports around the country, where we get more letters complaining about noise than we get representations keen to support economic activity at the airport, Manston has a tremendous degree of support in the local community. They wish to see those jobs retained. They wish to see aviation continue there. I know that the potential investor has plans that would allow some development of freight operations, particularly niche freight operations, and of course the recycling of aircraft on the site. We are very keen to do everything we can to ensure that everything that can be done will be done to facilitate the possible restoration of operations at Manston.

It is also interesting to note some of the scare stories that have been going around about the radar and some of the equipment not being there any more. I am assured that the radar is there. Indeed, there seems to be some confusion about who owns the radar, whether it is the Ministry of Defence or the company that owns the airport. In that case, it seems unlikely that anyone will be able to sell the radar in the short term. The landing lights are still installed. Some of the fire-fighting equipment has been sold, but that is not something that would be difficult to restore. Some of the passenger equipment in the airport itself has been sold off. Initially, the plan that RiverOak were coming forward with was not for a passenger operation, so that would not be a block. As I say, we are keen to leave no stone unturned to facilitate any rescue that could take place.

Q215 Graham Stringer: This is an unhappy story. You say you want aviation to continue there. Do you think you have enough powers to be able to intervene in a situation like this?

Mr Goodwill: I do not think the United Kingdom Government, unlike maybe the Scottish or the Welsh Government, are in the position of wanting to intervene directly to take over operations of an airport in this way. We operate in a commercial environment—

Q216 Graham Stringer: That was not quite the question I asked. Do you think you have enough powers to intervene, if you wanted to?

Mr Goodwill: Yes; I think we have the powers that we need, for example, to work with the CAA. One of the barriers mooted as a reason why aviation could not recommence was, “The CAA will never issue a licence.” We can work with the CAA. They are an independent organisation, but we work with them to make sure that any artificial barriers in place on the licensing of the operation would not cause that to be a problem.

It is very important indeed that we explore all the avenues we can and ensure that whatever powers we have in terms of the Government can be used to their fullest effect. But at the end of the day, this is a commercial airport. We have a commercial investor who is exploring the possibilities of restoring operations there. There is a mechanism in place. Currently Thanet council have rejected the compulsory purchase and transfer. The ball is still in play, but we certainly do not want to do anything to blow the whistle on final time. There are still adequate opportunities to try to explore further ways in which we can ensure that something can be done to save operations in an airport that has tremendous support from the local community. We should recognise that by stepping up to the mark to

ensure that the Department and the local authorities involve themselves and do what they can to try to alleviate the situation.

Q217 Graham Stringer: Manston airport is a fairly commercial operation. When Sir Roger was before us a fortnight ago he suggested that Manston airport should be seen as a strategic asset. Do you see it as a strategic asset?

Mr Goodwill: It is a very large and wide runway. Certainly it has been suggested by Sir Roger that it would be a good diversionary destination. For that to happen, you would have to have the emergency services there at full strength. Currently we do not use Manston as a diversionary airport. Whilst Manston's runway is 9,000 feet long, other south-east airports have longer runways; Gatwick, for example, is 10,900 feet long, and Heathrow is over 12,000 feet. It would depend upon the availability of suitably trained traffic controllers, emergency services and expert technical support at the destination for it to be used in that way.

Q218 Graham Stringer: I want to go back a couple of answers. You said you had the powers that were necessary but that it was a commercial organisation. However, it might also have strategic importance. Does that mean that you have chosen not to use powers that could have kept Manston open?

Mr Goodwill: It would have been a mistake for the Government to have acted in the way that the Scottish Government did with Prestwick.

Q219 Graham Stringer: But did you choose not to? That is the question I am asking.

Mr Goodwill: That decision was never on the agenda.

Q220 Graham Stringer: You said previously it could have been, and that you had the powers. That is what I understood you to say; you can correct me if I am wrong. Therefore, did you choose not to keep it open?

Mr Goodwill: The decision—

Q221 Chair: At what point did you decide that you were going to try to use powers, which you have not specified terribly clearly, to restore Manston to being operational?

Mr Goodwill: There was never a point at which Her Majesty's Government even considered purchasing Manston airport and setting up operations there. It was always the case that we would work with the local authority, Thanet council, who themselves were engaged with the compulsory purchase process. They were disappointed. When I spoke to Councillor Iris Johnston, she made it clear that she was disappointed that Kent county council did not recognise the regional importance of Manston in terms of the economy of the area.

