Civil Aviation Authority

CAP 775

Air Services at UK Regional Airports

An Update on Developments

Civil Aviation Authority

Economic Regulation Group

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An Update on Developments

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Executive Summary

Air Services at UK Regional Airports

A continuing theme of a developing air services network at UK regional airports

1 This study updates the CAA's study of UK regional air services published in February 2005 (CAP 754 *UK Regional Air Services: a study by the Civil Aviation Authority*). It uses the CAA's unique access to statistical and survey data, and factual information drawn from published sources and interviews, to put together a broad picture of the recent development of regional air services that can act as both a reference point and an indicator of current trends for Government, regional bodies[1] and industry.

2 As with the CAA's earlier publication, the main theme of this updated study continues to be the sustained, substantial growth in UK regional air services in recent years, in particular in short-haul international services. The CAA's 2005 study explained the underlying reasons for this: liberalisation of the EU market, the consequent emergence of no-frills airlines looking for opportunities for rapid expansion, and the more commercial outlook of regional airports looking to build up a network of air services. These changes gave rise to a shift in the nature of demand as passengers realised that flying from their local airports was now a possibility. The improving "visibility" of regions and their airports has attracted more services, not just to leisure destinations but also to business centres, including London, and to foreign hubs that can provide an alternative to Heathrow as a connecting point.

3 Other key messages from this updated study are:

- there has been a change in travel patterns as passengers to and from points outside London are using regional airports rather than travelling to London;
- there has been some slowdown in growth, noticeably on domestic routes, in the last year or two, although it is too early to tell whether this will continue;
- there is growing competition between regional airports resulting in some reduction in airport charges, and competition between airlines remains fierce, with airlines using the "no-frills" model continuing to gain ground;
- there is a much greater focus on environmental issues;
- the challenge for regional airports appears to be for them to continue expanding while maintaining their attractiveness to the passenger in terms of convenience and speed.

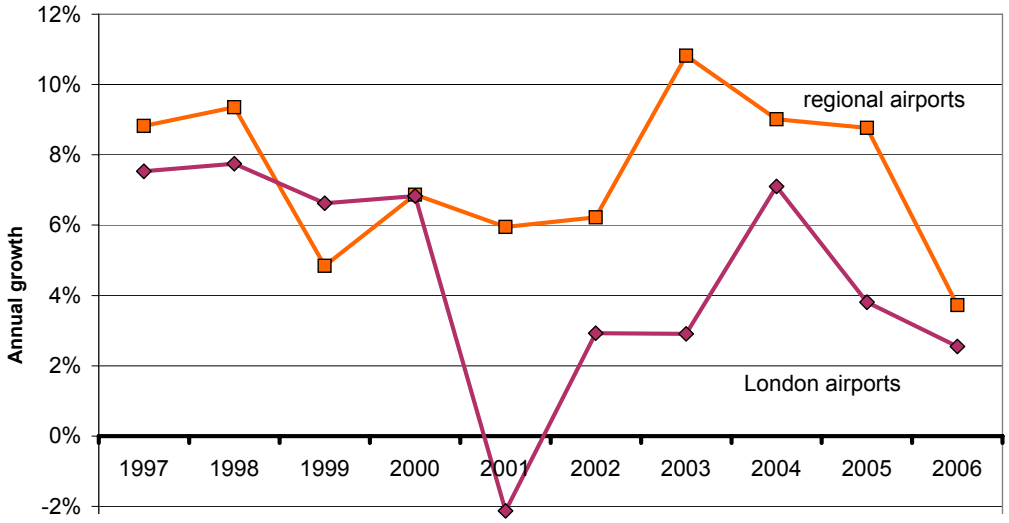
Traffic Developments

Main growth is in international scheduled services

4 Over the period 2000–2006, passenger numbers at regional airports have continued to grow more strongly, at an average of 7% each year, than London airports, which have averaged 3% (Figure 1). Regional airports now handle 42% of traffic at UK airports.

1. Throughout this study, "regional" in the context of airports and air services is generally taken to mean outside the London area. This means that parts of the text referring to UK regions will include, for convenience, Northern Ireland, Scotland and Wales, whereas these would normally be more properly referred to as nations.

Figure 1 Annual traffic growth at London and regional airports 1997–2006

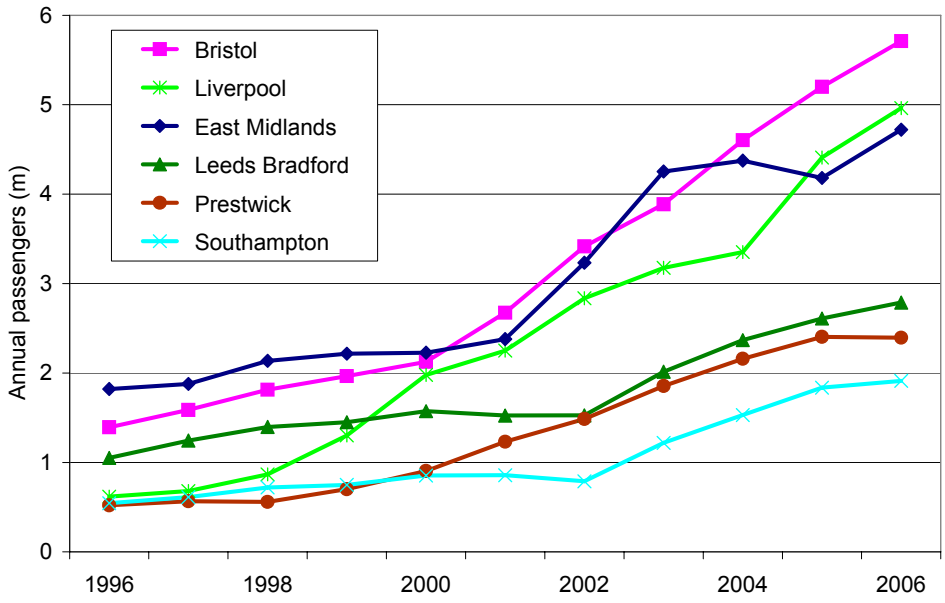


Source: CAA airport statistics.

5 In terms of total traffic in 2006, 24 UK regional airports exceeded 0.5m passengers. Manchester, Birmingham, Glasgow and Edinburgh have remained the most significant regional airports over the last 15 years. In 2006, Manchester was by far the biggest with 22m terminal passengers, with traffic growth over the last 15 years comparable to London airports as a whole, while the fourth-biggest, Edinburgh (8.6m), showed the fastest growth of these top four airports over this period. The next five biggest airports in terms of total traffic in 2006 are Bristol, Newcastle, Belfast, Liverpool and East Midlands, each in the range 4.7m–5.7m; these airports have grown very rapidly in the last seven years or so as no-frills carriers have set up bases there.

6 Traffic growth at regional airports was, however, noticeably less strong in 2006 (+4%) compared with the three previous years (around 9% to 11% annually), a trend which is continuing into 2007. Some airports, nevertheless, continue to show consistently strong growth (Figure 2).

Figure 2 Top six fastest-growing regional airports 1996–2006



Notes: *Top six does not take into account airports with less than 1m total passengers in 2006.*
Source: *CAA airport statistics.*

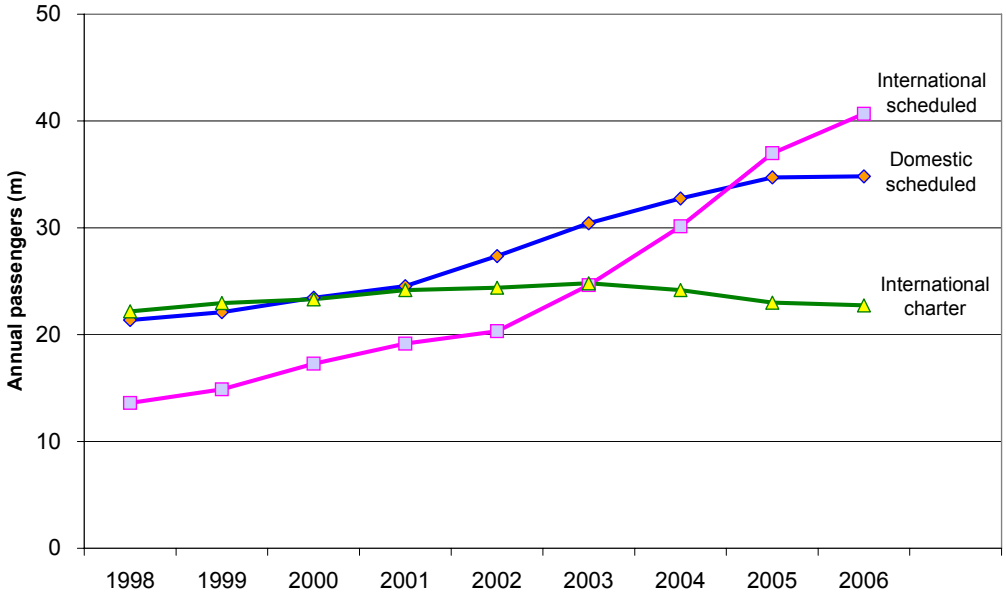
7 The make-up of traffic in terms of international, domestic, scheduled and charter can vary widely from airport to airport. For example, just under half of the international traffic at Glasgow, Manchester and Newcastle is charter, compared with 10% or less at Edinburgh, Prestwick and Liverpool.

8 By individual sector, this study finds that:

- *International scheduled traffic* has shown the strongest growth, with passenger numbers doubling between 2002 and 2006, and growth rates of more than 20% each year between 2003 and 2005, reducing to 10% in 2006;
- *International charter traffic* is in slight decline. With the big tour operators consolidating, and a trend away from the traditional package holiday towards self-organised holidays using scheduled flights, this could be expected to continue;
- The growth rate on *domestic* routes has been declining, from 11% in 2003 to 0.2% in 2006. Domestic traffic to Heathrow fell by 4% in 2005, and by 10% in 2006, and growth at other London airports has levelled off. Traffic growth between UK regional airports also declined to 4% in 2006, following a period of much stronger growth averaging 15% annually between 2000 and 2005. Contributory factors could include: improved rail services; the deterrent effect of airport security restrictions; fewer passengers to/from regional airports using Heathrow as a connecting point; and the doubling of Air Passenger Duty, although the trend of declining traffic predates the February 2007 APD increase.

This is illustrated by Figure 3.

Figure 3 Traffic on UK regional air services by sector 1998–2006



Source: CAA airport statistics.

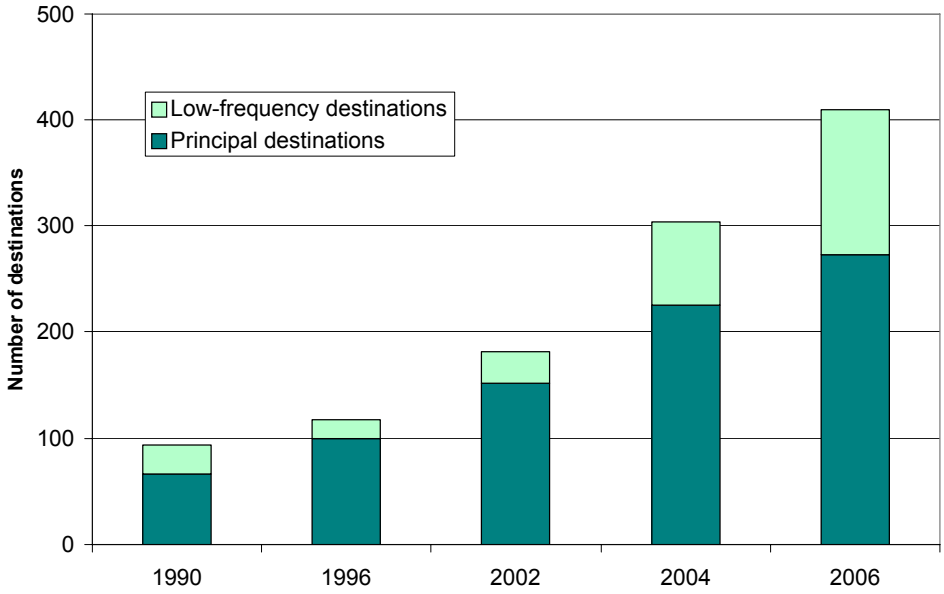
Route Networks (International)

Substantial short-haul networks have developed, with some key long-haul connections

9 Excluding the more established airports at Birmingham and Manchester, the number of UK regional airports offering daily scheduled flights to five or more international destinations increased from four in 1990 to 11 in 2004, and to 15 in 2006. Of those 15 airports, six offered daily flights to 12 or more international destinations in 2006. International traffic at Birmingham and Manchester has continued to grow, but in the last few years there has been some churn in the destinations offered, probably resulting from the rapid expansion of networks at neighbouring airports, and the retrenchment of BA Connect and its eventual acquisition by Flybe, affecting the range and frequency of services to European business destinations.

10 Some airports are now bases for several no-frills airlines. There are few international routes operated by two or more no-frills airlines in direct competition at the same airport, although overlaps between neighbouring airports are more common. With most "low-hanging fruit" in terms of route opportunities having been taken, many recent additions to international networks from regional airports have been relatively low-frequency routes. Routes operated around three or four times a week now form around one-third of international scheduled services, compared with one-sixth in 2002 (Figure 4). There are indications that airlines may be more inclined than before to switch capacity from a poorly performing route when it could be used more profitably elsewhere.

Figure 4 International scheduled destinations from UK regional airports, 1990–2006



Notes: *Principal destinations = 500 or more one-way annual flights (broadly equivalent to five round trips a week). Low-frequency destinations = between 250 and 499 annual flights (broadly equivalent to three or four round trips a week; this category may include a more frequent but seasonal service).*

Source: *CAA airport statistics*

11 UK regional airports continue to be well connected to the Amsterdam and Paris hubs, with at least a daily service from 19 and 13 UK airports respectively in 2006, although some services are by a no-frills carrier, which will not offer formal interlining, making the connection less convenient. The hub carriers, principally Air France/KLM and to a lesser extent Lufthansa, have generally maintained or increased services despite the competition from no-frills carriers on short-haul routes. Services to their hubs are greatly reliant on connecting passengers – for example, more than 60% of KLM passengers from Birmingham and Manchester are connecting at Amsterdam.

12 Long-haul services are generally perceived as high on the "wish" list of regions seeking greater international, particularly business, links. They continue to grow steadily, largely through foreign airlines adding UK regional airports as spokes to a hub, in particular in the US and Middle East. Emirates and Continental are the most significant long-haul scheduled carriers at UK regional airports in terms of passenger numbers. Emirates now operates from four UK regional airports, most recently adding a Newcastle service, and Continental from six, most recently adding Bristol and Belfast. In 2006 they each carried nearly 1m passengers from UK regional airports to their respective hubs, with between half and three-quarters of those passengers connecting on to destinations beyond. In 2006 there were daily scheduled services to 18 US destinations from UK regional airports, mostly operated by US airlines, compared with 14 in 2004 and 3 in 1990. The use of single-aisle (narrowbody) aircraft that are smaller than would usually be used on long-haul flights seems to have played a part in the expansion of these US routes, by minimising the airlines' exposure on new and developing routes. The proportion of scheduled US flights from UK regional airports operated by narrowbody aircraft increased from 18% in 2004 to 44% in 2006.

Route Networks (Domestic)

Services to London remain constant, but Heathrow access is under pressure because of scarce capacity

13 The CAA's last study of regional air services recorded significant growth in the number of passengers travelling from regional airports to London since 1990, and the wider choice of services to airports other than Heathrow (with 250% more flights to those airports than in 1990), but also the problems of Heathrow access. There has been little change in the range and frequency of services to London since the last study, despite the recent decline in traffic. There were 47 routes between London and UK regional airports in 2006 (compared with 34 in 1990), generating an average of 228 round trips per day (160 in 1990). Nine routes in 2006 were to Heathrow (compared with 18 in 1990), generating an average of 81 round trips per day (118 in 1990). Access to Heathrow, along with the broader connectivity that this brings, remains an important issue for regional airports, and for passengers wishing to connect to other services. Around one third of passengers on routes from Belfast, Edinburgh and Glasgow to Heathrow are connecting; the proportion is greater on shorter domestic routes to Heathrow where point-to-point passengers are more likely to use surface alternatives.

14 The scarcity (and consequent value) of slots at Heathrow continues to be perceived as a threat to more marginal domestic services. This could potentially be exacerbated by the demand arising from new or expanded US services as a result of liberalisation of the EU–US market, although the benefits of feed traffic to the viability of many long-haul services is likely to provide some restraint on discontinuing services. At the time of writing there has been no loss of domestic destinations. Indeed, links between Heathrow and three domestic airports have recently been reinstated: Inverness in 2004, Jersey in 2007 and Belfast International, due to begin in January 2008. However, the increase in airport charges in real terms at Heathrow (with substantially increased investment) may be an issue for some services.

15 Links between the bigger regional airports have been reasonably well established for some years. However, some routes have shown strong growth in recent years, particularly where stimulated by new entry or significant competition, such as those from Belfast, Birmingham, Manchester and Southampton. The consolidation of Flybe and BA Connect services will affect the competitive dynamics, but, as the Office of Fair Trading (OFT) found in considering the competitive impact of the acquisition, new entry or expanded services by incumbents is expected to counter any short-term reduction in competition.

Dependence on London as a Connecting Point

Passengers to/from the UK regions are less dependent on London airports and are making use of alternatives

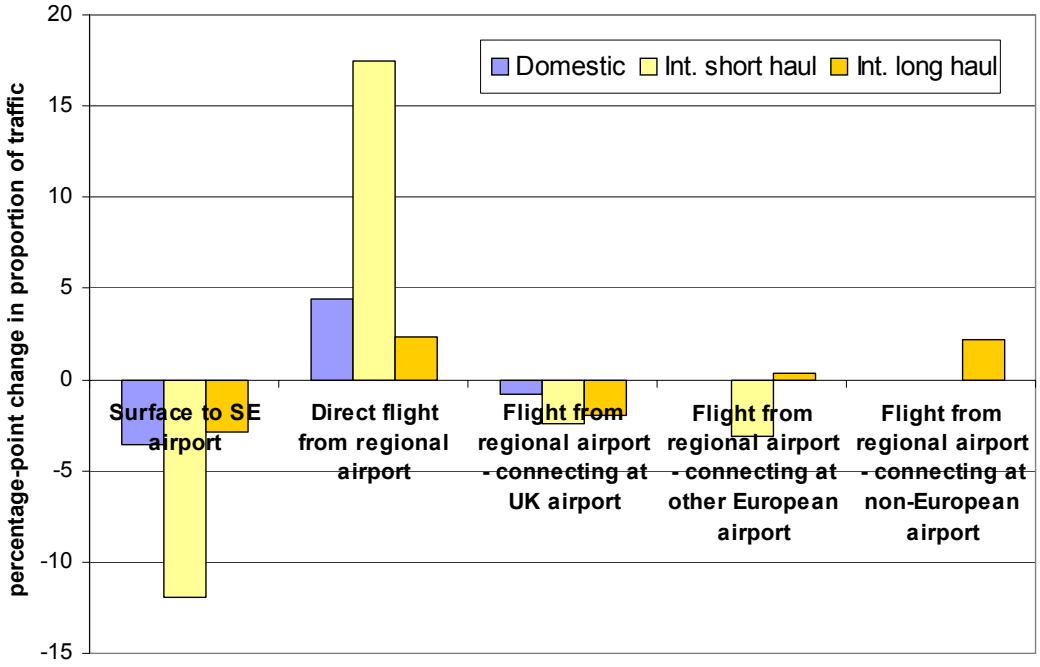
16 CAA Passenger Survey data is showing a shift in the travel patterns of "regional" passengers (defined as those travelling on scheduled flights from a UK airport with an origin or destination outside the South-East region). Against a backdrop of increasing traffic levels, a snapshot estimate for 2005, compared with a similar snapshot for five years earlier, reveals that:

- The number of regional passengers using *direct flights from regional airports to their destination* has increased significantly, as has the proportion (from 35% to 46%);

- The number of passengers travelling by *surface to a South-East airport* has risen, but the proportion these represent of all regional passengers has fallen (from 53% to 45%), this fall largely accounted for by passengers taking short-haul flights;
- The number of regional passengers *flying to London to connect to another flight* has fallen, as has the proportion these represent of all regional passengers;
- The number of regional passengers *flying to a European hub to connect to another flight* is broadly the same, but the proportion these represent of all regional passengers has fallen; within this, there has been a shift from passengers connecting to short-haul flights (in decline) to those connecting to long-haul flights (growing), such that nearly half the passengers connecting at a European hub are travelling on to long-haul points; and
- The number of regional passengers *flying to a hub outside Europe to connect to another flight* has increased, as has the proportion these represent of all regional passengers travelling to long-haul points (from 5% to 7%; the proportion this represents of all regional passengers remains constant at around 2%).

