

UK REGIONAL AIR SERVICES – PRESERVATION OF SLOTS AT LONDON AIRPORTS

What this paper is about

To update delegates on the decline of regional services to/from London airports, principally Heathrow. It gives background information on the slot allocation rules and how the matter has been addressed in the DfT's consultation on the economic regulation of UK airports. It also gives details of the Working Group's deliberations on the matter.

Points for Discussion

To consider whether:

- it matters that travellers from the far regions of the UK interline with international services at major European hubs rather than at Heathrow/Gatwick/Stansted
- It is more appropriate to press for point to point connections to London where rail is not a practical alternative
- other mechanisms need to be found to preserve slots at London airports for regional services
- the Government should be urged to seek a review of the current PSO and slot allocation legislation or find some other means within the legislative framework to protect slots for regional services

The Liaison Group is asked to consider how the issue should be taken forward.

Points for Possible Action

The Liaison Group will need to consider whether a further collective response should be submitted to the DfT.

Introduction

1. At the last Annual Meeting, a number of regional airports expressed concern about the reduction in the number of slots available at London's airports, mainly Heathrow and Gatwick, for regional services. Dr. Peter Smart, Chairman of Aberdeen Airport Consultative Committee presented a paper on the issue¹ and it was agreed that the Working Group would further consider the matter.
2. Since the Annual Meeting, there has been growing concern that the situation is getting worse. It is clear that the economic downturn, airline sales/mergers and open skies have all exacerbated the whole question of domestic air services between London and the further regions of the UK. Views of member ACCs were invited in January and the Working Group considered the comments received. Details of the Working Group's deliberations and follow-up action are set out below.
3. James Cole, Director of Co-Ordination, Airport Co-ordination Limited (ACL) has been invited to give a presentation at the meeting to explain the current slot allocation rules and whether and, if so, what mechanisms are available to protect slots at Heathrow and Gatwick for regional services.
4. Liaison Group is asked consider the current situation and whether any further action is required.

Background

5. EU Regulation 95/93² provides common rules throughout Europe. These are aimed at ensuring neutral, transparent and non-discriminatory allocation, and at providing some certainty for airlines, whilst encouraging competition.
6. As part of this, the EC regulations effectively provide for three categories of airport reflecting the degree of potential congestion at an airport and the intervention needed to help reduce congestion and delays. The categories are:
 - coordinated - the most congested airports, where all slots must be allocated by an independent coordinator in accordance with the EC regulations. In the UK, Heathrow, Gatwick, Stansted and Manchester are 'coordinated' airports.
 - schedules facilitated - airports where there is potential for congestion at certain times and where an independent 'schedules facilitator' has a formal role under the EC regulations to seek to ensure that airlines' planned air services can all be accommodated by voluntary agreements between airlines. Aberdeen, Birmingham, Bristol, Edinburgh, Glasgow, Luton, Newcastle and Southampton are the eight airports currently designated as schedules facilitated in the UK.
 - other - less busy airports where airlines' air service schedules can generally all be accommodated without difficulty
7. Under the EC regulations, an airport has to be designated as 'coordinated' or 'schedules facilitated' by the relevant Member State. In the UK, this power is exercised by the Secretary of State for Transport. Under the UK regulations, the airport operator then appoints a coordinator or schedules facilitator as appropriate. This appointment is subject to the Secretary of State's approval, following consultation with the airport and airport users, their representatives and, where appropriate, coordination committees.
8. Slot allocation at UK airports is undertaken by Airport Coordination Limited (ACL). In addition to the four fully coordinated airports, ACL provides coordination services at other

¹ See paper at <http://www.ukaccs.info/meeting08.htm>

² See details about the Regulation at <http://www.ukaccs.info/euro.htm#slot> and <http://www.ukaccs.info/issues.htm#PSOs>

major airports in the UK and Ireland including Birmingham, Glasgow, Edinburgh, Aberdeen, London Luton, London City, Liverpool, Leeds Bradford, East Midlands, Newcastle, Bristol, Cardiff, Southampton, Jersey, Dublin, Shannon, Cork, Belfast International and Belfast City.

9. It should be noted that growth in demand at London City Airport has led to increasing pressure on the ability of the airport to accommodate airlines' scheduling requirements, particularly at busy times of the day, week and year. London City Airport has responded to this pressure on capacity by contracting ACL to provide a 'de facto' schedules facilitation service to help match airline demand with supply. This is a contractual arrangement since London City Airport is not currently designated by the Secretary of State under the EC and UK regulations. There has been a recent consultation by the DfT seeking views on whether London City should be designated as a coordinated airport³. A decision is awaited.