Q222 Chair: Do you share that disappointment?

Mr Goodwill: Kent county council can make up their own mind where they are. I have to say that I was a little surprised that Kent did not recognise the importance of that. Maybe Kent were worried that they would be expected to step up to the mark and start writing cheques, because, if you look at what happened at Prestwick and at Cardiff, those were not decisions made by those devolved Administrations without cost. Therefore, I suspect that

Kent may have been concerned—I am second-guessing what they may have been thinking; I did not have conversations with Andrew Carter or any of the people at Kent. My suspicion was that they did not want to get themselves into a situation where they were writing cheques on behalf of their council tax payers.

Thanet, on the other hand, were very keen to engage with the compulsory purchase mechanism and the transfer to an investor who was keen to recommence operations. I was disappointed that they did not go ahead with that, but they looked at the documentation and made that decision. We now have the documentation within the Department, and, as I say, we are considering what steps we might take next to look at that. The review of the papers supplied to the Department by Thanet district council is one of a number of options we are currently considering. We have those papers in the Department at the moment.

Q223 Chair: Could you give us any idea when you think a decision will be reached on this? Are you saying today that you want to help to restore Manston to being operational as an airport, or that you know that you can deliver that?

Mr Goodwill: We can definitely help in terms of ensuring that any regulatory difficulties can be minimised—I have made that clear right from the very start—working together with the CAA, or any other problems there; but ultimately it is down to a commercial operator being in a position to put together a case that can convince the local authority to carry out that particular process.

Q224 Chair: What about the owner of the airport? Who do you think owns the airport?

Mr Goodwill: At the moment the airport has, I am told, changed hands. I think Mrs Gloag still has an interest in the airport.

Q225 Graham Stringer: Do you know who owns the airport?

Mr Goodwill: Do we know who owns the airport?

Ben Smith: Not absolutely clearly, no.

Mr Goodwill: No; not absolutely clearly. I have heard the rumours that have been going round that it has been sold to—

Q226 Graham Stringer: Have you tried to find out?

Mr Goodwill: No, I have not tried to find out who owns the airport. A compulsory purchase operation would not be dependent on who actually owned the airport. It is certainly clear that whoever owns the airport at the moment does not see an option of recommencing aviation operations there.

If I may, I will make this quick point. There has been an awful lot of criticism levelled at Mrs Gloag and the way that she conducted herself and her companies during this. I do not believe that Mrs Gloag bought the airport with a view to closing down operations and turning it into a development site. I take the view that—

Q227 Graham Stringer: How have you come to that conclusion?

Mr Goodwill: This is based on two conversations that I have had with Mrs Gloag. She obviously bought the airport, and she told me that in her view she thought she could make a viable go of it. That was predicated upon finding a low-cost carrier that would base its operations there. We have seen from other airports around the country that having a low-cost carrier brings in passengers, and many airports get not quite half their income but a big share of their income from passengers coming through the door and using the shops, the duty free, the car parks and all the other services. The business model that Mrs Gloag was proposing was to attract a low-cost operator to be based there, to increase passenger numbers and for that to be viable. They were not successful in attracting a low-cost operator. The final nail in the coffin was when KLM pulled out, and then operations became unviable.

Q228 Graham Stringer: I listened a fortnight ago very carefully to Sir Roger's comments to this Committee. I do not think I would be over-interpreting to say that he would not have agreed with that. He told us that he had had a commitment one month, and then two months later—which is a very short time in the life of an airport—he was told that the airport was closing, even though he had been given notice that they would try to get airlines operating from there over the next four or five months. The actual closure happened within that period of time. I presume you have read the transcripts of this Committee's hearings. Why would you choose to believe this lady and not your colleague Sir Roger?

Mr Goodwill: I was just recounting the conversation I had with Mrs Gloag, which—

Q229 Graham Stringer: But there is a direct contradiction between your interpretation and the interpretation that Sir Roger gave this Committee.

Mr Goodwill: She made it clear to me that her intention when she purchased the airport was to establish the airport as a successful airport; to build on the airlines and operations that were there already, and to attract a low-cost operator. I was told by her that they had approached operators to be based at Manston and they were not successful. I can only pass on what she said to me.

Q230 Chair: Minister, it might be helpful for you to study the transcript of the meeting that we had, which in fact was the session we dedicated to Manston airport because we thought it was important, and see the queries that were raised there to do with Mrs Gloag.