17 The change in the proportions in each category in terms of percentage points is shown in Figure 5. Although these results have to be compared with the relative growth of each sector, they do seem to point to a shift away from the use of London airports (including when used as a connecting hub) to direct flights from regional airports, and a greater use of other European and non-European hubs for long-haul connections.

Figure 5 Percentage-point change in journey patterns by passengers travelling to/from UK regions on scheduled flights, 2000 and 2005



Source: *CAA Passenger Survey*

Competition between Airlines serving Regional Airports

No-frills airlines strengthen their position

18 With the acquisition by Flybe of British Airways' regional subsidiary BA Connect, BA has withdrawn from non-London short-haul routes from UK regional airports, other than franchise or codeshared services operated by independent carriers. Apart from London domestic routes, the traditional "full-service" network airlines are now confined to foreign national carriers serving their main base or hub. In addition, there are some business-oriented or niche services operated with aircraft of 50 seats or less. The bulk of other short-haul services are now operated by no-frills carriers. In terms of passenger numbers handled by UK regional airports, easyJet was by far the biggest scheduled operator in 2006 with nearly 15m passengers arriving or departing at UK regional airports, followed by BA/BA Connect, the bmi group, Ryanair, Flybe and Jet2.

19 The strength of competition has resulted in some continued blurring between the typical full-service, no-frills and charter airline business models, partly because within each category airlines are seeking to adapt to the challenge posed by competing business models. CAP 754 recorded that full-service carriers were beginning to adopt elements of the no-frills model (for example containing costs, restructuring fares and increasing load factors) in order to remain competitive. While staying with the low-cost philosophy, some no-frills airlines have begun offering a menu of additional, optional frills, mostly for a supplement, such as lounge access or early boarding, seeking to attract higher-yielding (including business) passengers. Some no-frills airlines have moved towards offering flights with associated accommodation or car hire etc to attract the package holiday market, and are offering an increasing number of routes at relatively low frequency; while some charter airlines have established a no-frills arm aimed at seat-only leisure passengers. With no regulatory distinction between scheduled and charter airlines within the EU, and the traditional business models constantly evolving, even less differentiation between the scheduled and charter airline models could be expected in the future.

Competition between Regional Airports

The effects of airport competition are bringing more services and pressure on charges

20 With the recent sale of Exeter and Leeds Bradford, larger UK regional airports are virtually all now wholly/substantially privately owned, except for those in the Manchester Airport Group. Following a market study into the UK airport sector by the OFT, BAA's UK airports[2] are currently the subject of an inquiry by the Competition Commission, which is now considering whether there are any features of a market in which BAA operates that prevent, restrict or distort competition. The OFT's market study recognised the potential for competition between airports to deliver benefits to airport customers.

21 In general, competition between airports – both with neighbouring airports in serving local catchments, and more widely with any airport where airlines might choose to deploy capacity – now seems to be regarded by the industry as a "given". Airports have further intensified their commercial outlook, actively seeking airlines to plug gaps in their route portfolio to give a good mix of destinations, frequency and links to a hub for onward connections. Within this, airports seem to aim for a good spread of scheduled/charter and short/long-haul services, and leisure/business or outbound/inbound passengers.

2. UK airports owned by BAA are Heathrow, Gatwick, Stansted, Southampton, Aberdeen, Edinburgh and Glasgow.

22 Contact between airports and airlines is reported as closer, more frequent, intense and challenging. Contracts setting out commercial agreements between both sides are widespread. Continuing downward pressure on airport charges is also widely reported, suggesting that the rapid expansion of no-frills airlines at regional airports has increased the competitive pressure at regional airports.

Promoting Regional Airports

The challenge for regional airports is to maintain their attractiveness in terms of passenger convenience

23 Regional airports have increasingly been taking steps to improve awareness of the air services they now offer, promoting the airport as the region's gateway and linking with regional development and tourism bodies in marketing the region.

24 While the greater range of destinations available from London airports than at regional airports will tend to attract passengers from further afield, overall, passengers generally have considerably shorter journey times to regional airports than to London airports. For example, whereas only 20% of passengers take 30 minutes or less to reach London airports, the proportion is 33% at Manchester and 63% at Edinburgh.

25 The challenge for regional airports will be to maintain their attractiveness to passengers in terms of their proximity, and the speed, convenience and lack of congestion they can offer relative to, for example, Heathrow or Gatwick, while increasing the choice of routes and frequencies available. In some cases the airport may need to plan for infrastructure development to keep pace with what may be a rapid growth in passengers and a change in the type of services the airport accommodates.

Public Policy Initiatives including Route Development Funds

The conditions governing the use of public funds to kick-start new routes have been significantly tightened to meet EU guidelines on state aid

26 Route Development Funds (RDFs) involve the use of public funding to help to provide a limited "kick-start" to new air services, and to overcome information and perception problems to the benefit of a region's economic development. RDFs in Scotland and Northern Ireland have now run their course. Between 2003 and 2007 the Scottish scheme funded 48 international services (including four to North America and one to Dubai) and 13 domestic services. Five routes were lost with the failure of Duo in 2004, and a further nine have been withdrawn or were never operated. The Scottish Executive believes the scheme has contributed to Scotland's considerably better air connections compared with the position five years ago. The Northern Ireland scheme funded six new international routes between 2004 and 2005, including one to New York, and three domestic routes that have since been withdrawn. Invest NI believe that a number of unfunded routes were also added as a result of the fund stimulating the market, and that overall the scheme has successfully fulfilled its objective of encouraging new air routes to Northern Ireland.

27 While the Scottish and Northern Ireland schemes were running, the European Commission issued guidelines (following its 2004 decision in the Charleroi case) in December 2005 on how state aid and competition rules apply to start-up aid of this kind. The guidelines have had a considerable impact on the two schemes – which were required to be made compliant by June 2007 – in declaring that in order to meet state-aid rules, only routes operated by EU carriers were eligible for funding, and funding for routes from airports with more than 5m annual passengers (such as

Belfast International, Edinburgh, Glasgow and Newcastle) could be considered only in exceptional cases.

28 In 2006 the Commission gave State aid approval for a UK Government scheme governing the operation of RDFs, which allowed similar funds in Wales and North-East England to commence. These schemes agreed to fund ten routes in total, but four have already been withdrawn after a relatively short period. In view of the restrictions imposed by the Commission's guidelines from June 2007, the Welsh scheme is not currently operating and the North-East scheme will not accept applications after 2007. A North-West England fund was announced in 2004, but did not fund any routes and was eventually discontinued. With the terms of their funds' operation also now more restricted by the EU guidelines, Scotland and Northern Ireland are also each reviewing what impact their respective funds have had, and what their future strategy should be. It appears that future initiatives are likely to focus on joint marketing initiatives with airports rather than direct financial support.

29 Public Service Obligations (PSOs) are used to protect certain routes that are vital to the economic development of a region and that cannot otherwise sustain a commercial air service. They allow subsidies to be paid to carriers to operate a route, monopoly rights, and airport slots at a congested airport to be ring-fenced. The UK Government currently imposes PSOs on 25 routes in the Highland and Islands, and on one route within Wales. In addition, the Scottish Executive launched an Air Discount Scheme in 2006 offering subsidised air fares to eligible residents of the Scottish Islands and the far north of the mainland, in lieu of earlier proposals to extend the Scottish PSO network. In 2005 the UK Government issued guidelines on when it would be prepared to use the PSO mechanism to protect regional air access to London. The guidelines noted that a PSO would be considered only when an airline's withdrawal or reduction of a currently operated service reduces the service below an adequate level, and that withdrawal of a service to one London airport would not be enough to trigger consideration of a PSO as long as there is an adequate overall service provided to the London airport system as a whole. No such PSO has been imposed so far.

30 Many of the views expressed in CAP 754 about the suitability and appropriateness of public policy initiatives appear to have been reflected in subsequent developments; for example European Commission guidelines on such initiatives restricting their use to particular circumstances. It appears that while there are potential benefits from targeted intervention in specific cases, it is important that those cases are carefully defined to avoid knock-on effects such as distortions in the market.

Environmental Issues

High on the list of regional airports' priorities; firm conclusions on environmental impact are not possible

31 Environmental issues are increasingly high profile for the aviation industry and are high on the list of priorities for most regional airports. There is a clear legal framework in place in relation to environmental impacts at airports such as noise and air quality, supported by local planning processes. Airport operators themselves are also taking forward environmental initiatives in recognition that mitigation has to go hand in hand with infrastructure development.

32 Although environmental issues are clearly not specific to regional air services, and deducing overall impacts is problematic, the relatively fast growth of regional services does have a range of environmental impacts, both positive and negative, for example:

- overall growth in traffic in regional services would suggest a growing environmental impact;
- however, CAA Passenger Survey data reveals, for example, that on a passenger journey itinerary such as Manchester to North America, where direct long-haul services from the regions have increased, a greater proportion of passengers now use direct flights, potentially reducing the environmental impact associated with surface access travel and with connecting flights.

33 More comprehensive analysis than is within the scope of this study would be needed to build a more sophisticated understanding of the issues and trade-offs in order fully to model the environmental implications.

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Introduction

CAP 754

1 In February 2005 the CAA published a study of UK regional air services (CAP 754)[1]. This was probably the first time that a study of this kind had focused on the subject. Its purpose was "to enhance the evidence base and so enrich the ongoing debate within Government, in the regions and among industry participants about the optimal policy responses to the stated Government aim of encouraging growth of regional airports". As well as including statistical data covering the last 10–20 years that would act as a reference point and was easy to access, along with associated factual information, CAP 754 also examined developing trends and drew some conclusions.

2 The dominant feature of those conclusions was the sustained, substantial growth in UK regional air services in the years preceding the study, in particular in short-haul international services. CAP 754 attributed this growth to three main factors:

- the liberalisation of the EU aviation market in 1993 and the subsequent development of no-frills airlines;
- a shift in the nature of demand, as passengers realised that flying from their local airport at a reasonable price was now a possibility, unlocking latent demand for these services; and
- the more commercial outlook of regional airports, seeking opportunities for growth through attracting new services and increasing the visibility of both airport and region.

3 CAP 754 also looked at other regional air services issues, such as the continued development of air services to London, access to Heathrow and the global network, the alternatives available via hubs outside the UK, and the use of public funds to maintain or kick-start air services.

4 CAP 754 was generally well received. Since its publication, the CAA has found it a useful reference point for its own consultations or policy documents and submissions. The CAA has also observed it being referenced by diverse segments of the industry, regional bodies and competition authorities, suggesting that it has found a relatively wide audience.

Purpose and Coverage of this Update

5 The purpose of this update document is two-fold. First, to bring the figures in CAP 754 up to date so that there can continue to be an easily referenced set of data. The second is to identify whether the strong growth in regional air services that CAP 754 documented has continued and where it might be heading.

6 As with CAP 754, this update does not seek to cover every possible aspect of regional air services, and deliberately focuses on passenger services and not cargo (which can represent particularly significant business for some regional airports). It does, however, try to identify any trends that are either continuing or newly developing, and to explain what it sees as the implications. This updated study remains just a snapshot in time and no doubt the issues will continue to evolve in this fast-moving industry. Throughout the study, "regional" in the context of airports and air services is generally

1. CAP 754 *UK Regional Air Services: a study by the Civil Aviation Authority*, February 2005, which can be downloaded at www.caa.co.uk/cap754.

taken to mean outside the London area. This means that parts of the text referring to UK regions will include, for convenience, Northern Ireland, Scotland and Wales, whereas these would normally be more properly referred to as nations.

7 Overall, the picture is one of continued growth; latest statistics show traffic at regional airports to have exceeded 100m passengers a year[2]. International networks are continuing to develop, and there is evidence of more competition between airlines for what route opportunities remain and between airports for capacity that airlines are looking to place, with consequent benefits for consumers. However, in 2006 and 2007 there has been a general slowdown in UK air traffic growth below its historic rate, particularly on domestic routes. The CAA will be looking more closely at the reasons for this in a separate piece of work.

8 Two aspects of the wider picture stand out as having become more prominent since the CAA's last research. One is the heightened intensity of the airline and airport relationship, and the way airlines seem more prepared to move their resources between routes (and even between airports) to secure the best returns, giving rise to some "churn" in route networks not previously seen. The second is aviation environmental issues, which are the subject of considerable public attention at the time of writing. This update aims to set out the factual background to these issues, and the way the industry and Government are reacting to them, insofar as this can be related specifically to regional air services, rather than air services generally.

9 This update is based on various sources. Primarily it draws on analyses of CAA statistics relating to UK airlines and airports, and the CAA Passenger Survey at UK airports, supplemented by other published sources such as schedule data and news items. In addition, it draws on information gleaned from a series of meetings with key stakeholders, including Government, airlines, airports, devolved administrations and regional development agencies, which has helped to identify key areas for analysis and to provide a different perspective on the issues, including anecdotal evidence, to supplement the CAA's own factual sources.

10 The need to limit the scope of the update to manageable proportions dictated that interviews were confined to areas of the UK where there appeared to be particular issues of interest, or that were not covered in earlier research. Therefore not every airport or region was contacted. The CAA wishes to express its thanks to those who gave their time to be interviewed. The Channel Islands and the Isle of Man (which are outside the EU single market) have again been omitted from the more detailed elements of the updated study, although the obvious importance of air services to them is recognised.

11 As explained in CAP 754, some of the issues identified in this study may be important to a particular region to a greater or lesser extent, and not every issue may have been identified where these are region-specific. This will, for example, tend to be the case for regions such as those in Northern Ireland or northern Scotland, where there is a greater emphasis on public intervention in support of air links to more distant points.

12 The statistical data in the updated study generally focuses on the period from 1990 onwards, mainly to show the effect of progressive liberalisation of the European market. Where appropriate, such as the overview in Chapter 1, the data goes back a little further. Data shown as 2004 in CAP 754 was necessarily based on the year ending November 2004, this being the latest data available at the time of publication. In this update the figures for 2004 have been updated to the calendar year 2004 and therefore some minor differences in figures will be apparent.

2. For the year ending August 2007.

Related Work

13 The CAA has also been involved in a considerable amount of work on airport competition since CAP 754 was published, which has helped its understanding of the issues surrounding regional airports. The Government is currently considering whether Manchester and Stansted airports should be de-designated for the purposes of price regulation on grounds that include airport competition having developed to the point where regulation is no longer necessary[3]. The development of competition between regional airports was a theme that emerged from the findings of CAP 754.

14 Furthermore, shortly before the CAA embarked on this update, the OFT announced a market study of UK airports, and in March 2007 confirmed that it had decided to refer the supply of airport services by BAA in the UK to the Competition Commission (CC). The CC inquiry is currently underway. The OFT's market study noted that they received no submission concerning a lack of competition between airports other than those owned by BAA.

Regional Economic Context

15 Chapter 1 of CAP 754 began with some general commentary on the structure of the UK economy and the regional economic development agenda. While the study explored these issues from an aviation-specific perspective, it explained the importance of setting any discussion in the context of the underlying structure of the UK economy. It commented on the respective roles played by London (as the capital city, a major international financial centre and more important in terms of its contribution to the national economy than many other European capital cities) and the different regions, and the implications of this for the structure of air services arising from the underlying economic drivers of demand, for both business and leisure markets.

16 Over the last ten years there has been an increasing focus on the role of regional and local bodies in support of regional economic development, regeneration and productivity. In some cases this intervention will be of a financial nature, for example in supporting new air services. Chapter 7 of this study considers such public policy initiatives and the constraints they operate within. While there may in some cases be merit in this sort of intervention by government bodies – and features particular to some regions, for example geographic peripherality, may strengthen this case – CAP 754 also pointed to the success of the development of the aviation market within Europe, commercially and largely without government intervention, once regulatory restrictions had been removed. This updated study finds that the increasingly competitive environment outlined in CAP 754 has, if anything, intensified in the UK, that this appears to be for the benefit of the customers of air services, and that we can expect this picture to continue into the future.

17 The Government's most recent publication on regional development[4] – although not looking at aviation in particular – emphasised the importance of good connectivity for the regions through developing strong transport networks, and the roles regional and local bodies could play in this. In the course of research for this study, it has become apparent that joint initiatives by regional bodies and airports, as reported in *CAP 754*, continue. There seems to be a general recognition that a cooperative approach and ideally a strong united branding for the region can successfully raise its profile. This might, for example, take the form of embedding regional airports in local strategies on transport and inbound tourism, linking the improvements in connectivity and inbound visitor flows to regional economic development, including inward

3. www.dft.gov.uk/consultations/
4. *Review of sub-national economic development and regeneration*, July 2007 www.hm-treasury.gov.uk.

investment. Some airports and regional bodies mentioned the need to work with local businesses to establish what their transport needs were. In terms of inbound traffic, some mentioned Germany, Scandinavia and Eastern Europe, for example, as potential markets that could be developed. The region and the airport then had the challenge of conveying these regional development messages to airlines and working with them on the potential for new routes.

18 In researching this report we were consistently told of the importance of regional airports and air services to the regional economy. However, it is difficult to prove a direct causal link between regional economic growth and any associated growth in regional air services, and we have not attempted to do so in this report. Others who have looked at this have come to differing conclusions. For example, a 2005 report on the economic impact of Bristol airport[5] claimed that airports were not good for local economic activity because the air services encouraged the local population to travel abroad to the detriment of indigenous tourism. This could be contrasted with, for example, a 2006 report by Oxford Economic Forecasting[6], which found that access to air services is an important factor influencing where companies locate their operations in the UK.

19 Such reports may look at different and discrete aspects of air services. To obtain a more comprehensive picture in the context of regional airports, it would be necessary to consider the importance and impact of air connections between the nations and regions of the UK and the rest of the country, Europe and the World, including both direct and indirect benefits. Such an analysis is outside the scope of this study, but this study does provide the factual basis for others who wish to look at the broader economic impact of the trends identified here.

