

**PRESERVATION OF SLOTS FOR DOMESTIC SERVICES AT LONDON AIRPORTS**

**What this paper is about**

To update the meeting on the current situation with respect to regional services to/from London airports, principally Heathrow and the former Government's view of the situation. The paper also gives details of two studies commissioned by the former Government:

- (a) into the case for a station at Heathrow to link the proposed High Speed Rail line from London to Birmingham; and
- (b) to assess the potential economic and social benefits for the UK regions of enhanced access to Heathrow.

**Points for Discussion**

To consider the current situation, particularly in respect of the new Government's announcement to cancel plans for a third runway at Heathrow.

**Points for Possible Action**

To consider whether the Liaison Group should bring the worsening situation to attention of the new Government, as well as the new Chairman of the House of Commons Transport Committee.

## Introduction

1. At the Annual Meeting in Belfast last year, delegates remained concerned about the continuing decline in the number of regional services into the London airports, principally Heathrow. Delegates believed that there was not only a need to maintain point-to-point domestic services but also a need to ensure passengers could connect with international air services within the UK.
2. Delegates also felt that the current Public Service Obligation (PSO) legislation was not the appropriate mechanism to preserve existing services, not least because the imposition of a PSO only secured a link to a “London” airport – Heathrow, Gatwick, Stansted, Luton or London City. In addition, capacity constraints at Heathrow in particular meant that it was unlikely that slots could be preserved for regional services in any event.
3. The Liaison Group agreed that it was essential that a new approach to this important matter should be found. It also highlighted the need to stimulate and seek the co-ordination of policies across Government departments and regional development agencies to ensure that regional economies were protected and the long-term competitiveness of the UK economy preserved. Following the Annual Meeting the Secretariat sent letters the DfT, BERR and the Conservative and Liberal Democrat spokesman for aviation to urge all parties to seek a mechanism, either through planning negotiations or the introduction of ring fencing of slots under the slot allocation rules. The only response received was from the DfT.
4. At the meeting of the UKACCS Working Group on 26<sup>th</sup> January 2010, the worsening situation was again considered (it should be noted that this was prior to the publication of the CAA’s airport statistics for 2009 and the receipt of the DfT’s response). The Working Group believed that the construction of a third runway at Heathrow was key to preserving regional slots at the airport in the longer term and that High Speed Rail would have a role but that it would not provide a substitute for regional air links to London from the far regions of the UK. There was a need to preserve point-to-point domestic air services as well as providing connections at Heathrow for international air services.
5. Since that time, a response from the DfT has been received which gave some encouraging news on a study to be commissioned (more details are given below). In addition to this the plans for a High Speed Rail network have been progressed.
6. However, the new Government, in its coalition document<sup>1</sup>, has announced that in implementing its programme of measures to fulfil a low carbon and eco-friendly economy the plans for a third runway at Heathrow will be cancelled and plans for additional runways at Stansted and Gatwick rejected.
7. Delegates are therefore asked to further consider the situation in the light of the studies commissioned by the former Government (although it is not known whether these will be progressed by the new Government) and the new Government’s announcement not to construct new runways at the three largest London airports.

## Current Position of Regional Services to London Airports

8. The table below shows the number of regional services to each of London’s airports. It updates the table that was presented to the Annual meeting in Belfast last year. Over the last year, Jersey and Leeds-Bradford have lost their services to Heathrow and while Derry and Newquay have lost their services to Stansted. It is also understood that Air South West is to withdraw its service from London City Airport to Plymouth and Newquay this summer, reducing the number of regions the airport serves to five.

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<sup>1</sup> <http://www.ukaccs.info/coalitionagreement120510.pdf>

	<b>Heathrow</b>	<b>Gatwick</b>	<b>Stansted</b>	<b>Luton</b>	<b>London City</b>
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		√			√
<b>Total</b>	<b>7</b>	<b>14</b>	<b>8</b>	<b>8</b>	<b>7</b>

9. As mentioned in the paper on the membership of the Liaison Group, there has been a significant decrease in passenger numbers through the UK's regional airports, highlighting the enormous impact of the recession has had on the aviation industry. Regional airports have been proportionately more affected than the London airports and the notable reduction in domestic passengers over recent years appears to be a continuing trend. Unless action is taken the outlook for the far regions of the UK to maintain domestic services into Heathrow is bleak.

#### **Developments since the last Annual Meeting**

10. Delegates will recall that the DfT had previously invited delegates to submit comments on the need to protect regional services as part of the consultation on the economic regulation of airports. That consultation prompted a number of responses on the matter many of which suggested an alternative range of policy measures by which access to Heathrow might be assured for some regional services. The key points raised by respondents about the issue of connecting regional economies to London airports and onward to international destinations were:
- The issue of regional connectivity and changes were suggested to the economic framework to support increases in the current levels of connectivity. England's Regional Development Agencies felt that regional air connectivity was of critical importance for the growth and recovery of regional economies.
  - Regional Development Agencies suggested that the CAA should have a duty to ensure that all UK passengers have access to a wide range of air services, including connecting services through London. They also suggested that incentives should be introduced to encourage increased capacity.
  - In terms of planned increases in capacity, and in particular the development of a third runway at Heathrow, Newcastle International Airport, the North East Chamber of Commerce and Peel Airports Group thought that part of the additional capacity created should be 'ring fenced' or protected for services from the UK regions.
  - The suggestion of using regulation to promote a differential in the level of airport

charges between domestic and international services.