I want to know now exactly what is going to happen next. You have made it clear that you want to see Manston operating as an airport again. You are telling us that you are going to use powers, but apart from the reference to the CAA it seems rather unclear what those powers are. Could you tell us clearly what is going to happen next, apart from your wish to see Manston operating as an airport?

Mr Goodwill: As I say, last month Thanet council supplied the Department for Transport with the papers they considered in reaching their decision that RiverOak were not a suitable indemnity party for the compulsory purchase process. A review of the papers supplied to the Department by Thanet council is one of a number of options being considered.

Q231 Chair: When would we know? When will the people of the area know if there is going to be an airport operating again at Manston?

Mr Goodwill: We will certainly be looking at those papers over the next couple of weeks. This is not something we can put off for ever, because obviously it is important, if we do put something together, to enable the case to be put. I do not know if you have had evidence from Thanet council as to the resources that they had to enable them to study the business case and the papers that were put before them.

Q232 Chair: Yes, we have, and it appears that there was very little resource in relation to the problem.

Mr Goodwill: Exactly. One of the options before us will be to look at what resource could be put into looking at that and to see if the business case stacks up. One of the options for RiverOak would be to establish a freight operation.

It is interesting how the freight business in this country is developing. We see two big slices of the business, being the belly cargo in the large long-distance airliners. Indeed, I was surprised to see the statistic that in terms of freight by value, as opposed to volume, Heathrow airport is bigger than the two next biggest ports—Felixstowe and Southampton—put together. We are seeing a lot of freight concentrated on Heathrow and Gatwick, where we have the large 747s and A380s carrying cargo around the country. On the other hand, we have the parcel business which, because of the internet, is dramatically increasing. We have East Midlands airport, for example, which is a big centre for cargo, with DHL, UPS and others based around that part of the country.

The business model that I understand was being brought forward for Manston was based on perishable products, some of which were coming into the continent and being shipped across either on ferries or through the channel tunnel. That is a business model that I am neither qualified nor experienced to look at, but that was the business model that was brought forward.

Q233 Chair: That is correct, and that is what was discussed at the session we had on this topic. What I would like to finish with on this is a clearer picture of what is actually going to happen now. What degree of certainty could you give to stating that Manston will be operating again as an airport?

Mr Goodwill: I am very optimistic that something can be put together, but, as I say, the detailed financial information that was put forward to Thanet council has now been supplied to the Department. We are now in a position to consider what we should do with that. Certainly we are well aware of the strength of feeling on the ground. As I say, it is unusual for an airport to have such widespread support. Usually people want night flights to be cut and operations to be curtailed. When we do trials on different flight routes we get thousands of letters of complaint. Manston is great from the point of view of an airport that has good local support. We are aware of the importance it has to the local economy in east Kent, and therefore we will leave no stone unturned; I think those were the words that my colleague, the Minister of State, used when he visited Manston. We will leave no stone unturned in terms of what we can do to facilitate operations being resumed there. Certainly now that we have those documents in our possession, we will consider what we should do with them to enable us to move forward.

Q234 Jim Fitzpatrick: Can you clarify who is actually making the decision, Minister? You mentioned earlier that you are the Aviation Minister but that you have not had a chance to

review all the papers. You said your Minister of State, John Hayes, had had a chance to look. You said that the Secretary of State and the Prime Minister were personally interested. There is a DCLG dimension because of Kent county council and Thanet; and the local authorities have a role. Who, ultimately, is going to make the decision that the Chair asked about Manston getting the green light or not, within Government?

Mr Goodwill: The first point I would make is that the Prime Minister has taken a personal interest in Manston. There was a question in the House last year and the Prime Minister responded very positively. I was not available on the day when Mr Hayes went, so he went instead. He is the Minister of State and a senior Minister in the Department. The Secretary of State takes a keen interest. All Ministers in the Department are taking an interest, as are No. 10 Downing Street. I do not think this matter could be considered at a much higher level. As you know, having been a Minister in Government, if No. 10 says that something will happen it will happen.

Q235 Chair: Are you saying then that this will happen?

Mr Goodwill: No. What I am saying is that Ministers at all levels, right up to the Prime Minister, are taking a personal interest in developments and ensuring that what can be done will be done to try and ensure that we have—

Q236 Chair: But will it happen? I understand your intention and I understand the strength of feeling about this, but will it happen? That is really what I am asking you, because I am not clear that the Government have sufficient powers to make it happen, unless you were to buy the airport and do it yourself, which I suggest is not going to happen.