Structure of this Study

20 This study is divided into eight chapters which cover topics as set out below:

Chapter 1 **Overview of air services at UK regional airports**: a high-level summary of traffic data.

Chapter 2 **International services from UK regional airports**: an analysis of traffic and network development to international destinations, including long-haul and charter services.

Chapter 3 **Services within the UK**: an analysis of traffic development and routes within the UK, in particular to London.

Chapter 4 **Connections to the global network**: an analysis of travel patterns of passengers connecting via London or hubs outside the UK.

Chapter 5 **Developments in regional services – the airline perspective**: a commentary on airline developments including traffic and competition issues.

Chapter 6 **Developments in regional services – the airport perspective**: a commentary on airport developments including traffic, ownership and competition issues.

Chapter 7 **Public policy initiatives**: a commentary on public service obligations, route development funds and the Scottish air discount scheme.

Chapter 8 **Environmental issues**: a commentary on the growing profile of environmental issues, the legal framework within which airports and airlines must operate, and some issues for consideration in relation to the environmental impact of the growth in regional air services.

5. *The Economic Impact of Bristol International Airport, A Report for the Parish Councils Airports Association*, Professor J Whitelegg, October 2005, www.nobristolairportexpansion.co.uk/files/whitelegg_report.pdf.
6. *The Economic Contribution of the Aviation Industry in the UK*, Oxford Economic Forecasting, October 2006, www.oxfordeconomics.com/Free/pdfs/Aviation2006Final.pdf.

Chapter 1 Overview of UK Regional Air Services

Chapter Summary

This Chapter contains a high-level summary of traffic data on UK regional air services, and finds that:

- Over the period 2000–2006, regional airports have continued to grow more strongly, at an average of 7% each year, than London airports, which have averaged 3%.
- Traffic growth at regional airports was, however, noticeably less strong in 2006 (+4%) compared with the three previous years (around 9–11% annually), a trend which is continuing into 2007. Some airports nevertheless continue to show consistently strong growth.
- International scheduled traffic has shown the strongest growth, with passenger numbers doubling between 2002 and 2006, and growth rates of more than 20% each year between 2003 and 2005, reducing to 10% in 2006.
- International charter traffic is in slight decline; with the big tour operators consolidating and a trend away from the traditional package holiday to self-organised holidays using scheduled flights, this trend could be expected to continue.
- The growth rate on domestic routes has been declining, from 11% in 2003 to 0.2% in 2006. There has been a marked fall in domestic traffic to Heathrow recently, which reduced by 4% in 2005, and by 10% in 2006. Traffic growth between UK regional airports has also declined to 4% in 2006, after a period of much stronger growth.

Traffic Development at Regional Airports[1] since 1980

1.1 Chapter 1 of CAP 754 set out some high-level tables showing in broad terms how traffic at regional airports had developed in comparison with London airports, including separate tables for domestic, international[2], scheduled and charter services. These tables are updated below.

1.2 Between 1980 and 2006, total traffic at UK airports grew from 58m to 235m passengers, an average annual growth rate of 5.5% (Table 1.1). Bearing in mind that there will be variances between regional airports (which are set out in Table 1.6 and later Chapters), between 1980 and 2006 traffic at UK regional airports overall grew at a rate of 6.7% per annum, faster than traffic at London airports (4.9%).

1. For the purposes of the statistics used in these tables, the term "UK regional airport" excludes the five London airports (Heathrow, Gatwick, Stansted, Luton and London City), Southend, and the Channel Islands, but includes the Isle of Man. See Table 1.6 for a full list.
2. Throughout this study, "international" means services to airports outside the UK, Channel Islands and Isle of Man.

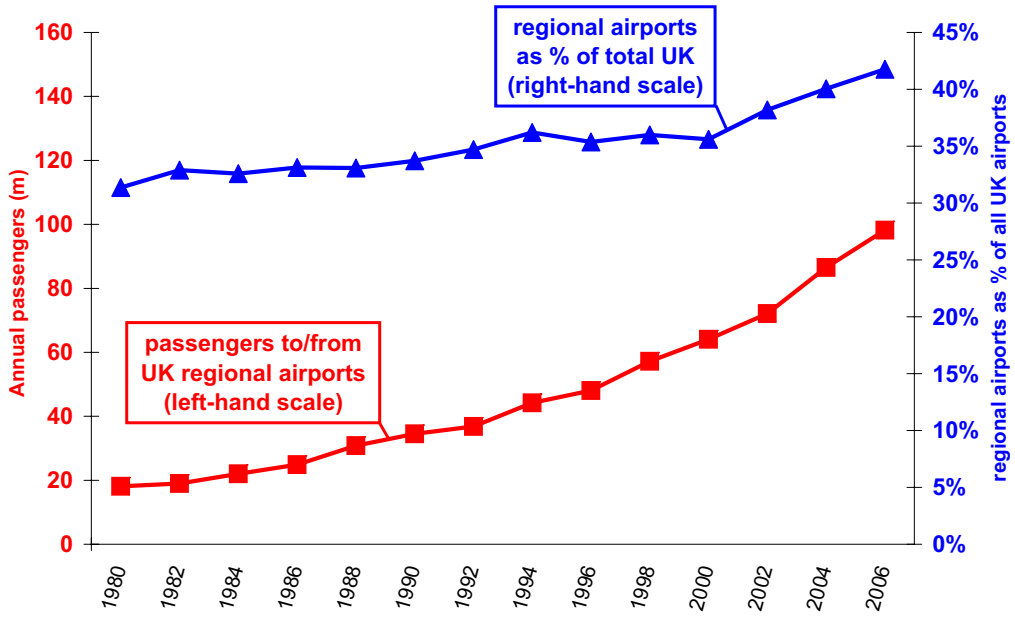
Table 1.1 Traffic at UK airports 1980–2006

	Passengers (m)				*Average annual growth rate*				
	1980	*1990*	*2000*	*2006*	*1980–1990*	*1990–2000*	*1996–2006*	*2000–2006*	*1980–2006*
London airports	39.7	67.9	115.8	136.9	5.5%	5.5%	4.5%	2.8%	4.9%
Regional airports	18.1	34.5	64.1	98.2	6.7%	6.4%	7.4%	7.4%	6.7%
Total	57.8	102.4	180.0	235.1	5.9%	5.8%	5.6%	4.6%	5.5%
Regional share of total	31%	34%	36%	42%					

Source: CAA airport statistics, terminal passengers at all reporting UK airports (excludes Channel Islands).

1.3 The proportion of total UK traffic formed by regional services has therefore continued to increase. In the last few years this proportion has risen by around one percentage point each year – 42% in 2006 compared with 36% in 2000 (Figure 1.1). This is because the annual average growth rate at regional airports has remained strong over this period at 7.4% compared with 2.8% at London airports. As CAP 754 noted, London Heathrow has become increasingly congested over this period, capping its growth potential, while no-frills carriers have expanded rapidly at other London airports and at regional airports.

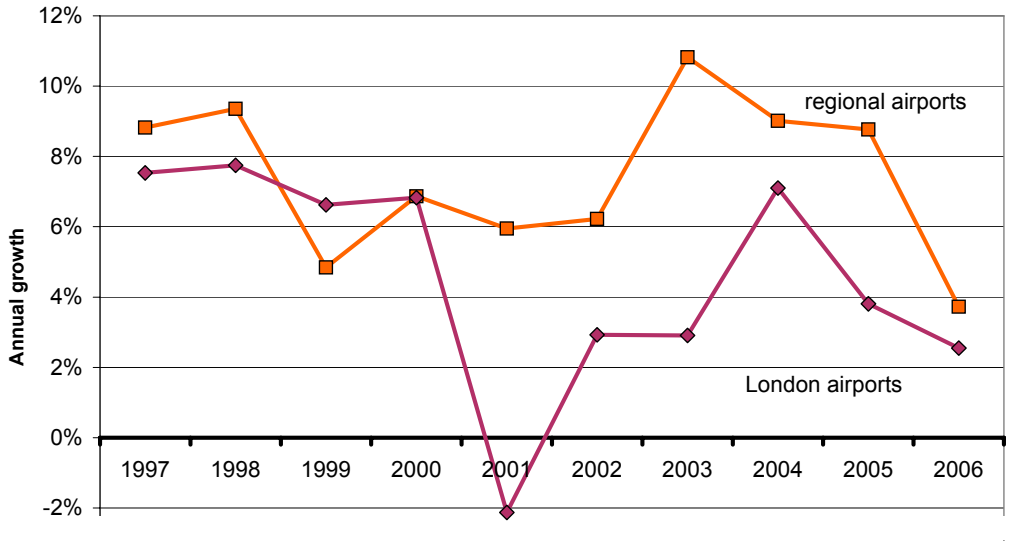
Figure 1.1 Total traffic to/from London and regional airports 1980–2006



Source: CAA airport statistics, terminal passengers at all reporting UK airports (excludes Channel Islands).

1.4 Traffic data for individual years reveals that annual traffic growth on regional routes was particularly strong between 2003 and 2005 at around 9% to 11% annually. However, in 2006 there was a slowing in growth to less than 4%, some way below the historic annual averages shown in Table 1.1. This is mirrored on London routes which saw growth decline in both 2005 and 2006 (Figure 1.2), and this trend is continuing in 2007.

Figure 1.2 Annual traffic growth at London and regional airports 1997–2006



Source: CAA airport statistics.

Domestic traffic

1.5 Domestic traffic makes up just over a fifth of the throughput at UK airports. Historically, much of it was carried on routes connecting London and the regional airports, which explains the relatively unchanged proportions of London and regional domestic traffic between 1980 and 2000 (Table 1.2). However, more recently there has been an upsurge in the number of region-to-region passengers, resulting in the proportion of UK domestic traffic starting or finishing at a London airport falling to 30% by 2006, compared with 37% in 2000. (In these statistics, domestic passengers are counted twice, once as a departing passenger and once as an arriving passenger, so that many of the 15m domestic passengers at London airports in 2006 are also counted in the 35m regional total[3].)

Table 1.2 Domestic traffic at UK airports 1980–2006

	Passengers (m)				***Average annual growth rate***				
	1980	*1990*	*2000*	*2006*	*1980–1990*	*1990–2000*	*1996–2006*	*2000–2006*	*1980–2006*
London airports	5.2	9.1	13.8	14.9	5.8%	4.3%	3.0%	1.3%	4.1%
Regional airports	9.7	15.9	23.5	34.8	5.1%	4.0%	6.0%	6.8%	5.0%
Total	15.0	25.0	37.3	49.7	5.2%	4.1%	5.0%	4.9%	4.7%
Regional share of total	65%	64%	63%	70%					

Source: CAA airport statistics, terminal passengers at all reporting UK airports (excludes Channel Islands).

1.6 At the time CAP 754 was published, domestic routes had seen healthy annual growth rates of 11% and 8% in 2003 and 2004[4] respectively. This fell to 6% in 2005 and to only 0.2% in 2006. Further analysis reveals that within these figures, growth on

3. These statistics include the Channel Islands (and some very small airports, such as some in the Highlands and Islands) as a domestic destination for UK regional airports but do not include the statistics for the Channel Islands (or very small) airports themselves. So a passenger flying, say, from Southampton to the Channel Islands is only counted once (at Southampton) whereas other domestic passengers are counted twice.

region-to-region routes has been particularly strong, albeit gradually declining from 21% in 2002 to 14% by 2005, and to only 4% in 2006. Growth on domestic routes to London has also fallen and is now negative; traffic levels fell by 2% in 2005 and by 4% in 2006, compared with growth of 5% and 2% in 2003 and 2004 respectively. Domestic traffic to Heathrow fell more sharply, by 4% in 2005 and by 10% in 2006, than traffic on services to other London airports, which over this period was relatively unchanged.

International traffic

1.7 CAP 754 noted the significantly higher growth in international traffic at regional airports compared with London. This trend has continued with growth in passenger numbers of 10% in 2005 and 6% in 2006, both of these around twice the growth rates of London. Between 1980 and 2006, international traffic at UK regional airports increased by a factor of 7.5, whereas international traffic at London airports grew by a factor of 3.5 (see Table 1.3). In 1980 international traffic at regional airports was only one quarter of that at London, and in 1990 it was nearly one third; CAP 754 noted that it was just under half that of London in 2004 and Table 1.3 shows that by 2006 it had increased to more than half.

Table 1.3 Total international traffic at UK airports 1980–2006

	Passengers (m)				***Average annual growth rate***				
	1980	*1990*	*2000*	*2006*	*1980–1990*	*1990–2000*	*1996–2006*	*2000–2006*	*1980–2006*
London airports	34.5	58.7	102.1	122.0	5.5%	5.7%	4.8%	3.0%	5.0%
Regional airports	8.4	18.6	40.6	63.4	8.3%	8.1%	8.2%	7.7%	8.1%
Total	42.8	77.4	142.7	185.4	6.1%	6.3%	5.8%	4.5%	5.8%
Regional share of total	20%	24%	28%	34%					

Source: CAA airport statistics, terminal passengers at all reporting UK airports (excludes Channel Islands).

1.8 Tables 1.4 and 1.5 below divide the international market into scheduled and charter passengers. All flights are categorised as one or the other for the purposes of statistical reporting[5]. However, it should be recognised that on short-haul routes there has been some blurring between different airline business models as the market has adapted to no-frills carriers.

1.9 CAP 754 noted that in the 1980s, the growth in the regional traffic share had been fuelled by charter airlines expanding into the regions. In 1973 70% of UK charter passengers were travelling from London airports, whereas in 2006 the proportions were almost exactly reversed. CAP 754 drew attention to the fall of 1.7m in the number of charter passengers travelling from London between 2000 and 2004. This has continued with a further fall of 1.4m by 2006. Charter traffic from regional airports has also now begun to decline, by -3%, -5%, and -1% in 2004, 2005 and 2006 respectively, although it still represents an increasing proportion of the UK charter market because London charter traffic has fallen more quickly (Table 1.4).

1.10 There has been a trend for passengers that might previously have bought a seat-only ticket on charter flights to switch to more frequent and flexible scheduled flights that

4. Data shown as 2004 in CAP 754 was necessarily based on the year ending November 2004 because calendar-year data was not available at the time of publication. In this update calendar-year data is used for 2004. Therefore some minor differences in figures compared with CAP 754 will occur.
5. Scheduled flights are generally categorised as those performed according to a published timetable, where at least some of the capacity of the aircraft is made available to the public without the intervention of a charterer.

are now available, and for passengers that might previously have purchased an inclusive-tour package to arrange their own flights and accommodation separately, which also might involve a switch to a scheduled flight. On this basis, it appears that some charter flights are simply being substituted by scheduled flights following the structural changes in the market that followed the entry of no-frills carriers. This is briefly discussed further in Chapter 5. Industry representatives anticipate that charter flights are likely to decline further following the consolidation in 2007 of the four biggest UK tour operators to two. Further analysis of the charter market appears in Chapter 2.

Table 1.4 International charter traffic at UK airports 1980–2006

	Passengers (m)				***Average annual growth rate***				
	1980	*1990*	*2000*	*2006*	*1980–1990*	*1990–2000*	*1996–2006*	*2000–2006*	*1980–2006*
London airports	8.1	11.4	13.8	10.7	3.5%	1.9%	-1.4%	-4.2%	1.1%
Regional airports	7.1	12.5	23.3	22.7	5.8%	6.4%	2.2%	-0.4%	4.6%
Total	15.1	23.9	37.1	33.5	4.6%	4.5%	0.9%	-1.7%	3.1%
Regional share of total	47%	52%	63%	68%					

Source: CAA airport statistics, terminal passengers at all reporting UK airports (excludes Channel Islands).

1.11 CAP 754 noted that the growth in the share of international scheduled services at regional airports began somewhat later than for charter services, when the first steps to remove restrictions on market entry and capacity were taken in the mid 1980s as a prelude to full liberalisation of the EU market. The substantial growth in international scheduled passengers at regional airports has continued since CAP 754 was published (Table 1.5). Since 1980 the regional share of UK international scheduled traffic has grown from 5% to 27%, and the volume of international scheduled passengers at regional airports increased by an annual average of nearly 14% – from just 1.3m in 1980 to more than 40m in 2006. Over the last four years the growth in passenger numbers has been particularly spectacular, with an additional 20m passengers travelling, doubling the 2002 figure. Growth in 2006 (10%) was, however, noticeably less strong than in the preceding three years (21–23% each year).

Table 1.5 International scheduled traffic at UK airports 1980–2006

	Passengers (m)				***Average annual growth rate***				
	1980	*1990*	*2000*	*2006*	*1980–1990*	*1990–2000*	*1996–2006*	*2000–2006*	*1980–2006*
London airports	26.4	47.4	88.3	111.3	6.0%	6.4%	5.6%	3.9%	5.7%
Regional airports	1.3	6.2	17.3	40.7	16.9%	10.8%	14.7%	15.3%	14.2%
Total	27.7	53.5	105.6	151.9	6.8%	7.0%	7.4%	6.2%	6.8%
Regional share of total	5%	12%	16%	27%					

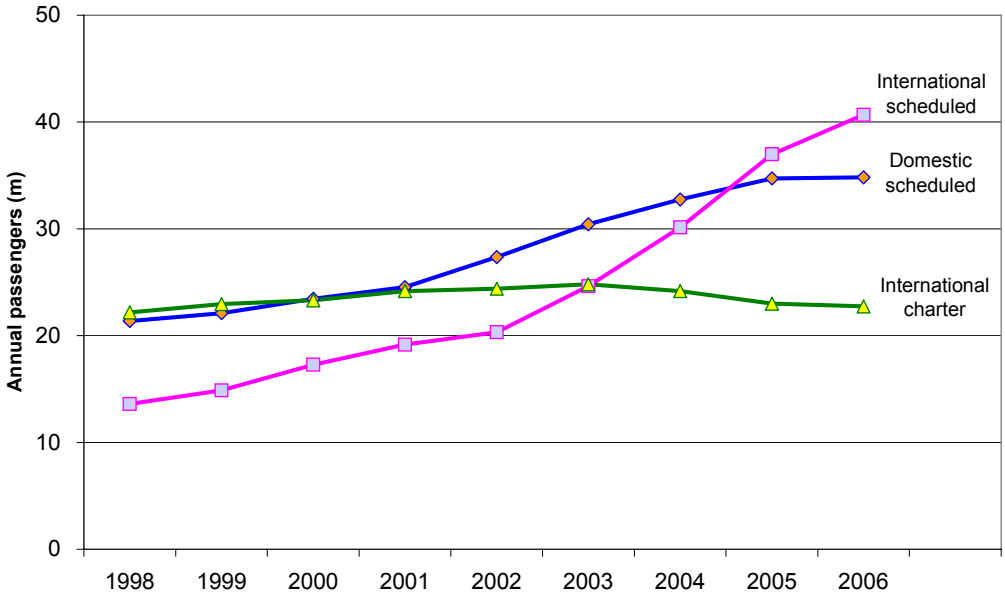
Source: CAA airport statistics, terminal passengers at all reporting UK airports (excludes Channel Islands).

Summary of recent trends

1.12 Figure 1.3 shows the recent shift that has occurred in services from regional airports as a result of the growth in international scheduled services, and the fall-off in growth in the charter, and more recently domestic, markets. The main regional airports (with

some notable exceptions) have gone from being primarily charter and/or domestic airports to a mix of international scheduled, charter and/or domestic. The strongly growing international scheduled traffic exceeded charter traffic in 2003 and domestic traffic in 2005.