Current Slot Situation

10. Under the EU Regulation, it allows airlines to retain slots allocated to them by the co-coordinator provided they used them for 80 per cent of the previous equivalent season⁴. When new slots become available, either as a result of new capacity being provided or because existing slots are handed back to the pool by airlines which no longer require them, some priority is given to new entrants.
11. The pressure on slots in the UK has led to the development of a 'grey market' in which airlines trade slots with one another in order to increase their holdings or obtain more attractive slots that would not otherwise become available through the pool. This gives airlines commercial flexibility, enabling them to acquire additional or more attractive slots.
12. The current allocation system contains fundamental weaknesses. The Government recognises, however, that in deciding whether to buy or sell slots, airlines will not take into account all the wider economic and other benefits that domestic air services to London may bring to other parts of the UK. It states in *The Future of Air Transport White Paper* that a key priority was to increase the choice of routes and services at airports outside the South East, to promote regional development, relieve pressure on the more overcrowded airports, and cut down on the need for long-distance travel to and from airports, thereby reducing emissions. The Government also made it clear that it would be prepared to intervene in well-defined circumstances to protect access from regional airports to London airports by imposing Public Service Obligations (PSOs). Government guidelines, published in December 2005⁵, sought to guarantee a minimum frequency of two daily return flights from regions with existing services to London. For the purposes of this policy London airports include Heathrow, Gatwick, Stansted, London City and Luton. If a region has services to any one of these airports, it will be considered as having a service to London. This means that the withdrawal or reduction of a service to e.g. Heathrow will not be enough to trigger the consideration of a PSO as long as it is considered that there is an adequate service provided by the combined services offered to the London airport system as a whole.
13. Under current EU law it is not possible to impose a PSO on a route between two cities or regions on which adequate services are already being operated commercially and the airline concerned has no intention of withdrawing from the route.
14. The current reduction in the number of services from the regions to London's airports, mainly Heathrow and Gatwick, do not appear to give rise to case for action under the current PSO legislation.

³ See consultation paper at <http://www.dft.gov.uk/consultations/closed/londoncityconsulation/londoncityconsulletter>

⁴ As result of the current economic downturn the European Commission is proposing a temporary freeze of the 80/20 rule during the 2009 summer season to allow airlines to reduce capacity during the economic crisis whilst retaining historic rights to slots at coordinated airports in the EU.

⁵ see DfT Guidelines at <http://www.dft.gov.uk/pgr/aviation/domestic/praa/guidanceontheProtectionofreg2871>

Current Regional Services to/from London's Airports

15. The preservation of slots at Heathrow in particular is important for the regions. There have been instances recently where airlines have decided to withdraw all services at regional airports, for example BMI at Durham Tees Valley and Leeds-Bradford and Jersey lost services to/from Heathrow. Such services are said to be vital to the regional economy and the links into London need to be maintained because they provide a lifeline to economic growth in the regions for the future.
16. It should also be noted that Flybe has been expanding its services at a number of UK airports and has recently announced that Gatwick has become its 14th base. It is encouraging that a number of domestic routes operated by Flybe are proving successful for example the new Gatwick – Newquay triple daily service which provides the only direct service between the South West and London has been a huge success. A Leeds-Bradford – Gatwick service which provides not only an important link to London but benefits leisure travellers from that region in connecting to the long haul destinations offered at Gatwick.
17. The table below shows the number of regional services to each of London's Airports:

	Heathrow	Gatwick	Stansted	Luton	London City
Aberdeen	√	√		√	
Belfast City	√	√	√		
Belfast Inter	√	√	√	√	
Derry			√	√	
Dundee					√
Durham Tees					
Edinburgh	√	√	√	√	√
Glasgow	√	√	√	√	√
Glasgow Prestwick			√		
Guernsey		√	√		
Inverness		√		√	
Isle of Man				√	√
Jersey	√	√	√		√
Leeds Bradford	√	√			
Manchester	√	√			√
Newcastle	√	√	√		
Newquay		√	√		√
Plymouth		√			√
Total	9	13	10	7	8

The BAA view

18. Although at coordinated airports the operator has little influence on how slots are allocated, BAA's view on providing for regional services is well documented in its various responses to Government consultations. BAA's view at the time of the consultation on the PSO guidance was that it supported regional services in principle and in practice. All seven UK airports serve their regions and supporting regional services both to London and to other locations is in their commercial interest. BAA also recognises the economic and social benefits that arise from both transport links from UK regional airports outside the South-East to both London and other key cities.