Mr Goodwill: As I say, we are looking at the documentation. Nobody would thank us for backing a rescue package which ran into the sand very quickly and in hindsight was seen as a bad decision. That is why we need to review those documents. Thanet council, with the limited expertise and resources available to them, decided not to go ahead with the compulsory purchase. Now that we have the documentation ourselves the next step is for us to decide in the Department where we should go with that. As I say, we are working to come forward with some proposals, but I can reassure the people who are supporters of Manston airport, not least my colleagues Laura Sandys and Sir Roger Gale, that we are determined to do whatever we can to rescue this particular business, which I know is close to the hearts of many people in that part of the world.

Chair: You have made that point. I think Mr Stringer has a final question.

Q237 Graham Stringer: Having listened to your answers, I am still not clear what powers you might have used, or could use, to keep Manston going. I should be grateful if you could write to the Committee about that. There is no point in pursuing it further now. What worries me in the answers you have given, Minister, is that you have effectively said you want to talk to all stakeholders and keep the airport going, but you don't know who owns it. How can you sit people round the table, and get all the interested parties, if you are not sure who owns it?

Mr Goodwill: It is quite clear that the current owners have long given up any ambitions to use the site as an airport.

Q238 Chair: Who are the current owners?

Graham Stringer: Do you see the point that we are making? If you are not sure who—

Chair: Just a moment, Mr Stringer. Minister, who are the current owners? Do you know?

Mr Goodwill: Certainly, Mrs Gloag still retains an interest. I am not sure to what degree that is. We would certainly be interested if you could find out who the current owners are.

Q239 Chair: We have some information which we will relate on another occasion, but we will leave that now.

Mr Goodwill: There is no proposal from whoever the current owners are that they are keen to resume aviation. The current owners, whoever they are, seem more interested in the development of the site than actually restoring aviation there. The only people I am aware of who are keen to restore aviation are RiverOak, who came forward with a proposal. There was a mechanism which could have been put in place by the council—the compulsory purchase mechanism—and the council disappointed many people by not going ahead with that. We now have the documentation that was made available to the council, and we are considering what to do with it.

Q240 Chair: I want to turn to the issue of public service obligations to maintain air routes that would otherwise be lost. The Department has been involved in establishing two public service obligations to restore the air links between Dundee and London Stansted and between Newquay and London Gatwick. How did you decide which routes should attract this subsidy and which routes should not?

Mr Goodwill: Bids were put forward which we considered. Certainly in the case of the Newquay one, we were very keen to try and facilitate it, because the bad weather we had last winter, and the problems with the rail link through Dawlish in particular, underlined the importance of the Newquay-Gatwick connection for the economy of the south-west. Indeed, Newquay provided an air bridge during that period, so it has been very successful. On the three rotations a day from Newquay, the reports I get are that passenger numbers are encouraging and people are using the service. It is a good use of taxpayers' money in supporting that particular one. Similarly with the Dundee flight, while the passenger numbers may not be quite as good, it is an important service connecting that part of the country with the capital. I think Mr Smith wants to come in.

Ben Smith: These are the only two routes we received bids for that met the criteria to receive the PSO funding.

Q241 Chair: Are you concerned that public service obligations, with the subsidy involved, can distort competition?

Mr Goodwill: It is important that the outlying parts of our country are not disadvantaged more than they are already by their geographical location. Certainly if we want to bring investment into the south-west, which has some issues in terms of employment, and deprivation, to an extent, it is important that we ensure they have that good connection. As we see numbers increase, particularly on the Newquay route, with any luck we will move to a situation where those services are sustainable without support. The additional support that we gave Flybe, in this case, to operate that service, has been very good news. It has been successful and certainly I believe we can justify using taxpayers' money in this way to ensure that the benefits of the economic upturn, which are being felt very much in

London and the south-east of the country, can be extended to other parts of the country which may have been a little bit slower in catching up with the rest of us. It is good news for business; it is good news for tourism in particular, and I am very pleased that the Newquay service has been so successful. The Dundee service is doing what it says on the can—enabling that part of the country to have a good connection with the capital.

Q242 Chair: PSOs are now being applied to new routes, aren't they?

Mr Goodwill: There is the connectivity fund, which is for existing routes. The PSO is for new routes. We are currently going through a process and requesting bids for those. It is interesting that some airports—for example, Newcastle—have a Dubai flight without the need for a subsidy. We would certainly be keen to see more routes going into our smaller regional airports; some of them may not need help to do that particular thing.