Figure 1.3 Traffic on UK regional air services by sector 1998–2006



Source: CAA airport statistics.

Traffic development at individual UK airports

1.13 Table 1.6 below shows how traffic has developed at individual UK airports between 1990 and 2006, updating Table 7.1 in CAP 754. Among the regional airports, Manchester has consistently had by far the greatest traffic, with 22m passengers in 2006, with a growth rate over this period comparable to the London airports in aggregate. Birmingham, Glasgow and Edinburgh were the next three biggest regional airports in 1990. This remained the case in 2006, with total traffic in the range 8.6m–9.1m and Edinburgh showing the fastest growth. Belfast International was the fifth-biggest regional airport in 1990, and is now seventh-biggest at 5.0m with most of its growth occurring in the last 10 years (although Belfast would be fourth if Belfast City traffic were included). The table also shows four rapidly growing airports, Bristol, Newcastle, Liverpool and East Midlands, with total traffic at each airport in 2006 in the range 4.7m–5.7m compared with only 0.5m–1.6m in 1990. Despite the lower growth rate experienced by regional airports overall in 2006, among the larger airports with more than 1m annual passengers, Aberdeen, Bristol, Cardiff, East Midlands and Liverpool all achieved growth of between 10% and 13% in 2006.

1.14 The make-up of traffic at each airport in terms of international or domestic, and scheduled or charter passengers, can vary widely from airport to airport. Table 2.6 in Chapter 2 sets out the number of international passengers at each airport, and how much of this is scheduled or charter. Chapter 6 considers in more detail developments in regional air services from the airport perspective.

Table 1.6 Traffic development at UK airports 1990–2006

Passengers (000)	1990	1992	1994	1996	1998	2000	2002	2004	2006
London area airports									
Gatwick	21,043	19,841	21,041	24,099	29,031	31,948	29,518	31,392	34,080
Heathrow	42,635	44,968	51,360	55,727	60,356	64,277	63,035	67,109	67,339
London City	230	186	477	724	1,358	1,581	1,602	1,675	2,358
Luton	2,679	1,943	1,801	2,406	4,110	6,164	6,474	7,520	9,415
Southend	119	16	---	4	3	3	5	3	30
Stansted	1,156	2,332	3,252	4,808	6,830	11,858	16,049	20,907	23,680
Total London airports	67,862	69,286	77,931	87,768	101,688	115,831	116,684	128,606	136,903
London Heliport	7	4	5	5	5	6	---	---	---
Other UK airports									
Aberdeen	1,947	2,153	2,108	2,333	2,620	2,454	2,549	2,634	3,163
Barra (a)	---	---	5	8	9	8	8	9	10
Barrow-in-Furness	---	1	---	---	---	---	---	---	---
Belfast City	548	612	1,227	1,360	1,313	1,288	1,890	2,091	2,106
Belfast International	2,294	2,241	2,038	2,351	2,626	3,127	3,551	4,403	5,015
Bembridge	---	31	---	---	---	---	---	---	---
Benbecula	32	33	36	36	35	34	32	30	33
Biggin Hill (b)	---	---	4	3	3	2	1	1	---
Birmingham	3,492	3,652	4,783	5,351	6,607	7,492	7,911	8,797	9,056
Blackpool	137	109	79	84	93	107	70	266	553
Bournemouth	137	105	107	157	308	271	392	493	961
Bristol	774	1,026	1,275	1,394	1,814	2,124	3,415	4,603	5,710
Cambridge	30	23	31	28	17	20	1	3	1
Campbeltown (c)	---	---	---	6	9	8	8	8	9
Cardiff Wales	593	653	990	1,001	1,228	1,498	1,416	1,873	1,993
Carlisle	1	---	1	---	---	---	---	---	---
City of Derry (Eglinton)	41	28	34	64	49	163	199	234	342
Coventry	17	9	2	1	1	2	4	462	610
Doncaster Sheffield (d)	---	---	---	---	---	---	---	---	899
Dundee	5	13	14	13	9	49	45	51	51
Durham Tees Valley	342	310	356	429	643	740	669	788	900
East Midlands	1,280	1,250	1,613	1,821	2,135	2,227	3,233	4,375	4,721
Edinburgh	2,492	2,538	2,996	3,808	4,542	5,494	6,911	7,992	8,607
Exeter	217	167	196	202	240	317	336	614	971
Glasgow	4,286	4,669	5,454	5,470	6,477	6,920	7,769	8,557	8,820
Gloucestershire	5	8	3	2	---	---	---	---	---
Hawarden	1	1	---	---	4	2	2	29	---
Humberside	135	151	246	274	336	443	490	531	516

Table 1.6 Traffic development at UK airports 1990–2006 (continued)

Passengers (000)	1990	1992	1994	1996	1998	2000	2002	2004	2006
Inverness	216	213	260	284	320	337	363	520	671
Islay	21	18	18	19	20	20	21	21	26
Isle of Man	532	460	500	584	692	698	718	762	783
Isles of Scilly – St Mary's	115	102	110	125	132	128	146	141	128
Isles of Scilly – Tresco	19	20	21	26	34	37	42	43	42
Kent International	19	6	3	1	1	6	---	101	10
Kirkwall	106	105	89	91	81	85	98	102	117
Lands End (St Just)	---	---	---	---	---	---	---	26	23
Leeds Bradford	834	699	810	1,051	1,397	1,573	1,526	2,368	2,787
Lerwick (Tingwall)	13	5	4	4	4	2	2	2	4
Liverpool	474	445	439	618	867	1,978	2,835	3,352	4,962
Lydd	35	5	---	---	2	1	3	4	3
Manchester	10,146	11,678	14,311	14,467	17,201	18,349	18,618	20,969	22,124
Newcastle	1,555	1,942	2,411	2,425	2,913	3,145	3,387	4,708	5,407
Newquay (e)	---	---	---	---	---	---	---	253	343
Norwich	206	183	208	253	314	365	424	444	745
Penzance Heliport	97	90	89	106	120	126	136	129	94
Plymouth	123	68	76	98	110	113	76	106	77
Prestwick	95	11	135	522	558	905	1,486	2,159	2,395
Scatsta	13	14	12	79	104	240	246	229	255
Sheffield City (f)	---	---	---	---	46	60	13	---	---
Shoreham	---	2	3	3	2	1	---	4	5
Southampton	489	404	469	544	721	854	788	1,531	1,913
Stornoway	83	86	94	94	93	88	93	111	120
Sumburgh	432	406	442	397	285	119	127	108	128
Swansea (g)	---	---	---	---	---	---	---	18	---
Tiree	5	5	5	5	5	5	5	6	7
Unst	83	80	86	18	2	1	---	---	---
Wick	32	32	27	27	21	19	18	16	20
Total other UK airports	34,549	36,832	44,222	48,036	57,162	64,048	72,077	87,075	98,236
Total reporting UK airports	102,418	106,123	122,158	135,809	158,855	179,885	188,760	215,681	235,139
Channel Islands airports									
Alderney	105	79	84	84	76	74	73	74	77
Guernsey	862	754	783	838	883	879	835	900	865
Jersey	1,867	1,596	1,616	1,624	1,672	1,621	1,455	1,481	1,479
Total Channel Islands airports	2,834	2,429	2,482	2,546	2,632	2,574	2,363	2,455	2,421

Notes: *(a) Barra began reporting April 1994*
(b) Biggin Hill began reporting June 1993
(c) Campbeltown began reporting April 1996
(d) Doncaster Sheffield began reporting March 2005
(e) Newquay began reporting January 2004
(f) Sheffield City began reporting June 1997
(g) Swansea ceased reporting April 1991 and began reporting during 2004
--- indicates that the airport did not report statistics or had less than 1,000 passengers

Source: *CAA airport statistics.*

Comparison with other EU States

1.15 Eurostat data allows a high-level comparison between EU Member States showing the rate of annual passenger traffic growth at individual airports. Table 1.7 compares data for 2003 and 2006 for 10 Member States, aggregating traffic at the main centre or hub airports and traffic at other airports to illustrate different growth rates. This comparison is based on a limited set of airports and therefore can give an indication only.

Table 1.7 Comparison of traffic growth at regional and non-regional airports in 10 EU Member States, 2003–2006

Country	Regional airports	Non-regional airports
Czech Republic	92%	54%
Finland	16%	25%
France	11%	16%
Germany	28%	19%
Ireland	43%	33%
Italy	25%	25%
Portugal	-9%	27%
Spain	23%	27%
Sweden	10%	18%
UK	23%	14%

Notes: *Non-regional airports in Germany are taken as Frankfurt and Munich, in Italy, Milan and Rome, and in the UK as Heathrow, Gatwick, Luton, Stansted, London City and Southend.*

Source: *Eurostat*

1.16 The table shows that the rate of growth is higher at regional airports in the Czech Republic, Germany, Ireland, Spain and the UK, around the same in Italy, and lower in Finland, France, Portugal and Sweden.

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Chapter 2 International Services from UK Regional Airports

Chapter Summary

This Chapter contains an analysis of traffic and network development from regional airports to international destinations, including long-haul and charter services, and finds that:

- The number of UK regional airports (excluding Birmingham/Manchester) offering daily (or more) flights to five or more international destinations increased from 4 in 1990 to 11 in 2004 and to 15 in 2006. Of these 15, 6 offered daily flights to 12 or more international destinations. Many of these destinations are key business centres and network hubs.
- International traffic at Birmingham and Manchester, where there have historically been more established international networks, has continued to grow, but at a rate closer to that of London airports in aggregate. While the number of destinations served has also greatly increased, there has been a decline in the number of flights from these airports to some major international business destinations in the last two years, in part as a result of the restructuring and acquisition of BA Connect.
- More recent additions to international networks from regional airports have tended to be low-frequency routes; in terms of routes and setting up a regional airport base, it seems that most "low-hanging fruit" has been taken. Routes operated around three or four times a week now form around one-third of international scheduled services, compared with one-sixth in 2002.
- There are indications that airlines are inclined to suspend poorly performing routes sooner.
- The number of long-haul scheduled flights from UK regional airports has trebled in the last 10 years, with more than half operating from Manchester. Nearly half of UK long-haul charter flights operate from a UK regional airport.
- In 2006 there were daily scheduled services to 18 US destinations from UK regional airports compared with 14 in 2004 and 3 in 1990. The use of single-aisle (narrowbody) aircraft, smaller than would usually be used on long-haul flights, seems to have played a part in the expansion of these new US routes, by minimising the airline's exposure on new and developing routes.

2.1 Chapter 1 showed that UK regional airports are now handling a much greater number of international passengers, particularly on scheduled services, and that the growth recorded in CAP 754 has continued.

Changes in Travel Patterns

2.2 Chapter 2 of CAP 754 noted that UK residents travelling abroad for leisure purposes were by far the fastest-growing component of international traffic at UK airports generally, rising from 53% in 1993 to 61% in 2003 according to International Passenger Survey (IPS) data. This data also suggests that, on average, passengers are tending to take shorter holidays. This can be explained by a rapid expansion in

passengers travelling independently (that is, not for a traditional holiday but for other reasons, for example a short break, travel to a holiday home, migrant workers returning home, or attending a spectator sport) or to visit friends and relatives (VFR). Leisure passengers on traditional inclusive tour trips accounted for only about 40% of total UK-resident leisure passengers.

2.3 The latest IPS data reveals that, since 2003, the proportion of UK-resident leisure travellers has slipped to 58% of international traffic at UK airports. This decline is due in part to the growth of non-UK resident holiday and VFR travel (both of which have seen passenger numbers grow by over 40% during the three years), a slowdown in the growth of UK-resident holiday travel, and a fall in the number of passengers on traditional inclusive tour trips (down to only 32% of total UK-resident leisure passengers in 2006). International VFR travel by UK residents has continued to grow strongly, rising from about 7m passengers in 2003 to more than 10m in 2006.

Growth in International Services

2.4 Table 2.1 shows the growth in traffic at the six airports with the most international scheduled passengers in 2006. This shows a similar picture to that in CAP 754, with Birmingham and Manchester still handling substantially more international scheduled passengers than other regional airports. Growth at Birmingham and Manchester, which already had more established international networks, was closer to that of London airports in aggregate than the very strong growth at some regional airports. For example, while Liverpool had less than half the number of international scheduled passengers at Birmingham in 2004, by 2006 its growth had been so strong that it was not far behind Birmingham (When Birmingham's domestic and charter traffic are added, it handled around twice the total traffic at Liverpool in 2006.).

Table 2.1 International scheduled traffic at top six regional airports 1990–2006

	Passengers (m)			% increase	
	1990	**2004**	**2006**	**1990–2006**	**2004–2006**
London	47.2	100.7	111.2	136%	10%
Regional Airports	5.8	30.0	40.5	598%	35%
Top six regional airports in 2006					
Manchester	2.6	8.6	10.0	284%	17%
Birmingham	1.3	4.5	4.9	293%	9%
Liverpool	0.1	2.1	3.8	3289%	81%
Bristol	0.1	2.0	2.9	2036%	45%
East Midlands	0.2	2.0	2.5	1430%	25%
Edinburgh	0.2	1.7	2.4	1339%	41%

Notes: *The top six regional airports are those with the greatest number of international scheduled passengers in 2006.*

Source: *CAA airport statistics.*

Developments in International Services from Manchester

2.5 CAP 754 noted the strong growth in traffic at Manchester (both scheduled and charter) since 1990. There had also been a substantial increase in the number of international scheduled destinations offered. Tables 2.2 and 2.3 below update the position in respect of passenger numbers and route network respectively.

2.6 Table 2.2 summarises the traffic growth since 1990 and shows how it has developed more recently. It can be seen that international short-haul traffic rose and fell back, whereas long-haul traffic continues to build strongly. The shift from charter to scheduled flights is also apparent.

Table 2.2 International traffic at Manchester 1990–2006

	Passengers (m)					
	1990	**1996**	**2002**	**2004**	**2005**	**2006**
Short haul	7.0	10.0	13.3	14.2	14.8	14.5
Long haul	0.9	1.8	2.5	3.5	3.8	3.9
Scheduled	2.6	4.2	6.4	8.6	9.7	10.0
Charter	5.3	7.6	9.3	9.0	8.9	8.4
Total	7.9	11.8	15.7	17.6	18.6	18.5

Notes: *Short haul and long haul includes scheduled and charter passengers. The definition of short and long haul is based on that in the CAA's publication CAP 771, referred to later in this Chapter.*

Source: *CAA airport statistics.*

2.7 Table 2.3 shows how the international scheduled network at Manchester has developed, updating the similar table in CAP 754.

Table 2.3 International scheduled flights from Manchester 1990–2006

	number of flights annually				
	1990	**1996**	**2002**	**2004**	**2006**
Paris	3,266	6,260	7,083	7,666	6,765
Amsterdam	4,602	6,558	8,009	6,618	6,119
Dublin	4,793	7,206	7,823	6,901	5,962
Frankfurt	2,982	3,874	4,889	5,834	4,851
Dusseldorf	2,539	3,076	4,162	4,261	4,030
Brussels	2,387	4,212	5,365	3,489	3,483
Milan	1,627	1,223	1,234	1,938	2,511
Zurich	1,345	1,774	3,224	3,034	2,378
Munich	721	2,491	2,559	2,333	2,159
Copenhagen	2,062	2,124	2,559	3,959	1,770
Chicago	725	728	1,458	1,609	1,650
New York (JFK)	709	721	1,157	1,156	1,646
Hamburg	940	609	1,154	1,270	1,639
Hanover	---	694	719	1,243	1,507
Madrid	---	1,021	1,151	1,556	1,246
Geneva	748	680	724	1,551	1,182
Barcelona	634	664	720	1,901	761
Stockholm		1,083	2,248	1,645	1,294
Newark		731	680	733	1,206
Billund		553	1,077	1,082	1,059
Islamabad		---	---	717	792
Connaught		---	---	979	745
Orlando		524		615	741
Lyon		711	799	729	735
Atlanta		732	729	732	726
Vienna		622	833	708	725
Cork		1,617	1,881	1,881	718
Luxembourg		---	726	721	715
Oslo		569	1,213	1,581	553
Basle		1,227	1,804	1,235	
Shannon		1,096	727	722	
Rotterdam		913	1,007		
Malaga			820	2,055	3,710
Alicante			797	2,068	2,687
Prague			809	2,098	2,150
Faro			---	705	1,639
Dubai			739	1,464	1,469
Malta			906	1,052	1,061
Gothenburg			1,644	1,015	1,031
Toronto			500	680	834
Istanbul			---	556	731
Philadelphia			734	727	724
Berlin			716	830	719
Warsaw			616	624	556
Stuttgart			652	1,221	508

Table 2.3 International scheduled flights from Manchester 1990–2006 (continued)

	number of flights annually				
	1990	**1996**	**2002**	**2004**	**2006**
Rome			564	983	---
Nice			748	703	
Washington			578	624	
Oporto			---		
Palma				1,143	1,782
Tenerife				756	1,478
Galway				729	970
Helsinki				646	883
Paphos				555	840
Toulouse				685	687
Doha				---	670
Lahore				587	561
Cologne				831	556
Singapore				524	522
Pisa				735	
Venice				693	
Bergen				514	
Niederrhein				508	
Kuala Lumpur				---	
Budapest					---
Bordeaux					595
Murcia					575
Boston					524
Abu Dhabi					560
Perpignan					500
Almeria					---
Number of destinations	**15**	**29**	**43**	**60**	**57**
Total	**37,141**	**58,499**	**84,489**	**102,932**	**99,921**

Notes: *The number of flights is shown only where there were 500 or more one-way flights (in either direction) over the year, broadly equating to a five times a week round-trip service. This is the basis for the number of destinations served in a given year, but it is not necessarily representative of a given point in time.*

--- signifies between 400 and 499 one-way flights, and destinations with fewer than 400 flights are not shown. The number of destinations with between 250 and 499 flights was 7 (1990), 6 (1996), 11 (2002), 11 (2004) and 18 (2006).

The total number of flights in this table include all routes.

Only non-stop flights are shown, which may omit some significant long-haul destinations served on a one-stop basis.

Source: *CAA airport statistics.*

2.8 Table 2.3 reveals some interesting trends in the 2006 network when compared with 2004 and previous years. The number of scheduled destinations was down slightly from 60 to 57, compared with 15 in 1990. These figures exclude routes that did not achieve 500 one-way flights over the year, because they were either low frequency or operating for only part of the year. If more of those routes are included (those with more than 250 one-way flights over the year), then there is a net gain[1].

1. However, there is a greater possibility that this will double count routes that were not operated simultaneously.

2.9 The number of flights from Manchester to European leisure destinations has increased significantly. However, of the denser routes to key European business destinations, only Milan, Hamburg and Hanover show any significant increase. Amsterdam, Copenhagen, Dusseldorf, Frankfurt, Munich, Paris and Zurich, for example, are all down on 2004, and in some cases these had already declined relative to 2002. Indeed, the total number of scheduled flights in 2006 (including low-frequency services) was down by 3% compared with 2004. Nevertheless, as shown in the previous table (Table 2.2), the number of passengers on international scheduled flights was 17% greater, indicating a substantial increase in average aircraft size and/or load factor[2].