- A view that the current taxes and charges at UK airports were too high and placed UK airports at a competitive disadvantage with their European competitors. There was also concern that the competitiveness of the UK's regional airports was distorted by taxes and charges.
11. However, Ministers were not inclined to adopt any of these ideas as they were incompatible with European rules on State Aid or the allocation of slots. They also believed that some suggestions would entail a fundamental intervention in the market, affording the interests of some domestic passengers a higher priority than those travelling on international services and imposing costs on the air transport industry through the inefficient use of slots by smaller aircraft used on relatively thin domestic routes.
  12. In its response to the Liaison Group's letter sent following last year's meeting, the DfT said that the (former) Government was prepared to use Public Service Obligations (PSOs) where essential to ensure an adequate level of service on routes to London. It also confirmed that the DfT's December 2005 guidance setting out how it would determine applications remains in force and that it was still the case that no applications had been made for the imposition of a PSO on a domestic route to London. The guidance therefore remains untested but the former Government had no immediate plans to discard it.
  13. The DfT recognised that the continuing loss of regional services to London, and in particular the perceived threats to the future operation of the remaining Heathrow services, was a concern for stakeholders in the English regions and in the devolved parts of the UK. It advised that the (former) Government believed that high-speed rail was complementary to, rather than an alternative to, expanding Heathrow. Only 8% of Heathrow's passengers are on domestic flights and the numbers travelling by plane within the UK was falling, while they are increasing for rail. The DfT was keen to see this trend continue as rail services become better and faster but felt it unrealistic to expect that rail could provide an alternative to internal flights in every case, particularly for flights serving the more distant parts of the UK and where passengers are connecting onto international flights.
  14. Delegates will be encouraged to note that in view of these considerations, the DfT commissioned research to gather further evidence on the value of regional access to the London airports. The study will analyse the potential economic and social benefits for the UK regions of enhanced access to Heathrow and weigh these against the negative impacts on the air transport industry, and the environmental disbenefits of increased short-haul flights. Should the study find merit in giving preference to regional flights, the Department said further work might be commissioned to examine the merits of specific policy options to achieve this.

### **Adding Capacity at Heathrow and High Speed Rail**

15. As reported at last year's Annual Meeting, a decision on adding capacity at Heathrow was announced by the former Government in January 2009. Part of that decision was that further assessment was needed of the case for a station at Heathrow to improve rail links. Paragraph 57 of the Government's decision states:

"Looking to the future, the Department will work with the airport operator and Network Rail to consider schemes that provide better connections to the Great Western main line whilst maximising the effectiveness of scarce railway paths. The Department has also set up a new company, *High Speed Two (HS2) Ltd*, to advise Ministers on the feasibility and credibility of plans for a new line with specific route options and financing proposals. This work will include consideration of options for a new Heathrow International interchange station on the Great Western line, providing a direct 4-way interchange between the airport, the new north-south line, existing Great Western rail services and Crossrail into central London"

16. The former Government believed it important that Heathrow should be connected to any high speed line. A key purpose of the proposed Crossrail Interchange is to provide such a connection. However, the overwhelming majority of passengers on a high speed line south of Birmingham would be going to or from London. This is the other reason why the Crossrail Interchange station is so important. Crossrail, a very high capacity line, will provide fast services direct to the West End, the City and Docklands, catering for an estimated one third of all the passengers travelling on the high speed line. Without this Interchange to Crossrail, congestion on the tube from Euston would be exacerbated, and passengers would be severely disadvantaged in getting into and through central London.
17. The question is whether there is a case for an additional station at the site of Heathrow itself. HS2 Ltd, after thorough analysis, thought that the business case for such an additional station was weak, given the estimated cost of at least £2 billion for the additional tunnelling required to serve the site. Furthermore, Heathrow is not a single place; it is an airport with three widely dispersed terminal centres.
18. Lord Mawhinney was therefore appointed to assess the options, and their respective business cases, taking account of the work published by HS2 Ltd, the study already underway by the airport operator, and the proposals that have been put forward for a station at Iver.
19. The new Government, in its coalition document, has announced its desire to establish a High Speed Rail network.