19. BAA believes that the case for Public Service Obligations (PSOs) should be used in very specific circumstances such as the Highlands and Islands routes to the Scottish Lowlands. But the allocation of slots, the use of PSOs and the ring fencing for regional services are strictly limited by the EU slot regulation.
20. BAA has always been concerned that the inappropriate imposition of PSOs would lead to the benefits to the particular region being significantly lower than the losses to the south-east region and to the UK as a whole. The understandable desire for air services to the UK regions has to be balanced by the desire to maintain and strengthen access from the UK as a whole to the rest of the world. Rather than focusing on PSOs, BAA believes that a better solution is to focus on providing sufficient capacity so that the choice between domestic and international services does not have to be made.
21. It is important to remember that a slot reserved for a regional service is not available for another service. So, reserving a slot at, for example Gatwick for an Aberdeen service means that the slot is not available for another Gatwick service that might better serve the needs of the Gatwick region. London airports are also regional airports – they provide crucially important services for the London region and the South East region which, in turn, benefit the UK as a whole.

Deliberations of the Working Group

22. The Working Group was concerned that UK plc was already losing business to Europe as passengers from regional airports were forced to transfer to international flights at mainland European airports such as Paris or Amsterdam. As there was a need to ensure inter-connectivity within the UK, the Working Group felt that the current PSO legislation was not the appropriate mechanism to preserve existing services, particularly as the imposition of a PSO only secured a link to a “London” airport – either Heathrow, Gatwick, Stansted, Luton or London City. Heathrow, and to a certain extent Gatwick, were the key London airports to interline with international routes, but as these airports were operating at near capacity it was unlikely that PSO routes could be secured at them. The Group felt that the Government should seriously address the matter to establish what could be done to protect regional services from the far regions of the UK where rail links were not a suitable alternative and be urged to seek a review of the EU/UK PSO legislation especially in respect of the definition for "services to London" which was not considered appropriate - notably in relation to passengers seeking to interconnect to air services with the rest of the world.
23. The Working Group was also concerned about the Competition Commission's findings following its investigation into the BAA airports market, particularly as the remit of the Commission prevented it from looking at the much wider and complex picture of the aviation market. It was also felt that the Commission had not taken into account the competition issues that would arise as a result of its decisions for the UK plc within Europe and that its decision would further exacerbate the problem of preserving slots for regional services at Heathrow and Gatwick. The Commission was advised of these views and concerns.
24. A letter was sent to the DfT outlining the Liaison Group's concerns and its response is set out in Annex A. As delegates will note, the DfT is continuing to explore the possible use of alternative means of protecting access to London's airports for regional services. It has also advised that the current consultation on the economic regulation of airports whilst not a key issue for the review, provides an opportunity for stakeholders to submit representations and opinions on the matter.

Reform of Economic Regulation

25. The threat to the regional economies from the loss of an air link to London was raised by a number of organisations in the northern regions of the UK in March this year with Aviation

Minister Jim Fitzpatrick who agreed to examine the impact on investment and jobs as part of the reform of airport regulation. However, as can be seen from the DfT's response, the Government is not seeking a review of the PSO legislation to protect regional services and regional connectivity is discussed in the consultation document but it is not seeking specific comments on the matter.

26. The DfT's consultation document states:

" 4.46 Some stakeholders have raised their concerns about the reduction in air services between regional airports and Heathrow. This contrasts with the general increase in the range of scheduled destinations that are served from UK airports that has followed from the liberalisation of air services and increased competition between airlines.

"4.47 The crowding out of regional services from capacity constrained Heathrow is unlikely to have an adverse impact on the regions providing regional connectivity is maintained via alternative airports.⁶ Using Edinburgh-Heathrow as a case study, DfT found that while Heathrow services have declined to some degree, regional connectivity has been maintained via alternative London and European hub airports. At some regional airports, such as Durham Tees Valley and Leeds Bradford, the service to Heathrow airport is the sole link to London airports.⁷ If all London airports or European hubs were to become capacity constrained to the extent that regional connectivity declined, then the benefit of an efficient use of slots might not out-weigh the costs to the regions. However, under this future scenario existing provisions, such as Public Service Obligations, could be imposed to ensure adequate services between two cities or regions (but not individual airports) are maintained.⁸

"4.48. The DfT published guidance in 2005 on protecting regional access to London via Public Service Obligations (PSOs), but no applications to impose PSOs on London routes have since been received indicating that regional connectivity is perhaps not such a significant issue, although concerns about regional connectivity are raised with DfT from time to time.⁹ Given this measure, we do not believe additional policy interventions, either through the regulatory framework or otherwise, are necessary. This is supported by comments received from the CAA who expressed the view that the maintenance of routes between regional airports and any particular airport should not be an obligation of the regulator. The CAA further noted the Government's capacity to impose PSOs on specific routes where necessary. We are also committed to investigating further the potential for high speed rail links to reduce the need for short haul flights into Heathrow airport"

27. The Government has also announced its decision on a third runway and associated passenger terminal facilities at Heathrow, and if planning approvals are obtained and construction goes ahead, additional capacity will, in time, become available. However, at present slots are exceedingly valuable commodities at Heathrow and have raised considerable sums of money for those airlines that decide to sell them. It is therefore extremely difficult for regional carriers who want to move into the Heathrow market to ever consider purchasing such slots if they are not freely available to UK domestic services. The Government is alive to this important issue and is keen to explore further the potential for high-speed rail links (see also the paper on surface access considered elsewhere on this agenda). While high speed rail services will in the longer term provide good alternatives to many regions, they will not necessarily help the far regions of the UK

⁶ Airports form one part of an end-to-end journey to a final destination.