2.10 These changes can probably be attributed to a combination of factors. There has been a widening of choice from neighbouring airports such as Liverpool and Leeds Bradford as networks have expanded there to include European business routes, and this may have had an effect on services from Manchester. There has also been a noticeable shift in the make-up of the based airlines operating from Manchester. BA Connect, which originally focused on "full-service" point-to-point business routes using relatively small aircraft, withdrew a number of routes during restructuring in 2005 and 2006, and has since been acquired by Flybe in 2007 (see Case Study A in Chapter 5). As a result, BA now operates from Manchester only to London and New York, and Manchester lost BA Connect services to Berlin, Geneva, Lyon, Madrid and Vienna. Some of these routes are now being (or were already) operated by other, mostly no-frills carriers, generally with larger aircraft and at higher load factors. Although Flybe has maintained a number of BA Connect routes, it is gradually withdrawing the 50-seat regional jets in favour of larger aircraft. As shown in Table 2.2, charter traffic has been declining and there may have been a switch towards scheduled airlines by leisure passengers who previously travelled on charter flights, as noted in Chapter 1. Jet2 and GB Airways[3] both established a base in 2004–05 largely for new leisure routes, while established low-fare carriers, Monarch Scheduled and bmibaby, increased the scale of their operations.

2.11 Routes to North America generally show a healthy picture, with New York, Newark, Orlando and Toronto all showing recent strong growth. Long-haul routes are discussed further below.

2.12 It is noticeable from Table 2.3 that there are nine destinations that are shown in 2004 but not in 2006, whereas the total number of destinations overall declined by only three in 2006[4]. This points to a greater degree of route "churn". It may confirm a trend identified by some industry representatives that certain airlines are less inclined than before to continue operating a route that does not show promise relatively quickly, particularly if a more profitable opportunity for the resources employed is identified elsewhere.

Developments in International Services from Birmingham

2.13 Table 2.4 below shows how the international scheduled network at Birmingham has developed, updating the similar table in CAP 754.

2.14 The 2006 network shows some similar patterns to Manchester. The number of international scheduled flights overall has fallen by 4% since 2004, and the total in

2. The destinations which have made the biggest contribution to the increase in passengers per movement include Denmark, Germany, Ireland, the Netherlands, Spain and Switzerland, and the cause is both incumbent carriers increasing aircraft size or load factor and the exit of carriers operating smaller aircraft.
3. easyJet announced in October 2007 that it had agreed to acquire GB Airways.
4. If 2006 is compared with 2005, there are 11 destinations that no longer appear, with a reduction in total routes of three. If 2005 is compared with 2004, there are only two destinations that no longer appear, with no change in the total.

2004 was itself a 5% reduction on 2002. The number of destinations (excluding routes that were either low frequency or operating for only part of the year) increased from 13 in 1990 to 34 in 2004[5], and totalled 35 in 2006.

2.15 In 2006 there has been a reduction in the number of flights to some European business destinations compared with 2004, and in some cases 2004 was already down on 2002, while flights to some European leisure destinations have increased significantly. The reasons are likely to be similar to those noted above in that there has been a widening of choice of services from neighbouring airports such as East Midlands, and structural changes in the business models of airlines and the bases they operate from. In terms of scheduled passengers, the biggest carriers operating at the airport in 2006 were Flybe, bmibaby and Monarch Scheduled, whereas in 2004 bmibaby did not operate there and Monarch services were charter flights.

2.16 There is also some evidence of greater route churn similar to that at Manchester, with nine routes not being operated in 2006 that were being operated in 2004, but no decline in the total number of destinations. This compares with only two routes not being operated in 2004 that were being operated in 2002.

Table 2.4 International scheduled flights from Birmingham 1990–2006

	number of flights annually				
	1990	**1996**	**2002**	**2004**	**2006**
Paris	3,575	6,257	7,580	6,660	7,074
Amsterdam	3,233	5,545	6,779	4,114	5,369
Frankfurt	2,070	2,558	4,554	5,011	5,328
Dusseldorf	3,113	3,591	4,086	4,025	4,361
Dublin	3,583	6,607	6,031	6,173	4,183
Brussels	2,736	2,772	6,912	2,690	2,609
Zurich	1,325	623	1,862	1,984	2,077
Munich	711	2,144	3,739	2,171	2,021
Stuttgart	610	1,050	1,673	2,028	1,664
Copenhagen	1,281	1,075	3,954	2,086	1,238
Milan	1,059	1,324	1,716	2,085	1,222
Hamburg	---		1,053	1,086	1,055
Barcelona	731	686	593	1,276	597
Cologne	840				---
Cork		833	1,576	1,456	1,225
Lyon		718	1,208	1,207	1,207
Rotterdam		864	926		
Chicago		730			
New York (JFK)		665			
Basle		618	1,174	1,073	
Billund		550			
Dubai			734	735	1,461
Gothenburg			1,014	1,146	988
Prague			562	881	849
Hanover			584	727	839
Newark			694	1,071	812
Geneva			525	---	798
Madrid			670	724	709

5. CAP 754 recorded 36 in 2004 because this was based on slightly different data for the year ending November 2004.

Table 2.4 International scheduled flights from Birmingham 1990–2006 (continued)

	number of flights annually				
	1990	**1996**	**2002**	**2004**	**2006**
Toulouse			---	601	630
Berlin (Tegel)			1,177		552
Stockholm			1,052	1,108	
Shannon			642	715	
Vienna			636	629	
Rome			562	615	
Malaga				1,090	1,879
Alicante				1,044	1,491
Connaught				700	897
Faro				527	672
Palma				601	612
Murcia				913	524
Islamabad				---	501
Salzburg				607	
Ashkhabad				---	
Perpignan				---	
Nice					673
Tenerife					549
Bordeaux					543
Toronto					542
Amritsar					---
Number of destinations	**13**	**19**	**29**	**34**	**35**
Total	**27,346**	**40,683**	**68,762**	**65,142**	**62,816**

Notes: *The number of flights is shown only where there were 500 or more one-way flights (in either direction) over the year, broadly equating to a five times a week round-trip service. This is the basis for the number of destinations served in a given year, but it is not necessarily representative of a given point in time.*

--- signifies between 400 and 499 one-way flights, and destinations with fewer than 400 flights are not shown. The number of destinations with between 250 and 499 flights was 3 (1990), 2 (1996), 6 (2002), 10 (2004) and 7 (2006).

The total number of flights in this table includes all routes.

Only non-stop flights are shown, which may omit some significant long-haul destinations served on a one-stop basis.

Source: *CAA airport statistics.*

Developments in International Services from other UK Regional Airports

2.17 In 1990, only four UK regional airports other than Birmingham or Manchester offered four or more international scheduled destinations (ignoring low-frequency destinations[6]), and none offered more than five. Table 2.5 below shows the development of route networks at each of these airports since then. By 2004, 11 of these airports were offering five or more such destinations[7] and by 2006, 15 airports

6. Only routes with 500 or more one-way flights over the year are counted, so broadly equivalent to a minimum once-daily service each weekday.
7. The list of destinations in 2004 shown in CAP 754 for some airports is longer than shown here in Table 2.5. The reason is that the 2004 list in CAP 754 was for the year ending November 2004, and to bring it up to date, it also included some (asterisked) recent route additions based on published schedules. Thus where a service was daily but had not achieved 500 one-way flights a year by the end of 2004, it may have appeared in CAP 754 but will not appear in Table 2.5.

were. Indeed, in 2006, six airports were offering 12 or more such destinations (an increase of three compared with 2004).

2.18 The total number of international scheduled routes from UK regional airports in 2006 was more than four times that in 1990 (again ignoring low-frequency routes).

2.19 In showing only routes operating at broadly a daily weekday frequency or more, the aim is to avoid any distortion of the totals from routes operated only at low frequency or which are transient, like ski routes, and which might be seen as comparable to charter flights (which are omitted from the analysis). However, many of the more recent additions to the international networks from regional airports are routes operated at relatively low frequency. This is, perhaps, only to be expected as airlines take up the most obvious route opportunities, leaving thinner routes where there is some demand but not enough to begin a new route at more than a few services a week. It also seems reasonable to assume that frequency on such services would build as each route is developed[8]. Table 2.5 therefore also includes, for each airport, an indication (in square brackets) of the number of routes in each year that were operated at a defined lower frequency[9]. This has the advantage that it also picks up routes which are operated daily but only during the summer season, but it may also increase the risk that it overstates the number of services being operated at any given point in time (because one route may be replaced by another, and at a lower frequency threshold, both may be counted).

2.20 The recent trend of regional airports having a greater proportion of low-frequency international scheduled services is shown in Figure 2.1. The chart shows that around one-third of routes were relatively low frequency in 2006, compared with only one-sixth four years earlier.

8. Although low frequency scheduled routes might be regarded as essentially leisure services, it should be borne in mind that the growth in networks at neighbouring regional airports increases the options for combining the outbound and inbound sectors of different airlines, and if necessary different UK airports, for example Coventry–(Thomsonfly)–Paris–(Flybe)–Birmingham. The switch to one-way pricing by short-haul airlines also facilitates such an itinerary; before the advent of no-frills carriers, combining the services of two airlines would probably have required the purchase of the full interlineable fare.
9. Defined as those with between 250 and 499 one-way flights over the year, so broadly equivalent to a three or four weekly service.

Table 2.5 International scheduled destinations from UK regional airports 1990–2006

	1990	1996	2002	2004	2006
Aberdeen	Amsterdam, Stavanger *[+1]*	Amsterdam, Stavanger, *Bergen, Esbjerg*	Amsterdam, Stavanger, Bergen, Esbjerg, *Dublin [+1]*	Amsterdam, Stavanger, Bergen, Esbjerg, Dublin, *Paris [+1]*	Amsterdam, Stavanger, Bergen, Esbjerg, Dublin, Paris, *Copenhagen, Oslo [+2]*
Edinburgh	Amsterdam, Dublin, Paris *[+1]*	Amsterdam, Dublin, Paris, *Brussels, Copenhagen [+1]*	Amsterdam, Dublin, Paris, Brussels, Copenhagen, *Frankfurt*	Amsterdam, Dublin, Paris, Brussels, Copenhagen, Frankfurt, *Cork, Galway, Prague [+6]*	Amsterdam, Dublin, Paris, Brussels, Copenhagen, Frankfurt, Cork, Galway, Prague, *Alicante, Barcelona, Geneva, Malaga, Murcia, New York (Newark), Palma [+6]*
Glasgow	Amsterdam, Copenhagen, Dublin, Dusseldorf, Paris *[+5]*	Amsterdam, Copenhagen, Dublin, *Brussels, New York(JFK), Toronto [+3]*	Amsterdam, Dublin, *Cork, New York (Newark) [+4]*	Amsterdam, Copenhagen, Dublin, Cork, New York (Newark), *Alicante, Dubai, Malaga, Palma, Toronto [+6]*	Amsterdam, Copenhagen, Dublin, New York (Newark), Alicante, Dubai, Malaga, Palma, Toronto, *Barcelona, Prague, Tenerife [+7]*
Inverness					*[+1]*
Prestwick		*Dublin*	Dublin, *Paris (Beauvais), Brussels (Charleroi), Frankfurt (Hahn), Oslo (Torp)*	Dublin, Paris (Beauvais), Brussels (Charleroi), Frankfurt (Hahn), Oslo (Torp), *Gerona, Gothenburg (Saeve), Milan (Orio), Shannon, Stockholm (Skavsta) [+1]*	Dublin, Paris (Beauvais), Brussels (Charleroi), Frankfurt (Hahn), Oslo (Torp), Gerona, Milan (Orio), Shannon, *Rome (Ciampino) [+9]*
Scotland Total	*10*	*16*	*20*	*35*	*45*
Belfast Int	*[+2]*	*Amsterdam [+1]*	Amsterdam	Amsterdam *[+4]*	Amsterdam, *Alicante, Malaga, Newark, Paris, Prague [+6]*
Belfast City	*[+1]*	*Cork*		*Cork*	Cork
City of Derry				*Dublin*	Dublin
Northern Ireland Total	*0*	*2*	*1*	*3*	*8*
Blackpool		*[+1]*		*Dublin*	Dublin, *Gerona [+1]*
Liverpool	Dublin	Dublin	Dublin, *Amsterdam, Barcelona, Geneva, Madrid, Malaga, Nice, Palma, Paris [+1]*	Dublin, Amsterdam, Barcelona, Geneva, Madrid, Malaga, Nice, Palma, Paris, *Alicante, Basel, Gerona [+3]*	Dublin, Amsterdam, Barcelona, Geneva, Madrid, Malaga, Nice, Palma, Paris, Alicante, Basel, Gerona, *Cologne, Berlin (Schonefeld), Cork, Faro, Granada, Murcia, Oslo (Torp), Pisa, Reus, Riga, Rome (Ciampino), Shannon, Venice (Treviso) [+10]*
Manchester see Table 2.3	15 destinations *[+7]*	29 destinations *[+6]*	43 destinations *[+11]*	60 destinations *[+11]*	57 destinations *[+18]*
North West Total	*16*	*30*	*52*	*73*	*84*
Humberside	Amsterdam	Amsterdam, *Brussels*	Amsterdam	Amsterdam	Amsterdam *[+1]*
Leeds/Bradford	Amsterdam, Brussels, Dublin, Paris	Amsterdam, Brussels, Dublin, Paris	Amsterdam, Brussels, Dublin, Paris *[+1]*	Amsterdam, Brussels, Dublin, Paris, *Alicante, Barcelona, Cork, Malaga, Murcia, Palma, Prague [+3]*	Amsterdam, Brussels, Dublin, Paris, Alicante, Barcelona, Malaga, Palma, Prague, *Faro [+7]*
Doncaster Sheffield					*Alicante, Amsterdam, Dublin, Malaga, Prague [+3]*
Yorks and Humber Total	*5*	*6*	*5*	*12*	*16*
Newcastle	Amsterdam, Brussels, Dublin, Stavanger *[+3]*	Amsterdam, Brussels, Dublin, Stavanger, *Copenhagen, Oslo, Paris [+1]*	Amsterdam, Brussels, Dublin, Stavanger, Paris, *Dusseldorf*	Amsterdam, Brussels, Dublin, Stavanger, Paris, Dusseldorf, *Alicante, Barcelona, Copenhagen, Malaga, Prague [+3]*	Amsterdam, Brussels, Dublin, Paris, Dusseldorf, Alicante, Barcelona, Malaga, Prague, *Berlin (Schonefeld), Geneva, Oslo (Torp), Palma, Rome (CIA) [+10]*
Durham Tees Valley	Amsterdam	Amsterdam	Amsterdam, *Dublin*	Amsterdam, Dublin *[+1]*	Amsterdam, Dublin, *Paris [+4]*
North East Total	*5*	*8*	*8*	*13*	*17*

Table 2.5 International scheduled destinations from UK regional airports 1990–2006 (continued)

	1990	1996	2002	2004	2006
Birmingham see Table 2.4	13 destinations *[+3]*	19 destinations *[+2]*	29 destinations *[+6]*	34 destinations *[+10]*	35 destinations *[+7]*
Coventry	*{+1]*			*Malaga, Palma, Valencia [+7]*	Malaga, *Alicante, Amsterdam, Barcelona, Paris [+4]*
East Midlands	Amsterdam, Dublin, Paris	Amsterdam, Dublin, Paris, *Brussels*	Amsterdam, Dublin, Paris, Brussels, *Alicante, Barcelona, Faro, Malaga, Nice, Palma, Prague [+2]*	Amsterdam, Dublin, Paris, Brussels, Alicante, Barcelona, Faro, Malaga, Palma, Prague, *Cork, Geneva, Murcia, Venice [+7]*	Amsterdam, Dublin, Paris, Brussels, Alicante, Faro, Malaga, Palma, Prague, Geneva, Murcia, Venice, *Berlin(Schonefeld), Cologne, Gerona, Shannon, Rome (Ciampino) [+5]*
Midlands Total	*16*	*23*	*40*	*51*	*57*
Cardiff	Amsterdam *[+1]*	Amsterdam, *Brussels, Dublin, Paris*	Amsterdam, Brussels, Dublin, Paris, *Cork*	Amsterdam, Dublin, Paris, Cork, *Alicante, Malaga [+2]*	Amsterdam, Dublin, Cork, Alicante, Malaga *[+5]*
Swansea			*Dublin*		
Wales Total	*1*	*4*	*5*	*6*	*5*
Bristol	Amsterdam, Brussels, Dublin, Paris, Dusseldorf	Amsterdam, Brussels, Dublin, Paris *[+1]*	Amsterdam, Brussels, Dublin, Paris, *Barcelona, Faro, Frankfurt, Prague, Alicante, Malaga, Munich, Nice, Palma [+1]*	Amsterdam, Brussels, Dublin, Paris, Barcelona, Faro Frankfurt, Prague, Alicante, Malaga, Munich, Nice, Palma, *Venice, Bilbao, Copenhagen, Toulouse [+4]*	Amsterdam, Brussels, Dublin, Paris, Barcelona, Faro, Frankfurt, Prague, Alicante, Malaga, Munich, Nice, Palma, Venice, Toulouse, *Berlin (Schonefeld), Geneva, Hamburg, Madrid, Milan(Malpensa), Murcia, New York(Newark), Rome (Ciampino), Shannon, Zurich [+7]*
Exeter		*Dublin*	Dublin	Dublin *[+2]*	Dublin, *Paris [+5]*
Newquay					*Dublin*
Plymouth		*Cork, Dublin*	Cork	Cork, *Dublin*	
South West Total	*5*	*5*	*14*	*20*	*28*
Bournemouth		*Dublin*	Dublin, *Frankfurt (Hahn)*	Dublin, *Gerona*	Dublin, Gerona, *Alicante, Amsterdam, Malaga [+5]*
Cambridge	Amsterdam	Amsterdam *[+1]*			
Lydd	Paris (Beauvais) Le Touquet		*[+1]*	Le Touquet	*[+1]*
Manston				*[+2]*	
Norwich	Amsterdam	Amsterdam	Amsterdam	Amsterdam	Amsterdam, *Dublin [+4]*
Southampton	Amsterdam, Paris *[+1]*	Amsterdam, Paris, *Brussels [+1]*	Amsterdam, Paris, Brussels, *Dublin [+2]*	Amsterdam, Paris, Brussels, Dublin, *Alicante, Bergerac, Malaga, Murcia, Toulouse [+5]*	Amsterdam, Paris, Brussels, Dublin, Alicante, Bergerac *[+9]*
Southend	Billund, Brussels, Rotterdam *[+1]*				
East/South East Total	*9*	*6*	*7*	*13*	*13*

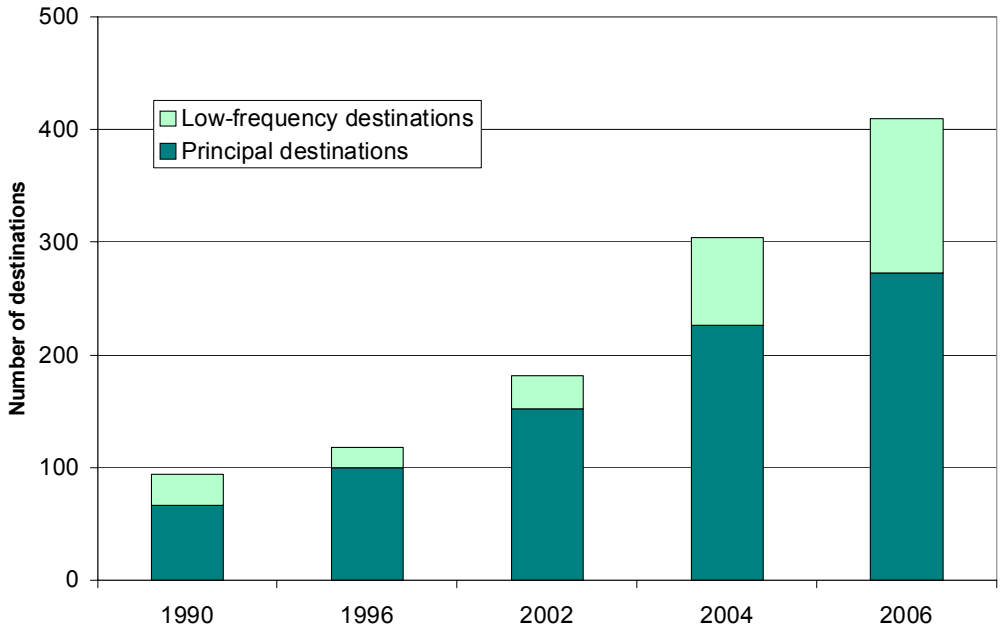
Notes: *Only destinations served by at least 500 one-way flights in that year (broadly equivalent to a five times a week service throughout the year) on a non-stop basis are included, except as shown below.*

Therefore some services which commenced in an earlier year may not appear if they did not achieve 500 one-way flights over the calendar year shown in the table.