#### **A case for a Public Service Obligation (PSO)**

20. During last summer it was widely reported that the development agency, *One North East*, lobbied senior politicians with a view to reaching an agreement - PSO – to ring-fence landing slots for flights between the North-East and Heathrow. However an independent report commissioned by the agency concluded that even if the move was given the green-light by the Government, it might cost the region an initial £21.5m and up to £2m a year thereafter. It is understood that in the light of this report, *One North East* ended its pursuit of a PSO but was continuing to lobby Government for fairer treatment of regional airlines seeking links to Heathrow.
21. On 17<sup>th</sup> June, there was a debate in Westminster Hall on Regional Aviation Policy during which Sadiq Khan, the then Minister for Aviation and Julian Brazier, the then Shadow Minister for Aviation set out their party's views.
22. Sadiq Khan stated that regional airports were important for local and regional economies but recognised that airlines wanted to fly profitable routes. The Government did not have the power to instruct airlines what routes to fly and airlines therefore made their own commercial decisions. He confirmed that the Government would explore what assistance could be given to regional airports.
23. Julian Brazier stated that his Party believed profoundly in the importance of regional airports and the contribution that they made to regional economies. They supported the expansion of regional airports where community support exists and that there is a case for proportionate and sensible expansion taking into account local and national environmental factors. He also stated that regional airports had the potential for increasing point-to-point routes thus reducing transit flights (they see the South East's congestion as an unhealthy concentration of flying). They believe that regional airport policy should allow maximum utilisation of existing infrastructure and take the pressure off the South East.

#### **House of Commons Transport Committee**

24. On 2<sup>nd</sup> December 2009, the House of Commons Transport Committee issued its First Report on the Future of Aviation which considered amongst other matters the issue of regional services. The Committee noted that Heathrow was no longer a significant hub airport for UK domestic flights. As a result of runway capacity constraints and

economic factors, including the high value of landing slots and competition from rail, the number of UK cities with flights to Heathrow had been reduced to seven.

25. The Committee also noted that the situation had been exacerbated as a result of the Open Skies agreement. US carriers which formerly operated at Gatwick had transferred services – despite the high costs of buying slots – to Heathrow, where formerly they had no access.
26. The Committee endorsed the former Government's decision to support a third runway at Heathrow and an additional terminal, in view of the economic benefits it would bring to the UK economy. It was concerned however about the lack of clarity on the timescale for completion of this project. Even with a third runway at Heathrow, the Committee was of the view that it is unlikely that the Heathrow will become a hub airport for many UK cities. In order to maximise the economic benefits of an enlarged Heathrow, the Committee emphasised the importance of Heathrow having direct access from the national rail network.
27. The Committee looked forward to the creation of a high-speed rail network for the UK but stressed that it was imperative that it included links to some of the UK's major airports. If good quality links were provided, high-speed rail would provide an alternative to some domestic flights. The Committee did share the Liaison Group's view that high-speed rail was unlikely to replace all UK domestic flights, especially east-west links between regions and flights to Northern Ireland and the Scottish Highlands. In any event, the number of flights from UK airports to Heathrow is relatively small. As such, there was no evidence that high-speed rail offered a viable alternative to expansion of Heathrow.
28. The Committee concluded that there was clear evidence that the aviation industry was important to the UK economy as a whole and to the economic development of certain regions. It pointed out that although the aviation industry enjoyed certain taxation advantages, it received little direct public funding. At a time of severe economic difficulty for the industry, the Committee was concerned about the laissez-faire approach by the former Government which it felt was risky and unlikely to optimise the benefits and therefore found it unsatisfactory that the former Government left such a key industry to the vagaries of the market. It concluded that the Government needed carefully to assess which parts of the industry contributed most to the economy, including regional economic development, and to consider a more proactive role so as to ensure that strategic assets were not lost in such difficult economic times.
29. The Chairman of Aberdeen Consultative Committee had raised the issue direct with Louise Ellman, former Chairman of the Transport Committee. In her response she agreed that preserving domestic services was a tremendously important issue and had only been considered very briefly as part of the Committee's report on the Future of Aviation. She accepted that the Committee had not looked at the issue in any great depth and could not therefore form a view. She has suggested that this might be an issue that stakeholders would like to draw to the attention of the Committee following the General Election.

### **Next Steps**

30. This is an issue of continuing concern to many ACCs, particularly from the far regions of the UK. The Aberdeen Consultative Committee in particular is continuing its campaign to encourage all parties to find an alternative mechanism to the PSO legislation.
31. There is concern that the new Government's announcement to abandon plans for the an additional runway at Heathrow, as well as at Gatwick and Stansted, will have a negative impact on the number of regions served by the London airports. It is hoped that the studies commissioned by the former Government will be progressed but it is not known whether this will be a priority for the new Government. It is suggested therefore that the Liaison Group continues with its campaign to seek an alternative mechanism to the PSO legislation in order to preserve slots for domestic services at

Heathrow at that its concerns should be brought to the notice of the new Government. It is also suggested that the new Chairman of the House of Commons Transport Committee should be approached suggesting the need for the matter to be examined in more detail. Delegates views are sought.

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