Q243 Chair: Will smaller airports be able to use the regional air connectivity fund? Is that permitted?

Mr Goodwill: Yes. The connectivity fund is for airports with under 3 million passengers.

Q244 Chair: What about those with between 3 million and 5 million?

Mr Goodwill: Between 3 million and 5 million, we would need to get the Commission to agree to them. I have no particular worries that with airports like Newcastle, which fall into the higher category, we would not be able to make a good strong case to the Commission. These would be genuine new routes. We would not be looking at churning or coming up with underhand ways of channelling support into regional airports, which I know some of our continental neighbours have occasionally been accused of doing. This would be genuine support for new routes. The current rules state that under 3 million is within the rules, and between 3 million and 5 million there is some discretion. We would have to approach the Commission to ensure that that was okay.

Q245 Chair: How is a “duly substantiated exceptional case” identified? What does it mean? That is the criterion that the Commission sets for airports with between 3 million and 5 million passengers to be able to make use of that facility. Is there a definition of that?

Ben Smith: There is no definition. It has not been tested yet. These are new regulations that the European Commission came out with last year. In cases where we have airports with between 3 million and 5 million passengers that wish to come forward and make a bid in that process, we would need to discuss them closely with the European Commission to understand exactly how they are going to apply the words that you read out.

Q246 Chair: The first round of applications for the fund finishes on Wednesday. Can you give us any idea of how many applications there have been?

Ben Smith: I am not sure we can say at the moment how many have been submitted at this stage, no.

Q247 Jim Fitzpatrick: Is there a time frame for the duration of a public service obligation? Is it set in stone that it lasts for 12 months, three years or five years? What is the review period? Given your comment about the problems with the rail link to Newquay last year,

Minister, and that it was really critical, is that going to be in existence open-endedly or is there a review period?

Ben Smith: There is an annual review period for the money that we give to support public service obligation flights. They are assessed on a case-by-case basis; for example, on the Dundee to London Stansted route, we agreed to provide PSO funding to support that route for two years. On the Newquay to London Gatwick route, we agreed to provide funding for four years. There are regular reviews during that process, but the actual time length for support is done on a case-by-case basis.

Q248 Chair: The Airports Commission will be reporting after the general election. Will enhanced capacity at either Heathrow or Gatwick necessarily result in more links with airports in the regions? Will there be more slots available for them?

Mr Goodwill: Obviously, allocation of slots at EU airports is governed by European Union and associated UK slot regulations. Under these regulations the actual process of slot allocation at Heathrow and other slot co-ordinated airports in the UK is undertaken by an independent slot co-ordinator entirely separately from the Government, the CAA or other interested parties. Therefore, the UK Government plays no part in it. However, whether it is one of the two options at Heathrow or at Gatwick there will be the creation of additional slots. Of course, at the present time one of the big frustrations of smaller regional airports is that they cannot get their passengers into Heathrow or Gatwick to go on to further flights, which is why we have the situation that Schiphol, Brussels and Paris Charles de Gaulle are taking up some of the slack. In terms of my own regional airport, Leeds Bradford, they were delighted when they restored the connection to Heathrow. I know British Airways view that not just as a stand-alone service but as a service that links passengers to other longer-distance flights. They see the economics of that link to some of the more expensive tickets they are selling.

I flew down from Leeds Bradford to Heathrow about four or five weeks ago, and the flight was delayed. It was interesting to see British Airways staff holding up boards with the destinations to which the connecting people had to be taken quickly. It was amazing how many different places in America, India, Australia and elsewhere there were where people on that flight were going. Were we to create those new slots at Heathrow or Gatwick, it would be an opportunity for more regional airports to be connected in.

Q249 Chair: But are you seriously saying that the Government have no role at all to play in ensuring that that happens?

Mr Goodwill: No; this is an independent process and the Government do not have—

Q250 Chair: The Government have no say. Are you really saying that the Government will literally be doing nothing?

Mr Goodwill: It is an independent process. The slots are allocated. Many people would be very disturbed if politicians and Government got involved in that system. The mechanism is set up in a way that can be seen as fair. Anyone who feels that it is not fair can always challenge it; there are judicial reviews and other processes like that. Of course, if we do move forward with new capacity in the south-east, that will create additional slots and it will enable some regional airports to take advantage of those.