In square brackets are shown any additional destinations served by between 250 and 499 flights in that year (broadly equivalent to a three or four weekly service throughout the year, or to a more frequent but seasonal service). These destinations are not included in the totals for each region.

Source: *CAA airport statistics with further information from OAG BACK system.*

Figure 2.1 International scheduled destinations from UK regional airports, 1990–2006



Notes: *Principal destinations are those served by at least 500 one-way flights in that year (broadly equivalent to a five times a week service throughout the year) on a non-stop basis. Low-frequency destinations are those served by between 250 and 499 flights in that year (broadly equivalent to a three or four weekly service throughout the year, or to a more frequent but seasonal service).*

Source: *CAA airport statistics*

Links with Major European Centres

2.21 CAP 754 noted that some of the new international scheduled routes referred to above are linking regional airports with leisure-oriented "sun" destinations like Alicante, Malaga or Palma. Each of these points had services from around 16 or 17 UK regional airports in summer 2007, compared with around 12 or 13 in 2005. Figure 2.2 below therefore repeats the analysis in CAP 754 looking at the "richness" of the new destinations in terms of linking UK regions with selected major population or business centres in Europe, compared with 1994, just after the EU market had been liberalised. It can be seen that in 1994, Manchester already had services to 15 of the 17 cities in the sample. Other airports had far fewer, and the majority of those were to Dublin or the hubs of Amsterdam, Brussels and Paris (11 regional airports had at least daily services to each of these three hubs). By 2007, many more connections had been added to other destinations.

2.22 This analysis differs from Table 2.5 above in that, for these sample city-pairs, it includes the low-frequency services in detail. It is immediately apparent from the diagrams that compared with 1994, many more of the services that have been added are once-daily or less than daily.

2.23 When a comparison is made with 2004[10] (ignoring services shown in CAP 754 as proposed for 2005), the number of more-than-daily services in the sample has increased by eight, the number of daily services has *reduced* by seven, and the number of less-than-daily services has increased by 19, making a net increase in the number of services of 20. (Note that this sample does not cover all regional airports,

10. The diagram for 2004 is not shown but can be found on page 17 of CAP 754; the change between 2004 and 2007 is shown in the final row and column of the 2007 diagram.

and omits some where there has been recent no-frills growth such as Blackpool, Coventry and Doncaster Sheffield.)[11]

2.24 In terms of the international destinations, of this sample of 17, 11 are either unchanged or have gained one or two routes to a UK regional airport when compared with 2004. Barcelona has gained three routes, Warsaw four and Milan six, while Geneva, Prague and Vienna have each lost two routes. Although Prague is still linked to nine UK regional airports, Vienna is now linked to none. Geneva is probably unrepresentative because the 2004 data is from the winter season when ski routes are more prevalent. As in 2004, the European points served from the most UK regional airports are Amsterdam, Dublin and Paris.

2.25 In terms of individual UK regional airports, the only airport losing more than one route is, perhaps surprisingly, Manchester, which has lost Geneva, Madrid and Vienna. In 2004, Manchester was the only airport to have scheduled links with all 17 destinations in the sample, all of which were at least weekdaily. Edinburgh is now the airport with the most routes in this sample, with 15, although four of those are less than daily. As well as Edinburgh, the airports gaining the most routes since 2004 are Belfast, Bournemouth and East Midlands, with three or four in each case.

11. For consistency, the same 19 regional centres are shown as in the equivalent diagram in CAP 754, based on the biggest 21 UK regional airports in terms of total traffic in 2004. The figure therefore omits the new airport at Doncaster Sheffield (which in 2007 has a daily service to Dublin), but includes Humberside. Also, for ease of comparison, East Midlands is shown under "Nottingham" although its name has since changed.

Figure 2.2 International connections between selected UK regional centres and major European centres – 1994 and 2007

1994

	Amsterdam	Barcelona	Berlin	Brussels	Copenhagen	Dublin	Frankfurt	Geneva	Madrid	Milan	Munich	Paris	Prague	Rome	Stockholm	Vienna	Warsaw		More than daily service	Daily service	Less than daily service	Total
Aberdeen	■			■			■												1	2	0	3
Belfast (Int & City)	■																		0	1	0	1
Birmingham	■	■		■	■	■	■			■	■	■							7	1	1	9
Bournemouth	■			■								■							3	0	0	3
Bristol	■			■		■	■					■							4	1	0	5
Cardiff Wales	■			■		■						■							3	1	0	4
Durham/Teesside	■																		1	0	0	1
Edinburgh	■			■		■					■	■							4	1	0	5
Exeter	■			■		■						■							2	2	0	4
Glasgow (inc Prestwick)	■			■	■	■	■			■		■							6	1	0	7
Humberside	■			■															2	0	0	2
Inverness																			0	0	0	0
Leeds Bradford	■			■		■						■							4	0	0	4
Liverpool						■													1	0	0	1
Manchester	■	■		■	■	■	■	■	■	■	■	■	■	■	■	■			10	4	1	15
Newcastle	■			■		■	■					■							4	1	0	5
Norwich	■																		1	0	0	1
Nottingham East Midlands	■			■		■						■							4	0	0	4
Southampton	■			■		■						■							3	1	0	4
																		Total				
More than daily service =	16	0	0	12	3	10	3	0	1	2	1	11	0	1	0	0	0	60				
Daily service =	1	1	0	2	0	2	3	1	0	1	2	1	0	0	1	1	0	16				
Less than daily service =	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	2				
Total	17	2	0	14	3	12	6	1	1	3	3	12	1	1	1	1	0	78				

2007

	Amsterdam	Barcelona	Berlin	Brussels	Copenhagen	Dublin	Frankfurt	Geneva	Madrid	Milan	Munich	Paris	Prague	Rome	Stockholm	Vienna	Warsaw		More than daily service	Daily service	Less than daily service	Total	Change since 1994	Change since 2004
Aberdeen	■	■		■	■		■					■							3	1	2	6	+3	+2
Belfast (Int & City)	■	■	■							■		■	■	■			■		1	2	5	8	+7	+4
Birmingham	■	■		■	■	■	■			■	■	■	■	■	■				9	3	1	13	+4	-1
Bournemouth	■					■			■				■						0	2	2	4	+1	+3
Bristol	■	■	■	■		■		■	■	■		■	■	■	■				6	5	1	12	+7	-1
Cardiff Wales	■					■						■							3	0	0	3	-1	-1
Durham Tees Valley	■			■		■											■		2	1	1	4	+3	+1
Edinburgh	■	■		■	■	■	■	■	■	■	■	■	■	■	■		■		9	2	4	15	+10	+4
Exeter	■					■						■							1	2	0	3	-1	+2
Glasgow (inc Prestwick)	■	■	■	■	■	■	■			■	■	■		■	■				5	5	2	12	+5	+1
Humberside	■																		1	0	0	1	-1	+0
Inverness						■													0	0	1	1	+1	+1
Leeds Bradford	■	■		■	■	■				■		■	■	■					3	4	2	9	+5	+2
Liverpool	■	■	■			■		■	■	■							■		5	4	1	10	+9	+1
Manchester	■	■	■	■	■	■	■			■	■	■	■	■	■		■		11	3	0	14	-1	-3
Newcastle	■	■		■	■	■				■		■	■	■					4	5	0	9	+4	-1
Norwich	■					■						■							1	2	0	3	+2	+2
(Nottingham) East Midlands	■		■	■		■	■	■	■	■				■					7	0	3	10	+6	+3
Southampton	■			■		■	■					■							4	1	0	5	+1	+1
																		Total	75	42	25	142	+64	+20
More than daily service =	15	4	0	9	4	11	4	3	1	3	3	13	2	1	2	0	0	75						
Daily service =	3	5	3	2	3	4	1	1	2	4	1	2	4	5	0	0	2	42						
Less than daily service =	0	1	3	0	0	1	1	0	2	3	0	0	3	4	3	0	4	25						
Total	18	10	6	11	7	16	6	4	5	10	4	15	9	10	5	0	6	142						
Change since 1994	+1	+8	+6	-3	+4	+4	+0	+3	+4	+7	+1	+3	+8	+9	+4	-1	+6	+64						
Change since 2004	+2	+3	+2	+2	+0	+1	+1	-2	+0	+6	+0	+2	-2	+2	+1	-2	+4	+20						

Notes: *The UK regional centres are those with the 21 biggest airports in terms of total passenger traffic in 2004, based on the sample in CAP 754.*

One round trip each weekday is counted as a daily service.

Only services operating more than once a week are shown.

Source: *OAG Flight Guides December 1994 and August 2007, and airline websites.*

Prospects for further destinations

2.26 The analysis above shows the continued growth of international networks at regional airports with a mix of leisure and business destinations. In general, regional airports interviewed for this study were of the view that growth potential still existed, as noted later in Chapter 6.

2.27 That said, while airlines have continued to add services, in general terms it seems to be accepted that most of the main route opportunities – often referred to as the "low-hanging fruit" – have been taken, and that the choice of further routes now has to be more strategically planned on a selective basis. This seems to be confirmed by the relatively low frequency of many recent route additions, indicating more gradual, incremental network growth spread between existing bases. More than one airport noted the challenge for a new entrant of starting a new route where this put it in competition with an efficient low-cost, no-frills carrier with an established operation at a neighbouring airport.

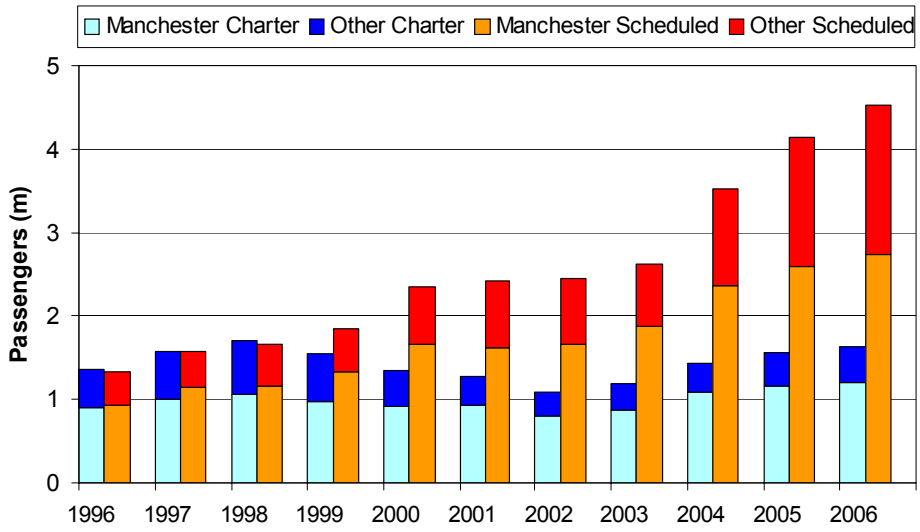
Developments in Long-haul Services

2.28 The CAA published a detailed study of long-haul services from the UK in July 2007 (CAP 771)[12]. This showed that comparing 2006 with 1996, the proportion of UK long-haul flights overall represented by regional airports has risen – from 7% to 13% for scheduled flights, and from 46% to 48% for charter flights. In other words, nearly half of long-haul charter flights operating from the UK are from regional airports. Long-haul scheduled flights have grown much faster than charter flights: over the last ten years, the number of long-haul scheduled flights from UK regional airports has increased more than threefold, from nearly 8,000 in 1996 to nearly 26,000 in 2006. Manchester accounted for 57% of these flights in 2006, followed by Birmingham with 18% and Glasgow with 14%. Other airports each accounted for 5% or less.

2.29 The number of long-haul charter flights from UK regional airports increased by only 3% over the same period, numbering just under 5,900 in 2006. Manchester accounted for 71% of these flights in 2006, with other airports accounting for 7% or less. However, there was some variation in long-haul charter flights over this period. Following a sharp decline between 1998 and 2002, passenger numbers since then have been growing again[13]. This is illustrated by Figure 2.3, taken from CAP 771, which shows how scheduled and charter passenger numbers have changed on long-haul services over this ten-year period.

12. CAP 771 *Connecting the Continents: Long-Haul Passenger Operations from the UK*, July 2007 www.caa.co.uk/cap771. The definition of long-haul is the same here as in CAP 771.
13. The main long-haul charter carriers, serving a variety of destinations, were Thomsonfly, MyTravel, Thomas Cook, First Choice and Monarch. See Table 2.10 of CAP 771 for a breakdown by airline and further detail on long-haul services.

Figure 2.3 Traffic on long-haul services from UK regional airports, 1996–2006



Source: CAA airport statistics.

2.30 Ignoring low-frequency services, the main long-haul destinations with scheduled services from UK regional airports in 2006 can be grouped into geographic regions:

- USA (these services are discussed in more detail below);
- Canada (Air Canada, Air Transat, Zoom and Thomas Cook, from a number of different regional airports, but mostly at relatively low frequency);
- Middle East (Emirates from four airports to Dubai, discussed further below, Qatar Airways from Manchester to Dubai, and Etihad from Manchester to Abu Dhabi);
- South-Asian sub continent (Pakistan International Airways (PIA) from Birmingham, Glasgow and Manchester to Islamabad, Karachi and Lahore, and Air India from Birmingham to Amritsar/Delhi; the Air India and some of the PIA flights were combined with transatlantic fifth-freedom flights from Toronto and US points respectively); and
- South-East Asia (Singapore Airlines from Manchester to Singapore, Malaysian Airlines from Manchester to Kuala Lumpur, the latter suspended April 2006).

2.31 As noted in CAP 754, with a few exceptions, the main long-haul points served are hubs. In other words the flights are serving not just the destination itself but also points beyond. Long-haul services to hubs in US and Middle East are analysed in more detail in Chapter 4, which looks at connections to the global network. Other routes serving primarily point-to-point markets either have a strong traffic base, such as services to Orlando, New York and Canada, or specific business[14], historic or community links that provide sufficient traffic to support a scheduled service.

2.32 In research for this study, several airports noted that there was more scope to develop direct services between the Midlands or northern England and points in Asia, as there was significant untapped demand for the carriage of "visiting friends and relatives" traffic. For example, London–India services have expanded significantly since the progressive relaxation of bilateral restrictions since 2004. So far there are only limited signs of any firm plans for the further development of such services from regional airports.

14. An example of a specific business link is City Star Airlines' proposed Aberdeen–Houston business-class-only service for the oil industry. City Star already links Aberdeen with Norwegian oil-related destinations.

2.33 Despite operational restrictions at many regional airports[15], in particular runway length – which can limit the aircraft type, range or payload – new long-haul services, both charter and scheduled, have commenced from a number of UK regional airports. One innovation has been the widespread use of smaller, narrowbody aircraft, typically with around 170–200 seats, which have the range to operate between Europe and the US East Coast.

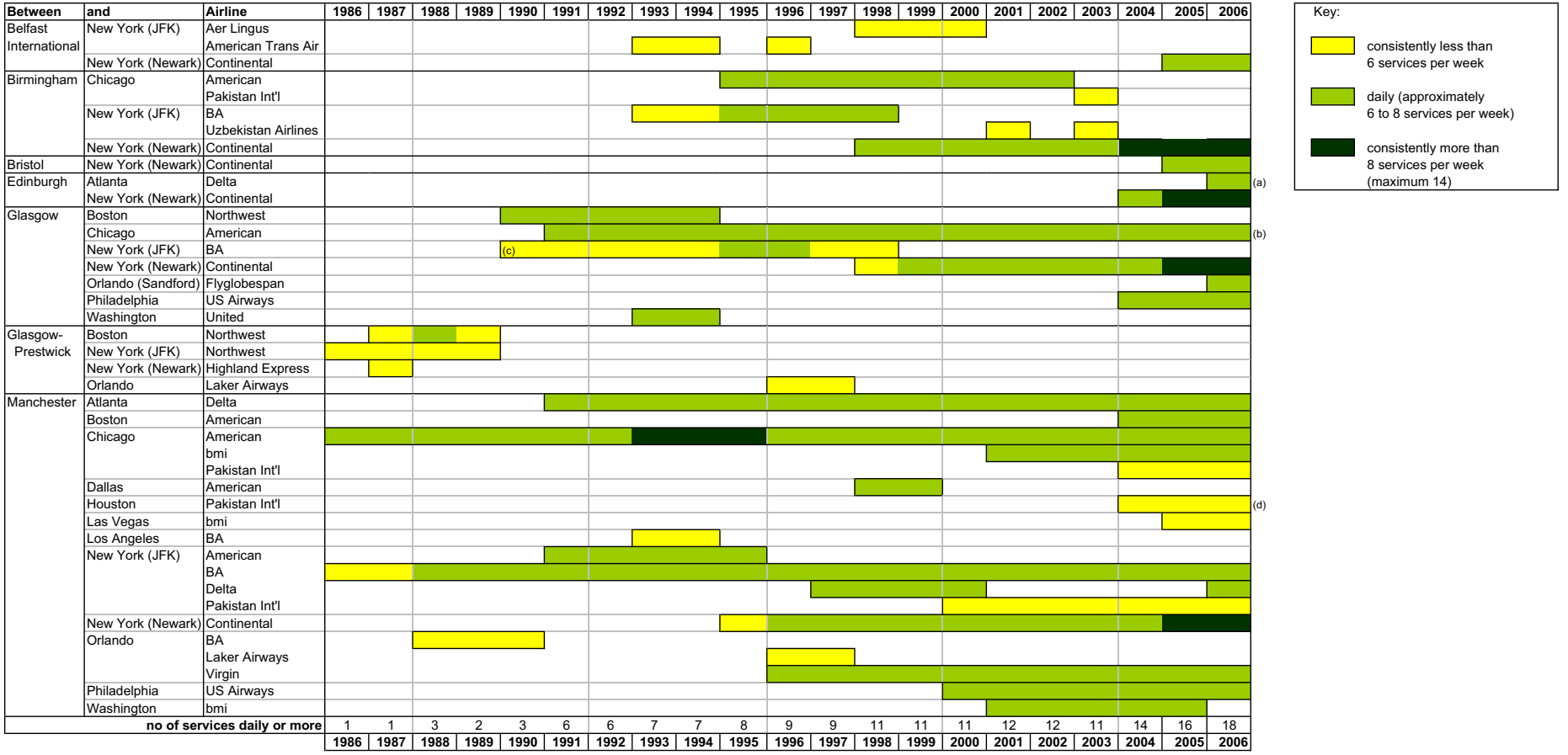
2.34 In terms of further technological advances, the concept behind the long-haul versions of the new Boeing 787 is one of serving thinner point-to-point routes that bypass traditional hub-to-hub traffic flows. Although the aircraft is of comparable size to the Boeing 767[16], its significantly greater range and efficiency could open up opportunities on more marginal routes from UK regional airports, assuming that the economics of such routes justified the necessary airline investment. First deliveries of the Boeing 787 are expected in late 2008.

