

# Consultation on the Protection of Regional Air Services to London

Response from the British Air Transport Association

BATA welcomes the opportunity to comment on the Department for Transport's consultation paper "Consultation on the Protection of Regional Air Services to London". BATA represents UK-registered airlines, both scheduled and charter. Our members produce over 90% of UK airline output.

In general we are opposed to the statutory protection of air services by the imposition of PSOs (Public Service Obligations) or the ring-fencing of slots except for life-line services such as those linking the Highlands and Islands in Scotland. PSOs would distort the market which, on the whole, has served the regions well by providing many routes to London. Regional concerns about access to London nearly always centre specifically on access to Heathrow, which, as the UK's biggest international hub, offers the greatest range of international connections. The number of regional routes served from Heathrow has declined over the years due to long-standing capacity constraints. The solution is to increase capacity at Heathrow not to impose PSOs. Indeed the PSO regulations are such that they cannot be used to ensure connections to Heathrow.

## Proposed Interpretations

Although we are opposed in principle to PSOs, we see merit in establishing clear criteria for their evaluation since the Government is obliged to consider any PSO application that is made. Our comments on the proposed interpretations and other issues raised in the consultation document are given below. However we have not commented on all of them because some are matters for local authorities.

### *1(a) Peripheral region*

*An airport shall be considered as serving a "peripheral region" if the fastest regular total journey time to London Zone One by public surface transport from the main urban centre(s) it serves is more than three hours.*

This is a reasonable definition.

### **1(b) Development Region**

*Option 1: An airport shall be considered as serving a development region if its catchment area includes an area(s) in receipt of EU Objective 1 or 2 funding.*

*For the purposes of this policy, the catchment area would be calculated as the area within a one-hour travel time radius. This would provide a means of judging which airports serve regions most in need of the economic and social benefits which an air link can potentially bring.*

*Option 2: An airport shall be considered as serving a development region if the main urban centre(s) which it serves is/are in receipt of EU Objective 1 or 2 funding.*

We prefer option 1 which is less constraining.

### **1(c) Thin Route**

*A route shall be considered as a thin route if, at the time that a PSO application is received, fewer than 50,000 passengers a year use the route.*

*This figure corresponds approximately to a 50 seat regional aircraft operating two return services a day with an average load factor of 65%.*

This is a reasonable definition.

### **2. Adequate Provision of Services**

*The UK Government is proposing that there should be a minimum frequency of two return flights each day (i.e. one return service from London and one return service from the regional airport). This would allow business travellers to carry out a full day's business in London or the region.*

*2(a) The UK Government would welcome comments on whether such a minimum level of service is adequate.*

This is a reasonable definition but it needs qualifying to say that one service should be in the morning and one in the afternoon or evening.

*The UK Government recognises, however, that a minimum two a day service may not be considered "adequate" on certain routes. The Government is considering whether there should be a further element to the test of adequacy which reflects the varying current service levels and the potentially differing levels of adequacy on different routes.*

*2(b) The UK Government would welcome comments on whether a minimum level of service should vary with passenger numbers on the route.*

We believe that definition of minimum level of service should not vary according to the passenger numbers on the route. (In any event, it would be more logical to vary it according to the population of the catchment area)

*One way in which the current market size of the route could be reflected would be to specify that a reduction in seat capacity to below a specified percentage of the capacity offered by all airlines during the summer 2003 operating season should trigger the consideration by DfT of whether it is appropriate to impose a PSO on that route.*

*2(c) The UK Government would welcome comments on this approach and suggestions for suitable alternatives.*

We believe that an automatic trigger mechanism is unnecessary. Any significant reduction in services is likely to generate considerable local concern. The local authority would be best placed to assess whether there is a prima facie case for a PSO application.

### **3. Proving the Economic Case**

*The White Paper stated that it would be the responsibility of local bodies to demonstrate the importance of a service to the economic development of the region concerned, in accordance with Regulation 2408/92.*

3. *The UK Government would welcome suggestions on the methodology which should be used for judging the economic importance of a region's air link to London.*

No comment. This is a matter for the local authorities concerned.

## **Issues Raised in Annex A: Partial RIA**

### **Risk Assessment**

*DfT welcomes further suggestions and quantifiable data on the potential impacts of service withdrawal.*

No comment. This is a matter for the local authorities concerned.

*DfT welcomes comments on the probability that existing services will be withdrawn or reduced and on the vulnerability of specific routes.*

There is always a chance that a service may be withdrawn, especially if it is on one of the less busy routes to one of the heavily slot-constrained airports. However, provided there is a sufficient market, the likeliest outcome is that the service will be re-provided by a low cost or niche operator from one of the less slot-constrained London airports. The net outcome will be a change of airports at the London end of the route and perhaps a short gap in provision.

### **Benefits and Costs**

#### **Business Sectors Affected:**

*The primary sector affected will be the airline industry.*

*DfT welcomes suggestions of the likely impact on other business sectors, for example airports.*

No comment.

*It is not envisaged that there will be significant additional cost in introducing the voluntary early warning system or the making and processing of applications for the imposition of PSOs, should services be reduced or withdrawn.*

*DfT welcomes estimates of the likely cost of providing this information and the extent of the burden this might place on central Government and local bodies.*

We will not be directly involved with providing this information.

### **Ring Fencing of Slots**

*The cost to businesses will be particularly high if the imposition of the PSO is accompanied by ring fencing of slots at congested airports.*

*DfT welcomes more data on the potential cost of ring fencing slots at congested airports for such services.*

The value of slots at congested airports can be very high. An indication is that a pair of slots at Heathrow was sold recently for £10M. (Reported at Regional Economic Development and Air Access to Heathrow and Gatwick Seminar, House of Commons, 4<sup>th</sup> May 2004)

Ring fencing would stop an airline using a slot for the route of its choice when it may be forced to use it on a PSO route. Therefore there is a real opportunity cost to the carrier. That cost could be very high as the slot could be used, say, for a profitable long haul route rather than a (potentially) loss making or low profit domestic route.

## **Subsidy**

*In certain limited cases, there may also be the cost of providing subsidy.*

*DfT would welcome estimates of the probability that subsidy will be required, and of the order of magnitude of financial support which might be expected.*

It is impossible to estimate the probability that subsidy will be required, or its magnitude, since it will depend on the route and the prevailing market conditions. Both will increase if the threshold for what constitutes an adequate service is set too high.

## **Competition Assessment**

*DfT would welcome views on the potential for differential impacts resulting from this policy on air carriers currently offering regional services.*

*DfT welcomes suggestions on other potential competition issues which may result from this policy and how their impact may be reduced. The competition assessment will be reviewed accordingly following the consultation.*

Any airline that has some of its slots ring-fenced will suffer a loss. They will be unable to use the slots for more beneficial services. The threat of slot ring-fencing may discourage airlines from starting new regional services in the first place – whether in competition with an existing operator or on a new route – and use the slots for international services instead. Clearly such considerations will carry more weight in those airlines which specialise in regional and short haul services.

Airlines may consider it more prudent to provide services to continental hubs rather than London. In this case, all UK airlines may be put at a competitive disadvantage as long haul passengers are “exported” to continental hubs.

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