In the longer term, with the advent of High Speed 2, if we look at countries like Germany in particular or Spain, the demand for short-haul flights within a country where there is a high speed rail connection as well tends to go down. Taking a flight from Leeds Bradford to Heathrow would not be something you would do in a country like Germany where there is a high speed rail connection. Therefore, I believe that when High Speed 2 is on the go, particularly with the connection through to Heathrow either via Crossrail on phase one or using the spur which is currently part of phase 2, there will be good opportunities for people in areas where they previously used air connectivity as a way of getting through to a London hub. High Speed will be an alternative, so it will be interesting to see that. Of course, there will be environmental benefits attached to that, and that will free up additional slots as well.

Q251 Chair: Do you think it is important that there is a link from the regions to either Gatwick or Heathrow rather than to a hub outside this country? Does it matter?

Mr Goodwill: Speaking to my local enterprise partnership in North Yorkshire, when they got restoration of the link into Heathrow they saw it as a massive improvement in connectivity for the region.

Q252 Chair: But does it matter to the Department that there are links to a hub in the UK rather than links from the regions to a hub outside the UK?

Mr Goodwill: Where there is demand for a service, that demand will be met by the operators. As I say, we have seen some regional airports operate using Schiphol as their hub. If you go to Durham Tees Valley, for example, they have a Schiphol flight. People make journeys using Schiphol as their hub in the same way that people using Leeds Bradford can go to Schiphol, Brussels, Paris or Heathrow. That creates a vibrant market, and it has meant that people get good value in terms of air travel in the UK. We have seen prices come down year on year. We have seen more destinations being served. We have a very vibrant and enterprising aviation sector. That is down to the free market, not down to regulations, so it is important where we have enterprising airlines and airports that they respond to demand and put on those new routes. I mentioned the Newcastle to Dubai route, which has been put on without a subsidy, and I think there is a Manchester to Newark New Jersey service. These have been put on by airlines seeking to benefit from the increased wish of people to fly, and the improvements that we have seen in the UK economy. Politicians should not interfere in that market, which is already providing better value, more destinations and much better services at our airports. All the airports I go to around the country are always keen to show me their new facilities, their new catering facilities—

Q253 Chair: But does that mean that you would see any attempt to assist an airport to have a link to a hub in the UK, whether to do with Heathrow or Gatwick, as something you would regard as interfering in the market?

Mr Goodwill: We have the PSO obligation. Yes, it is by definition interference in the market, but a case has been made in Dundee and Newquay that, because of the geographical location of that part of the country and the disadvantage it gives them, we can distort the market by skewing it a bit in their favour. I make no apologies for that at all, in the same way that in parts of the country where we have high levels of unemployment we make economic steps to help people. We give money to local enterprise

partnerships and local authorities to do that. It is important that within the country we seek to address those imbalances, but by and large the market is delivering a fantastic service. We have seen airlines spring up from nowhere. In the case of Leeds Bradford, Jet2, which nobody had heard of a few years ago, is now the major operator from that airport. There is easyJet, in the case of Luton, although I know it is not one of the smaller airports. We have seen tremendous enterprise and innovation. We have seen new, quieter and cleaner aircraft being purchased. There is a very good story to be told, and the smaller regional airports have played their part where there is a shortage of slots at the big hub airports, particularly a shortage of slots at important times of the day.

Chair: But I am asking you about the desirability of UK hub airport links, not more general things.

Q254 Graham Stringer: It may all be very well that Newcastle, to take an example, uses Schiphol as a hub, but we are effectively exporting jobs, aren't we? Jobs in Schiphol are not as important to me as jobs in this country. Do you differentiate between jobs in Holland and jobs in the UK in terms of your responsibilities?

Mr Goodwill: Heathrow airport is 99% full; there are no slots at Heathrow airport. Gatwick airport is 85% full; there are no slots at the important times of day. There are two reasons why—

Q255 Graham Stringer: I understand that, but the train of the Chair's questioning was that, if slots became available after the Davies report and the possible expansion of Heathrow or Gatwick, is it important to you as a Minister of the United Kingdom Government that regional airports could get into Heathrow and/or Gatwick? You seem to be saying that, no, it is just as useful to have a hub in Schiphol, Copenhagen, Frankfurt or Charles de Gaulle as it is in this country.

Mr Goodwill: It is in the interests of people like British Airways and Virgin Atlantic to get those passengers into their hub. The problem at the moment is that there are not the slots—

Q256 Graham Stringer: But where is the interest of the British Government in jobs in this country?