Services between UK Regional Airports and the USA

2.35 Figure 2.4 shows how scheduled services have developed between UK regional airports and the USA over the period 1986 to 2006. This updates the similar diagram in CAP 754 and shows services as at July each year (the discussion below may therefore not necessarily apply to winter services). In 1986, there was just one daily scheduled service. By 2004, CAP 754 noted that this had risen to 14, and Figure 2.4 shows that this had further increased to 18 by 2006.

15. As well as runway length there may be constraints such as aircraft stands, terminal capacity, etc. Doncaster Sheffield, Manchester and Prestwick offer unrestricted runway operations. Birmingham, for example, plans a runway extension that will allow a fully laden Boeing 747-400 to operate; currently operations to the Far East or West Coast USA would normally require a refuelling stop.
16. Seating capacity in long-haul configuration is in the range of 210–250 passengers for the Boeing 787-8 and 250–290 for the 787-9. These variants have similar performance characteristics to the Boeing 767 in terms of runway requirements, but a greater wingspan than the Boeing 767. This suggests that an airport currently handling the 767 would be a suitable candidate for 787 operations providing it can accommodate the greater wingspan.

Figure 2.4 Scheduled services between UK regional airports and the USA 1986–2006



Notes: *The diagram indicates the frequency in July each year. Therefore summer-only services are not differentiated. Flights operating less than once a week are omitted.*
(a) Service terminated October 2007. (b) Service terminated September 2006. (c) Service commenced August 1990. (d) Service terminated October 2006.

Source: *CAA airport statistics and Worldspan Global Distribution System.*

Developments in US services since 2004

2.36 Two new daily services from Newark were added by Continental Airlines in 2005. Both of these were to new UK regional gateways, Belfast and Bristol, as mentioned in CAP 754. These services are both highly significant for the region, giving a frequent direct link to a US hub airport with a large number of connecting possibilities. The Belfast service was started with assistance from the Northern Ireland Air Route Development Fund (see Chapter 7). Both services continue in 2007 in the face of competition from airports within reasonable driving distance (Belfast from Dublin and Bristol from Heathrow and Birmingham). In 2006 the Belfast service carried 102,000 passengers and the Bristol service 84,000 passengers. Continental has increased frequency on its existing routes from Newark to Edinburgh and Glasgow and maintained a double daily to Birmingham. By Summer 2007 Edinburgh and Glasgow reached double daily and 11 a week respectively, but Birmingham had fallen back to daily. All these services are currently using narrowbody Boeing 757 aircraft, although Continental has added capacity on certain routes in the past by operating a widebody aircraft as well as increasing the frequency of the narrowbody operation.

2.37 Three new daily services were added in 2006, by Flyglobespan from Glasgow to Orlando (Sanford) and by Delta from Atlanta to Edinburgh and New York to Manchester, and one was suspended, bmi's Manchester–Washington service. The Delta Atlanta–Edinburgh service, operated by a Boeing 767 widebody, is being suspended from the Winter 2007/08 season and will be replaced by a Boeing 757 narrowbody service from New York to Edinburgh beginning in May 2008. Not shown in Figure 2.4 are summer-only services operated in 2007 by Flyglobespan from a new UK regional gateway, Liverpool, to New York and from Glasgow to Boston, using Boeing 757 or 737 aircraft.

2.38 There was the prospect of a further new UK regional gateway during 2005 when American Airlines announced a New York service to Newcastle to begin in May 2006 using Boeing 757s, which, unlike American's Manchester–Boston/Miami all-economy 757 services, was planned to have a separate Business Class cabin. However, in a strategic review of its network American withdrew the service from sale before it commenced. American subsequently withdrew its Glasgow–Chicago service in September 2006, confining its regional operations to Manchester, having withdrawn from Birmingham in 2002.

Use of narrowbody aircraft

2.39 The above analysis makes reference to the continuing widespread use of narrowbody aircraft of smaller capacity (typically 170–200 seats) than would normally be expected on long-haul services. This was identified in CAP 754, which noted[17] the strategy of Continental Airlines in using Boeing 757 aircraft to develop new, relatively thin, long-haul routes from Newark to points in Europe with less risk. Other examples in recent years, in addition to those noted above, are bmi (Manchester–Washington), US Airways (Glasgow–Philadephia) and City Star Airlines (Aberdeen–Houston proposed service)[18]. Table 2.6, based on flights across the whole year, shows how significant the use of narrowbody aircraft has become on regional routes to the USA. The dip between 2001 and 2003 was largely a result of Continental temporarily moving to widebody aircraft on its Glasgow services.

17. Case study 1 in CAP 754.
18. A similar pattern is emerging on thinner transatlantic routes to other countries in Europe, with airlines such as Delta and Northwest deploying Boeing 757 aircraft.

Table 2.6 Proportion of services between UK regional airports and USA operated by narrowbody aircraft

Year	2000	2001	2002	2003	2004	2005	2006
Number of flights							
Total	7,545	7,562	7,824	7,482	9,694	11,984	12,957
Narrowbodied aircraft	1,442	1,267	1,036	924	1,778	4,600	5,706
Percentage	**19%**	**17%**	**13%**	**12%**	**18%**	**38%**	**44%**

Source: CAA airport statistics

Future developments on US routes

2.40 One unknown factor is the impact of liberalisation of the EU–US market from March 2008. Although services between UK regional airports and the USA were effectively liberalised already, restrictions in the bilateral air services agreement between the UK and USA (Bermuda II) prevented some carriers and services to some US destinations operating from Heathrow and restricted services from Gatwick. These restrictions will no longer apply from March 2008. Several carriers have already announced that they are moving services from Gatwick to Heathrow from March 2008 or are expected to commence new Heathrow services, subject to them being able to secure suitable slots.

2.41 There may be a number of knock-on effects to UK regional services to the USA. For example, it has been argued that carriers may shift their resources – and indeed their overall focus – back to newly available London routes. However, this would seem less likely if the regional route were performing well. Given that passengers are using the regional service because of its convenience, rather than because of the identity of the airline concerned, the airline may lose passengers to competitors at London airports if it shifted capacity there from a service where it was sole provider at a regional airport. Nevertheless, it may be that increased competition at London airports (in terms of improved frequency, price, product and choice) may make the London product that much more attractive in the future and present a challenge to regional services.

Fifth-freedom Services

2.42 In October 2005 the UK Government announced[19] a relaxation of restrictions on fifth-freedom services operated by foreign airlines at UK regional airports. The Government now has a presumption in favour of granting new applications, although it can also take account of any evidence from objectors showing a negative net effect on the UK. Few applications for regional fifth-freedom services have been made to date[20], despite the continuing restrictions on many services to and from London.

Charter Services

2.43 CAP 754 noted the importance of charter services to regional airports in the past, and that tour operators and charter airlines were arguably the pioneers in bringing low-cost travel to the regions. As noted in Chapter 1, regional charter services had grown

19. *Further liberalisation of regional air services*, Department for Transport press release, 26 September 2005. "Fifth-freedom" means the right for an airline of Country A to carry passengers and cargo between Country B and Country C on a flight that originates or terminates in Country A; for example, Air India picking up a passenger in the UK for carriage to the USA using an aircraft that is routing India–UK–USA.
20. Pakistan International Airways has made the most use of the new freedoms, as illustrated by its UK–US services shown in Figure 2.4.

rapidly in the 1980s and 1990s to overtake London, but in recent years the volume of passengers travelling on charters has begun to decline. Thus with international scheduled services being the primary generator of growth at regional airports in recent years, a number of the bigger regional airports have gone from being primarily charter and/or domestic airports to a mix of international scheduled, charter and/or domestic. By 2004, charter services accounted for less than half the international passengers at regional airports. By 2006, this proportion had fallen significantly and was approaching one third (see Figure 1.3 in Chapter 1).

2.44 CAP 754 identified several root causes of this trend: the changing preferences of UK holiday-makers in terms both of the types of holidays they take and the way in which they want to organise them, given the relative inflexibility of the traditional package-holiday product; growing familiarity of UK passengers with international travel and increasing ownership of second homes abroad; the transparency and accessibility provided by the internet; and head-to-head competition from no-frills airlines on routes to a number of traditional charter destinations. Nevertheless, as Table 2.7 indicates, charter services remain a significant component of international traffic at most regional airports.

Table 2.7 International scheduled and charter traffic at regional airports, 2006

	International passengers, 2006 (000s)			**Charter share**	
	Scheduled	**Charter**	**Total**	**2004**	**2006**
Manchester	10,085	8,516	18,601	51%	46%
Birmingham	4,944	2,589	7,533	39%	34%
Bristol	2,923	1,374	4,298	39%	32%
Glasgow	2,286	1,959	4,245	59%	46%
Liverpool	3,798	280	4,078	15%	7%
East Midlands	2,524	1,524	4,048	43%	38%
Newcastle	1,919	1,705	3,624	56%	47%
Edinburgh	2,458	285	2,743	20%	10%
Leeds Bradford	1,720	435	2,155	29%	20%
Glasgow (Prestwick)	1,667	158	1,825	10%	9%
Cardiff Wales	696	932	1,628	59%	57%
Belfast International	837	696	1,533	74%	45%
Bournemouth	665	186	851	51%	22%
Aberdeen	758	78	836	47%	9%
Doncaster Sheffield	595	285	880	n/a	32%
Durham Tees Valley	411	264	675	46%	39%
Southampton	607	19	626	10%	3%
Exeter	310	256	566	68%	45%
Coventry	546	3	549	1%	1%
Norwich	309	152	461	64%	33%
Humberside	166	278	444	74%	63%
Blackpool	325	17	342	41%	5%
Others	164	54	218	22%	25%
Total	**40,713**	**22,046**	**62,759**	**44%**	**35%**

Notes: *Charter figures exclude flights to oil rigs.*
Source: *CAA airport statistics.*

2.45 The tour operators and charter airlines continue to adopt a number of strategies to respond to the new forms of demand and the increasing competition that is emerging. In Chapter 6 of CAP 754 it was noted that some major operators had created no-frills offshoots or were developing more flexible packages, while some were focusing on specialist holiday products.

2.46 CAP 754 also noted that while Spain remained the dominant charter destination from regional airports in 2004, its share had fallen by 4% since 2000, while Turkey, Bulgaria and Croatia were among the shorter-haul destinations to have gained. Egypt, the Dominican Republic and Cuba were among a number of very strongly growing routes to long-haul destinations. Table 2.8 shows the position in 2006. The trend has continued with a more marked drop in passengers using charter flights to travel to Spain and Portugal, reflecting a general move away from package holidays to self-organised travel[21]. In contrast, charter traffic has grown strongly to Turkey, Egypt, Bulgaria and Tunisia (which are not well served from UK regional airports by scheduled carriers), as it has to long-haul points such as Mexico and various Caribbean points. Charter traffic to the US (which historically has been concentrated on Florida) has declined, despite a favourable exchange rate, which some observers see as indicative of general trends in package holidays towards more exotic destinations[22]. In its recent study of long-haul operations, the CAA noted that most long-haul routes were served either by scheduled or charter carriers, but not both, and that it was more common for a route to begin as a charter service and later switch to a scheduled service than vice versa. It may be, therefore, that the more dense charter markets will develop scheduled services in due course.

2.47 The charter airlines' recent focus on long-haul is illustrated, for example, by orders for Boeing 787 aircraft for future long-haul operations by TUI Travel and Monarch Airlines, and the upgrading of the on-board product by some carriers which have added a premium economy cabin and offer greater legroom in standard economy than some major scheduled carriers.

21. The Spanish Tourist Board reported that the number of package holidays to Spain sold in the UK fell to 5.2m in 2006 from a peak of more than 9m in 2000–01, but that total visitors had increased, resulting in the proportion that package holidays represent of total sales declining from 70% to 34%. Source: *Travel Trade Gazette*, 6 April 2007. CAA airport statistics show continuing growth in the total UK/Spain market in recent years.
22. *British Tourists Turn Their Back on America*, *Daily Telegraph*, 21 July 2007.

Table 2.8 Destination of international charter passengers from UK regional airports, 2000 and 2006

	Passengers (000s)		Change
	2000	**2006**	**2006 vs 2000**
Destination			
Spain	13,350	10,207	-24%
Greece	2,763	2,736	-1%
Turkey	868	1,599	84%
Cyprus	1,090	1,282	18%
Portugal	1,217	900	-26%
Egypt	49	777	1473%
USA	800	628	-22%
Italy	476	553	16%
Bulgaria	56	462	722%
Tunisia	297	424	43%
France	252	329	31%
Malta	358	273	-24%
Dominican Rep.	112	265	137%
Austria	189	248	31%
Mexico	149	214	44%
Cuba	8	133	1504%
Barbados	68	112	63%
India	55	103	86%
Switzerland	86	102	19%
Finland	34	98	188%
Croatia	17	96	462%
Morocco	17	76	337%
Others	410	428	4%
Total	**22,722**	**22,046**	**-3%**

Notes: *Excludes flights to oil rigs.*
Source: *CAA airport statistics.*

2.48 The CAA's 2006 study on the impact of no-frills carriers[23] looked at how charter services have been affected by the development of no-frills carriers, and recognised the structural changes that have occurred in the charter market. The study suggested that there had been a considerable diversion of passengers from charter carriers to no-frills carriers, based on an analysis of the densest European charter routes from London[24]. Repeating this exercise for regional airports, i.e. taking the 15 densest European charter routes (including Turkey) from regional airports in 2006, on routes where there is significant competition from a no-frills carrier[25] the number of charter passengers had fallen by 31% since 2000, whereas on routes without significant no-frills competition, the number of charter passengers had risen by 13% since 2000.

23. CAP 770 *No-frills carriers: evolution or revolution?*, November 2006, www.caa.co.uk/cap770.
24. Table 2.5 of CAP 770.
25. Defined as routes where the number of "no-frills" passengers exceeded 10% of the number of charter passengers.

2.49 Industry representatives generally agreed that charter flights were likely to decline further following the merger in 2007 of First Choice with TUI, and of MyTravel with Thomas Cook. These four travel companies are by some margin the four biggest tour operators in the UK market, in terms of the number of passengers. It seems probable that as they react to changing market circumstances, the merged companies will seek to eliminate overlaps in airline capacity chartered by their combined operations, and some consolidation is already evident. Given the long lead times in this sector, this consolidation is not expected to materialise fully until at least 2008.

Chapter 3 Services within the United Kingdom

Chapter Summary

This Chapter contains an analysis of regional traffic development and routes within the UK, in particular to London, and finds that:

- After the steady growth recorded in CAP 754, domestic traffic to London declined by 2% in 2005 and 4% in 2006, taking traffic levels almost back to the level in 2002. Domestic traffic to Heathrow fell by 4% in 2005, and by 10% in 2006, and growth in domestic traffic at other London airports has levelled off.
- Traffic growth between UK regional airports also declined to 4% in 2006, following a period of much stronger growth averaging 15% annually between 2000 and 2005.
- Contributory factors to the recent downturn in traffic could include improved rail services; the deterrent effect of airport security restrictions; fewer passengers to/from regional airports using Heathrow as a connecting point; and the doubling of Air Passenger Duty, although the trend of declining traffic predates the February 2007 APD increase.
- Despite the downturn in traffic to London, there has been little change in the number of routes and frequencies to London since CAP 754 was published, which showed a big increase compared with 1990. CAP 754 highlighted the much wider choice of services to London airports other than Heathrow, with the number of flights having increased by 250% since 1990. There have, however, been many changes in the routes operated by individual airlines. There were 47 routes between London and UK regional airports in 2006 (compared with 34 in 1990), of which 9 in 2006 were to Heathrow (18 in 1990). There were an average of 228 round trips per day between London and UK regional airports in 2006 (compared with 160 in 1990), of which 81 in 2006 were to Heathrow (118 in 1990).
- The number of links between UK regional airports has not changed greatly in recent years, although no-frills carriers have had a significant impact in developing these routes.
- In recent years, fare levels between London and Scotland show a mixture of increases and decreases, but overall, the significant reductions resulting from the entry of no-frills carriers still prevail.

3.1 The first part of this chapter on domestic air services looks at developments on routes between UK regional airports and London. The second part goes on to look at services between regional airports.

Services between UK Regional Airports and London

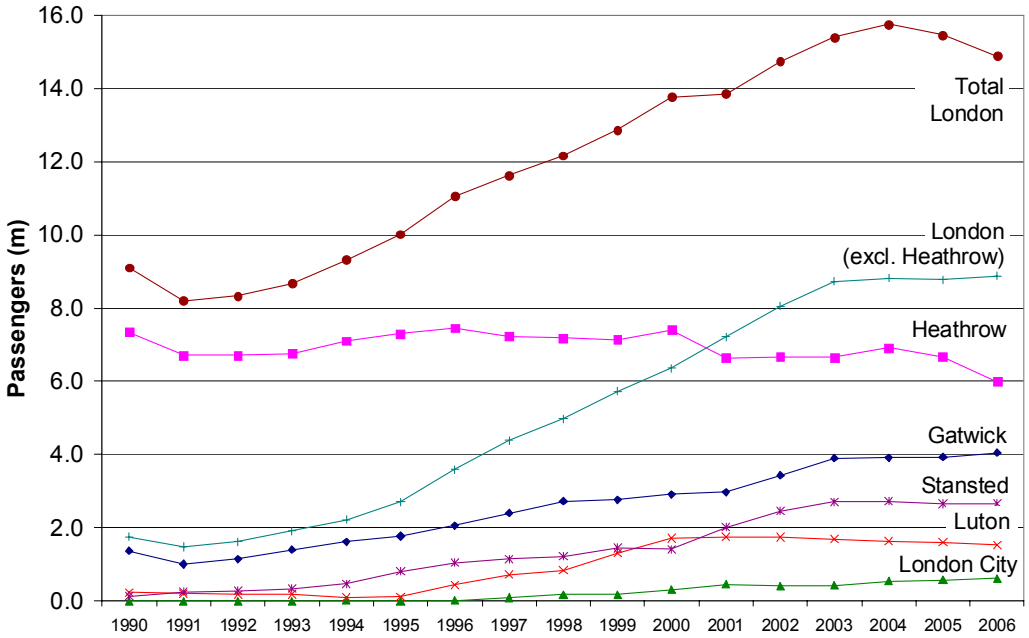
3.2 CAP 754 recognised the importance of an air link to London for any region where surface modes would involve a significantly longer journey to the capital. Access to Heathrow for domestic services is seen by some regions as particularly desirable, because of the potential economic benefits from connections to the global air network. However, congestion has increased the scarcity of take-off and landing slots

at Heathrow, putting pressure on airlines to make the best commercial use of them. Chapter 4 also shows that alternative hub options outside the UK have continued to develop, giving passengers from regional airports choices other than Heathrow.