⁷ BMI announced in February 2009 that they are to withdraw services from Durham Tees Valley and Leeds Bradford to Heathrow from 28 March 2009.

⁸ PSO can be between domestic cities or cross-border within EU. Thus, they could be used to ensure access to European hub airports.

⁹ PSO's have been imposed on routes serving remote communities in the highlands and islands of Scotland as well as Wales.

to gain direct access to Heathrow or Gatwick to interline with international services. It is also important not to overlook the fact that there is a regional demand for point to point services to London, although it is questioned whether this demand is always enough to sustain services, particularly where good rail services currently exist and are a practical alternative.

28. It is important for the Liaison Group to acknowledge that regional demand, particularly for point to point travellers, is shared with rail services. Some examples of rail journey times are given below:

London – Manchester around 2hrs
London – Glasgow around 4hrs 40 mins
London – Edinburgh around 5hrs
London – Newcastle around 3hrs
London – Leeds around 2hrs 20 mins
London - Plymouth around 3hrs 30 mins

29. For the far regions of the UK (e.g. Scotland, Newquay etc.) where rail journey times are over four hours, air connections to London are essential for point to point travellers. The issue of interlining is a difficult issue to address as travellers from the London area and the close regions choose to interline with international services at major European hubs e.g. Amsterdam, Frankfurt, Paris, rather than use Heathrow. The questions that need to be considered are:

- Does it matter that travellers from the far regions of the UK interline with international services at major European hubs rather than at Heathrow/Gatwick/Stansted?
- Is it more appropriate to press for point to point connections to London where rail is not a practical alternative?
- What other mechanisms could be made available to preserve slots at London airports for regional services?
- Should the Government be urged to seek a review of the current PSO and slot allocation legislation or find some other means within the legislative framework to protect slots for regional services?

30. Demand for regional access to London Heathrow for both interlining and point to point cannot be ignored and there is a need to ensure that the far regions of the UK continue to have access to the main London airports. The Liaison Group will however need to consider collectively how it wishes to take forward this issue.

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Our ref: O3/007250/09

8 April 2009

Dear Ms Street

Thank you for your letter of 27 February to Sandra Webber about access for regional services at Heathrow and Gatwick airports. I am replying in Sandra's absence on leave, and apologise for the delay in doing so.

The EU legislation governing the use of Public Service Obligations (PSOs) was recently revised by Regulation EC 1008/2008, which came into force on 1 November last. The changes were essentially minor ones of a technical or procedural nature and we do not expect them fundamentally to alter the manner in which PSOs are used.

As you are aware, the UK Government's position on the use of PSOs to ensure regional access to London was set out in our guidance published in December 2005. We shall be updating the guidance to reflect the new EU Regulation, but our position is unlikely to be significantly changed. We believe that the use of PSOs is appropriate to protect lifeline services such as those in the Scottish Highlands and Islands, but not necessarily for services from the devolved parts of the UK and the English regions to London which are potentially commercially viable. The Government has nevertheless signalled in the guidance that it is prepared to use PSOs where essential to ensure an adequate level of service on routes to London.

We recognise that, despite this backstop, the number of domestic routes serving London, and Heathrow in particular, continues to decline. No applications for the imposition of a PSO on a route serving London have yet been received, and as such the criteria for imposing a PSO, and in particular the economic considerations set out in the guidance, remain untested. That being the case, we have no plans for a fundamental revision of the guidance.

You may also be aware of the consultation on the economic regulation of airports which was issued by the Department last month. While not a key issue for the review, it did consider regional connectivity to London's airports, concluding that the current policy framework was appropriate. Although the consultation does not ask any specific questions on the subject, it does provide an opportunity for stakeholders in the English

regions, and in the devolved areas of the UK, to submit representations and we will be very interested to hear opinions on this issue.

Please be assured as well that the Department is continuing to explore, within the framework set by the rules on State aid and the use of slots at congested airports, the possible use of alternative means of protecting access to London's airports for regional services.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'P. Cotterell', with a stylized flourish at the end.

Phil Cotterell