Mr Goodwill: I am confident that the airlines based in our UK major airports will see the opportunity of increased slots being made available to get passengers who are currently going to Schiphol, Charles de Gaulle, Frankfurt or Brussels into airports in the London area. I think they will rise to that challenge.

As I say, one of the big difficulties is that we have no slots at Heathrow. That is why we were so delighted that Leeds Bradford got that slot into Heathrow. There were plenty of other opportunities that could have been used. British Airways took that decision because they knew that passengers coming down from a regional airport were flying on, with possibly business class tickets or long-haul tickets on lucrative routes where they are currently losing out, because you cannot get down from certain places in the north to the hubs because there are no connecting flights. It is very important, if we get a decision following the Davies Commission report, that airlines in the UK seek those opportunities and are able to capitalise on that. I have every confidence that, in the same way as KLM have seen the advantage of a combination of no slots at Heathrow and APD to funnel

passengers from the outlying parts of the UK into Schiphol, the airlines based in our main London airports will see a similar advantage in being able to do that.

Q257 Graham Stringer: Can I ask you the question the other way round? Assuming Davies recommends extra runway capacity at Heathrow or Gatwick, have the Government and the Department for Transport considered what implications that might have, say, for the route you mentioned previously—the Dubai-Newcastle route? If there are extra slots in the London system, what analysis have you done of the potential impact of that on our regional airports?

Mr Goodwill: We are at an interesting time in terms of the aircraft that airlines are choosing to purchase. At one point everybody assumed that all the passengers would be flying on A380s and 747s from big hubs to other big hubs and then connecting on from there. Funnily enough, we have seen disappointing order books for the A380s. It is early days yet for the A380s and there is more to come in terms of that, but we have seen other airlines using aircraft such as the Dreamliner and the Airbus equivalent, or indeed using Embraer and Bombardier aircraft, which are smaller aircraft—flying out, for example, from London City. They can not only fly more regularly because they are smaller planes, but they can also fit in with businessmen's particular plans. We are seeing things move in all different directions at once, and because these smaller planes are efficient they can fly small numbers of passengers that it previously would not have been viable to fly transatlantic. They can fly out from places like London City, and I see the regional airports also being able to join in on that particular change in the industry. I do not think we have ever seen as much diversity and innovation in different types of services or operations, and because we now have these aircraft there is no reason why those flights should not continue from our regional airports. It is not all going to do down to Heathrow, because a lot of passengers start in the north of England, and the last thing they want to do is go down to Heathrow, in many ways.

Q258 Graham Stringer: We can agree that aviation is an industry that has changed and is changing very quickly. It is very difficult to predict. That is why I was asking the question. Have you considered what impact expansion of runway capacity, particularly hub runway capacity in the south-east, would have on regional airports? Has the Department done that study?

Mr Goodwill: I have not seen detailed analysis. I know that the Davies Commission is looking at aviation in general. They are looking at—

Q259 Chair: But has the Department looked at this? That is the question.

Mr Goodwill: Certainly I have not seen a detailed analysis of how that would impact. It will depend a little bit on what decision is made following the Davies Commission.

Q260 Chair: You are saying that at the moment the Department has not itself looked at the issue. Is that correct?

Ben Smith: That is correct—not in recent times. As the Minister said, we would need to do that in light of the Airports Commission's findings.

Q261 Martin Vickers: Minister, although my colleagues have tried to tease out from you what the Government's position is on this, I am still not quite certain. I want to relate the argument to my own airport in my constituency, Humberside.

Mr Goodwill: I know it well.

Q262 Martin Vickers: It has daily flights to Schiphol and no flights to London, so Schiphol is, in effect, the hub airport. Bearing in mind that the Government have done a great deal to promote and advance renewable energy in my constituency, which means that there is greater demand for connections to other parts of the world, and the Government have acknowledged that economic development is a key part of improving transport connections of all kinds, would the Government like to see connections from Humberside, just as with other airports, to London? Do you think that would aid economic development?

Mr Goodwill: Yes, I believe it would, I would also like to see more point-to-point from regional airports. If you want to go to the United States, most passengers would prefer a point-to-point from a large regional airport like Manchester, for example, than having to go down to London.

I would also like to see airlines doing more through-ticketing in terms of rail connectivity. At the moment, if I were taking a flight from Heathrow to the States and took the train down to Heathrow and my train was delayed, it would be my problem; but if I took the flight from Leeds Bradford it would be British Airways' problem. We could get better use of some of those routes if we could see a little bit more joined-up thinking between rail operators and airlines to enable people to buy their whole journey. Certainly at the moment, if I am going further afield from Heathrow, I would either want to go down the night before to be sure of being there, or get a connecting flight so that British Airways have the responsibility for the entire journey. With the aircraft we now see being made available, and with the possibility of new slots at either Gatwick or Heathrow, I believe there is tremendous opportunity for smaller regional airports to develop more point-to-point, or get more feeder flights into the hub airports.

Q263 Martin Vickers: The only problem with Humberside is that it has no rail connections to London, thanks to the rail regulator spending years deciding whether slots are available.

Mr Goodwill: Doncaster Robin Hood has a similar problem, despite the fact that the east coast main line goes right past the perimeter. When HS2 is in operation, of course we will be freeing up more capacity on the existing rail network, so that might open up other opportunities for better connectivity.

The one message I get from the smaller regional airports when I go to see them is, "We need better connectivity," whether that be rail connections or improved roads. We have done some work at Doncaster Robin Hood and we are looking at doing some work at Leeds Bradford, or indeed at airports that have good connectivity, like Newcastle where the Metro goes straight from Newcastle Central Station to the airport. They seem to be the important factors that will drive airports forward. Other airports do not have such good connectivity—I am particularly thinking about Durham Tees Valley, and maybe Manston—and that has often held them back. That is why we need to work together with the airports to see what can be done. If it is an improvement that only benefits the airport, I do not think it is unfair to say to the airport, "You should carry the lion's share of the investment." If it is an investment that benefits the wider economic area and the wider population, I think the taxpayer has a part to play. That is why we are looking closely at what we can do in terms of road connections at Leeds Bradford, which is notoriously difficult, particularly in the winter time.

Q264 Jim Fitzpatrick: I want to go back to the point you made, Minister, about the free market being the deciding factor in determining aviation policy. Quite clearly when the coalition came to power it made a decision that there would be no expansion of capacity in the south-east. Three years later it established the Davies Commission to look at the question of aviation capacity in the south-east. It is fair to say that the Conservative party now recognise that there is an issue. The Lib Dems are still in denial. The decision to establish the Davies Commission was a Government decision—a political decision. It will be a Government determination of what follows on from the Commission's conclusions. Whatever determination is made, whether it is Heathrow and Gatwick or Heathrow or Gatwick, will have an impact on regional and smaller airports.

The second point is in terms of the free market. The route for HS2 is a highly political question. The spur into Heathrow was keenly debated in the Chamber of the Commons, and there is a political determination to link up Heathrow with the rest of HS2. That gives it a clear advantage over Gatwick, despite the fact, as you said, that it is 99% full. What it is going to do with all the extra people who want to use it is another question. It seems to suggest that the Davies Commission will conclude in that direction.

These are political questions. In terms of all the questions we were asking earlier about the Government's role over Manston and whether the Government had enough powers to intervene, your responses were very defensive and very negative—I mean no disrespect; you know I have high regard for you, Minister. We still do not know what the Government's attitude is to Manston, or what the Government attitude will be to the bigger questions, because your philosophy at the moment seems to be that the free market will decide and that the Government do not have a role to play.

Mr Goodwill: Certainly Government have a role to play in terms of the big strategic decisions. It is a little bit like Network Rail and the operators. The Government control the network, but we have a free market in terms of the way franchises are let and in the competition involved. In the UK, we have seen a very vibrant and successful private aviation sector and, by and large, private airport sector. That is where I see the future lying, and that is why I think any solution at Manston—I hope there will be a long-term solution—must involve a commercial operator making that operation pay, not some sort of long-term subsidy situation, which would have been the knee-jerk reaction of many other European Union countries. We have seen how that failed in many parts of Europe. The model that we have seen being successful in the UK is a model that I believe would fit very well in a place like Manston, with an operator actually addressing a real market demand. RiverOak have identified a particular sector of the freight market. They have identified other operations in terms of general aviation and the recycling of aircraft. There is a market that RiverOak want to tap into. Therefore, if that case can be made, that is a way forward. If that operation can be made to stack up, we could see the return of other types of passenger operation.

The market has been tremendously successful in terms of the aviation sector in this country, and I do not think it is a model that we should move away from. Yes, Government have a part to play and an overall strategic role, but I still believe that whatever structures are in place, and whatever happens at Heathrow or Gatwick, it will be a commercial operator operating those services, and it will be commercial airlines delivering passengers to their destinations and providing the services that they need.

Chair: On that note, we will conclude. Thank you very much, Minister.