Traffic levels since 1990

3.3 Figure 3.1 shows that domestic traffic to London has suffered a sudden decline in the years 2005 and 2006 following the steady growth recorded in CAP 754. Domestic traffic at Heathrow has fallen and has levelled-off at other airports (including a continuing steady decline at Luton). Figure 3.2 plots traffic growth for the six densest domestic city-pairs. It can be seen from both charts that traffic levels generally peaked in 2004–2005, with traffic now falling back to 2002–2003 levels. Figure 3.2 shows that the routes which have lost traffic over the last couple of years appear to be those where better surface alternatives exist. These are also the routes which are likely to have gained from the problems the rail industry was experiencing in the early part of this decade. This is discussed further below.

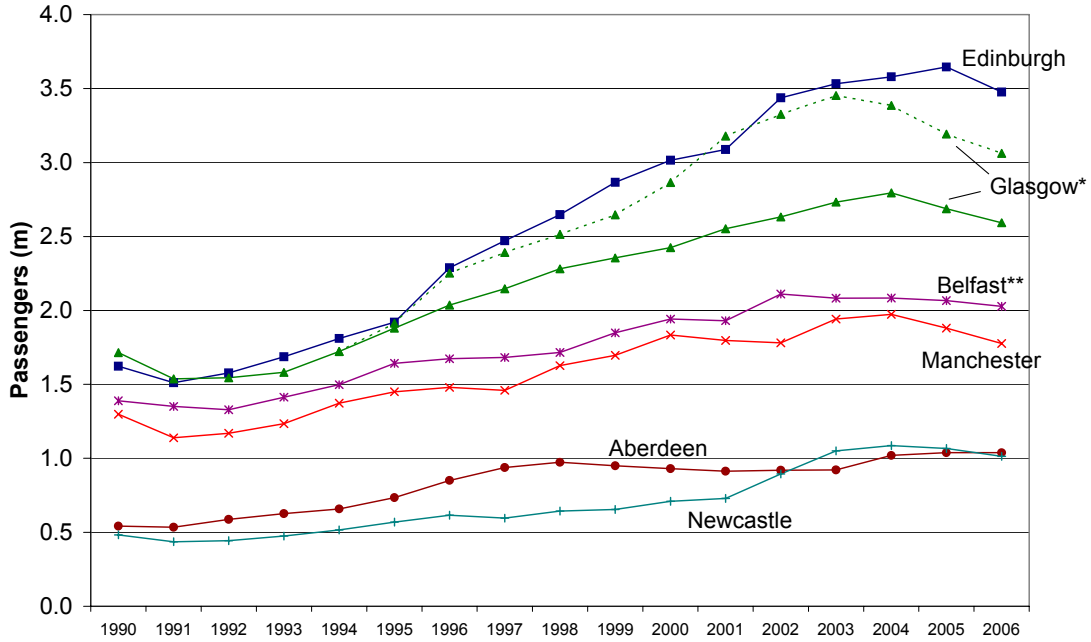
Figure 3.1 Traffic between UK regional airports and London – by London airport



Notes: *Includes Channel Islands and Isle of Man routes.*

Source: *CAA airport statistics.*

Figure 3.2 Traffic between UK regional airports and London – by regional airport



Notes: *Only the six densest city-pairs are shown.*
** Dotted line includes Prestwick.*
*** Includes Belfast International and Belfast City.*

Source: *CAA airport statistics.*

3.4 If domestic routes to London are placed in order of growth between 2004 and 2006 (Table 3.1) it can be seen that Belfast, Aberdeen, Inverness, the Channel Islands and Isle of Man – that is, routes that are overwater or have lengthy surface journeys – are well ahead of other routes. Although Edinburgh appears to be an exception, and traffic continued to grow until 2005, that route experienced a sharp fall in 2006 that in percentage terms was comparable to that on Manchester and Glasgow.

Table 3.1 Domestic services to London – recent traffic growth (top 10 city-pairs)

	Growth	
Between London and	**2004–2006**	**2000–2006**
Guernsey	+5%	+5%
Isle of Man	+3%	+21%
Aberdeen	+2%	+12%
Belfast (City and International)	-3%	+4%
Edinburgh	-3% *	+15%
Jersey	-4%	-19%
Inverness	-4%	+48%
Newcastle	-7%	+43%
Manchester	-10%	-3%
Glasgow (International and Prestwick)	-10%	+7%

Notes: ** The relatively smaller decline on the Edinburgh route – where traffic continued to grow until 2005 – disguises a sharp fall in 2006 that in percentage terms (-4.6%) was comparable to that on Manchester (-5.5%) and Glasgow (-4.1%).*

Source: *CAA airport statistics.*

Context for recent traffic trends

3.5 The CAA will be looking more closely at the context for recent traffic trends such as this, which includes examining a number of different factors, including: the state of consumer confidence in the economy generally; competition with rail services; the effects of greater security restrictions for air travel; and the increase in Air Passenger Duty. In consequence, this study makes only some brief comments on those aspects that are likely to be of greatest relevance to regional air services.

a) Rail services

3.6 Rail services have recently improved considerably in terms of reliability, frequency, speed, comfort or a combination of those. Perhaps just as important, the perception of rail as a viable alternative to air travel on shorter journeys between city centres seems to have improved, as the rail industry recovers from the problems it experienced at the beginning of the decade, and the benefits of upgraded infrastructure are apparent.

3.7 A Government White Paper in July 2007[1] stated that UK rail passengers increased by 40% between 1995/96 and 2005/06, and set out further planned improvements in rail services. Virgin Trains reports that in the year ending March 2007, its annual passenger journeys were 36% higher than in the year ending September 2004, as a result of upgraded services on the West Coast Main Line[2]. Rail is now embracing computerised booking technology (and more recently the Internet) in the same way as airlines. Progress is also now being made to integrate rail travel with the global distribution systems used by travel agents to make airline bookings, and to improve standardisation of rail booking, ticketing and data systems[3]. Claims that rail travel is more environmentally friendly than air are now regularly made. While much of the recent focus has been on Eurostar and international travel, there are implications for travel from regional points in the UK, both domestic and international[4].

3.8 There is likely to be most competition between modes on overland domestic journeys where door-to-door travel times are comparable between rail and air – typically shorter distances or between cities on the rail main lines. These air routes are likely to have been affected most by the recent improvements to rail services and enhanced security requirements at airports, with rail taking traffic from domestic air services, or at least clawing back traffic lost to air at the beginning of the decade. Air routes with a less convenient rail alternative, such as those between regions where the end points are not linked by a single main line, have not seen the same reductions in passenger numbers in recent years as other domestic services.

1. *Delivering a Sustainable Railway,* Department for Transport White Paper, July 2007, www.dft.gov.uk/about/strategy/whitepapers/whitepapercm7176/.
2. Source: Virgin Trains press release 14 June 2007. There were 14.5m passenger journeys in the 12 months prior to the launch of upgraded services in September 2004; and around 20m in the 12 months to the end of March 2007. Virgin Trains introduced a new schedule between London and Manchester with a service every 30 minutes. The West Coast Main Line rail upgrade is now nearing completion; fastest rail journey times on the London–Manchester and London–Glasgow routes have been improved to just over two hours and just under four and a half hours, respectively, and greater frequency and shorter journey times have been announced beginning in January 2009.
3. See, for example, *The Challenges Facing Rail,* Business Travel Europe Newsletter no. 157, 1 August 2007, www.businesstraveleurope.com.
4. See, for example, *Eurostar to launch passenger services at St Pancras International on Wednesday 14 November 2007,* Eurostar Press Release 14 November 2006: "St Pancras International will be a stunning, newly restored station in the heart of London, with connections fanning out across the country that will make Eurostar accessible to millions of new travellers. We will be competing head on with regional airports, with comparable city centre-to-city centre journey times, much greater frequencies, and highly affordable through fares."

b) Security requirements

3.9 The increase in security checks as a result of the heightened security threat in recent years has caused both inconvenience and delay to passengers. In its recent report on Passengers' Experiences of Air Travel[5], the Transport Select Committee regarded this issue as currently having the most significant negative impact on the passenger experience, largely because of the measures that have been in place since August 2006. Industry representatives suggested that negative publicity about the security threat and inconvenience to passengers has amplified the effect, and that in the case of short flights particularly, passengers who perceive that they may be delayed or inconvenienced will be more inclined to switch to surface modes where a reasonable alternative exists.

c) Air Passenger Duty

3.10 Industry reports and traffic statistics for the first half of 2007 suggest that the trend of declining domestic traffic is continuing. Industry is particularly concerned by the doubling of Air Passenger Duty (APD) with effect from 1 February 2007, which it says has contributed to the effect. However, the trend of declining traffic predates the APD increase. APD is a fixed amount which on a domestic return ticket is charged twice, now £10 per UK departure[6]. £20 tends to form a relatively bigger proportion of the total ticket price on domestic routes than on longer international routes. Advertising rules require airlines to show a price that includes all unavoidable taxes and charges, thus the higher APD has increased the ability of surface modes to advertise a lower eye-catching "lead-in" price.

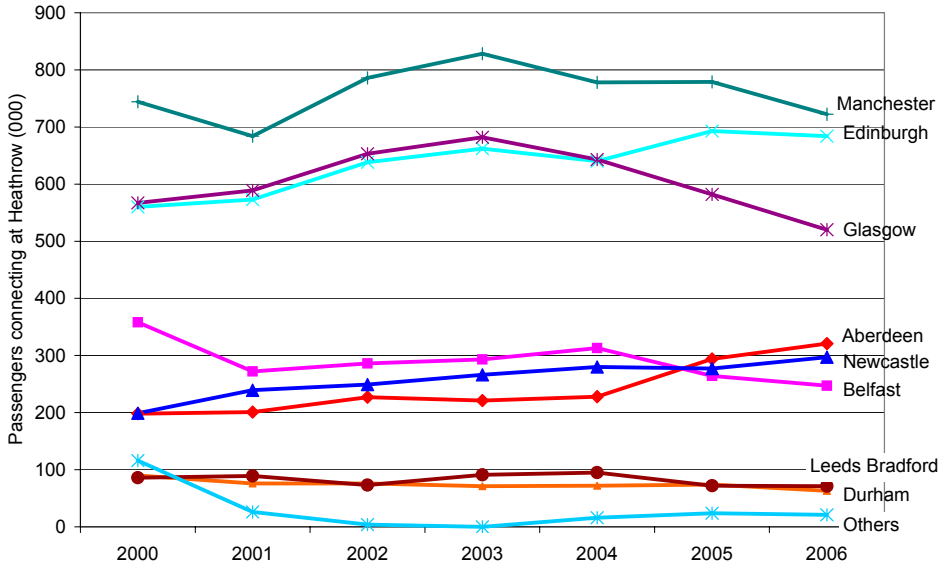
d) Passengers connecting in London

3.11 A high proportion – broadly between one third and two thirds – of traffic on domestic services to Heathrow is connecting to or from other flights. If the fall in domestic passengers had been solely because of surface competition, it might be expected that the number of passengers connecting would remain unchanged. The number of passengers can only be determined using survey data based on passenger interviews, and is therefore less precise than traffic data. CAA survey data for Heathrow shows that overall, there was an increase in the number of connecting passengers between 2000 and 2003, from 2.9m to 3.1m, and a decline since then back to 2.9m. One contributing factor is likely to be that some passengers no longer need to take a connecting flight, because there are now either direct international services to their destination from a regional airport, or services to a hub outside the UK where connections are available.

3.12 Figure 3.3 shows the number of connecting passengers on individual routes to Heathrow since 2006, based on survey data. The reductions on the Belfast, Glasgow, Leeds and Manchester routes would seem to be consistent with the development of new international services from those airports (and the growth on the Aberdeen route with the more static position there). However, this rationale does not hold up so well in the case of Edinburgh and Newcastle, which might have been expected to show a fall as well.

5. *Passengers' Experiences of Air Travel*, Eighth Report of Session 2006–07, House of Commons Transport Committee, 26 July 2007.
6. The Government announced in October 2007 its intention to replace APD from 1 November 2009 with a duty payable per aircraft rather than per passenger, see www.hm-treasury.gov.uk/pbr_csr/pbr_csr07_index.cfm.

Figure 3.3 Connecting passengers on domestic services at Heathrow, by regional airport 2000–2006



Source: CAA Passenger Survey.

Route developments since 1990

3.13 CAP 754 recognised that when comparing 2004 with the position in 1990, London was much better served from UK regional airports than in the past, with a loss of Heathrow services more than outweighed numerically by a wider spread of additional services to other London airports. In consequence, passengers now have travel options (often at lower prices) that did not previously exist. Although between 1990 and 2004 the number of domestic destinations served from Heathrow more than halved, and the overall number of flights declined by nearly 30%, from the other four London airports, the number of flights to UK regional points increased by about 250%.

3.14 This information has been updated to 2006 in Table 3.2 below. The figures are virtually identical to 2004. One extra destination (Inverness) is shown from Heathrow, and the average number of daily domestic frequencies overall from Heathrow has dropped slightly, by around three. There have been further additions to Heathrow domestic services in 2007[7].

7. An analysis of London routes added or suspended since January 2005 is shown in Table 3.3.

Table 3.2 Destinations and frequency on domestic scheduled services from London, 1990 and 2006

	UK destinations served		Round trips per day	
	1990	**2006**	**1990**	**2006**
Heathrow	18	9	118	81
Gatwick	11	13	36	66
Stansted	3	12	3	34
Luton	2	6	3	20
London City	0	7	0	28
Total	**34**	**47**	**160**	**228**
Total (excluding Heathrow)	16	38	42	147
UK destinations served from London	20	20		
UK destinations served from London (excluding Heathrow)	12	18		

Notes: *Includes Isle of Man and Channel Islands routes.*

Belfast City, Belfast International, Glasgow and Prestwick are counted as four separate destinations.

Only non-stop services are shown.

A destination is shown as "served" from a London airport only if there are 500 or more one-way flights (in either direction) over the year, broadly equating to a daily weekday round-trip service. The number of destinations served in a given year is therefore not necessarily representative of a given point in time.

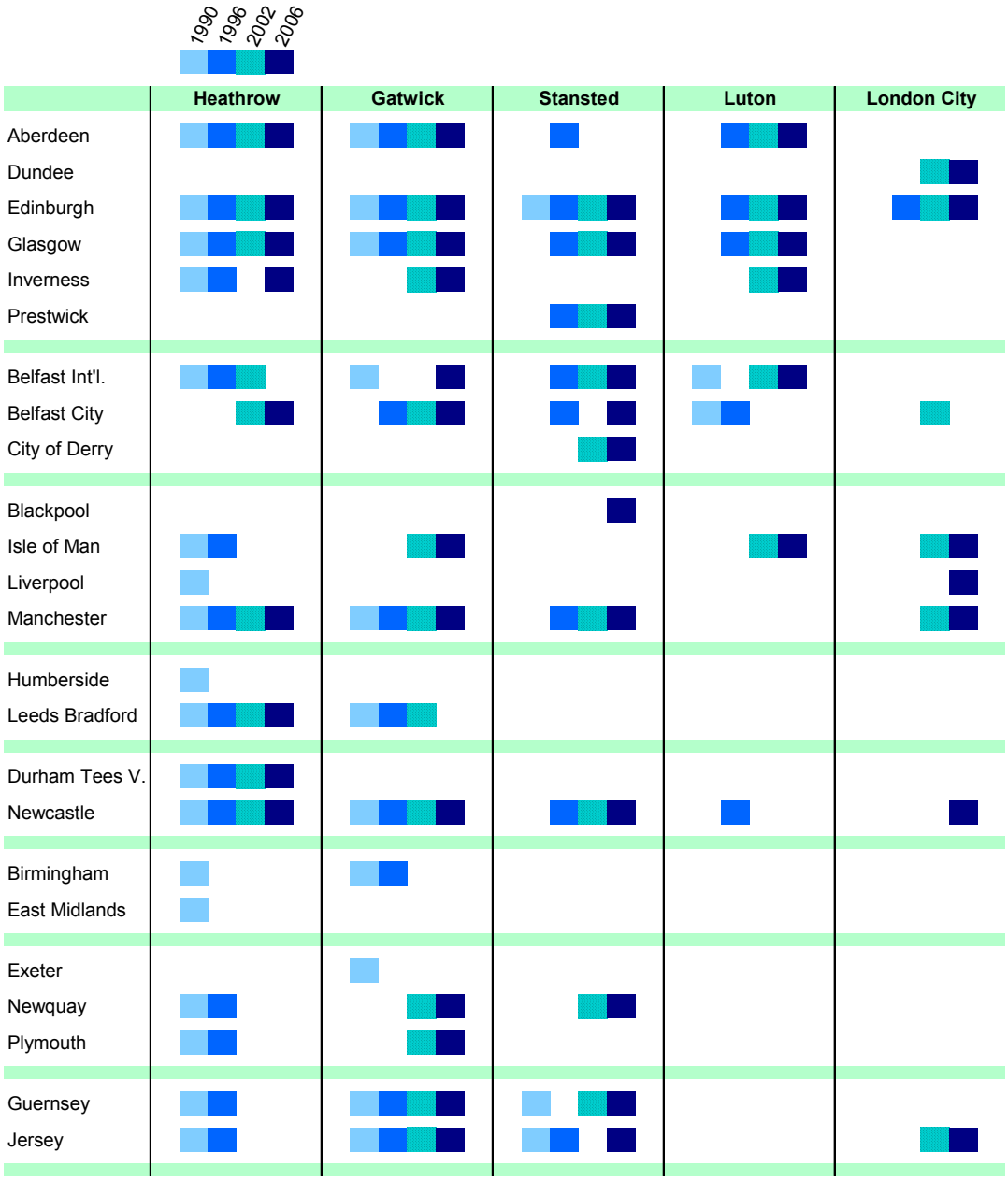
Similarly the number of round trips per day is an average across the year so is again not necessarily typical of a specific day.

Source: *CAA airport statistics.*

3.15 By 2004, the number of regional destinations linked to London by air was 21, compared with 20 in 1990, although the destinations had changed, with the loss of services to Birmingham, East Midlands, Humberside and Exeter and the gain of services to Blackpool, Cardiff, Dundee, City of Derry and Prestwick. By 2006 the Cardiff service had been suspended taking the total back to 20. Between 2004 and 2006 there were only minor variations in average frequency of domestic services at each London airport. Consequently the total number of flights between regional airports and all five London airports remained 43% higher in 2006 than in 1990.

3.16 Figure 3.4 shows in more detail which regional airports have been served from each London airport since 1990. Between 2004 and 2006 there was little change in terms of the destinations served. However, this masks greater churn in between these dates and when analysed at the airline level. Actual gains and losses since January 2005 are identified individually in Table 3.3.

Figure 3.4 UK regional airports served from London



Notes: *Destinations are shown only if there were 500 or more one-way non-stop flights (in either direction) over that calendar year, broadly equating to a daily weekday round-trip service. This methodology will therefore mask services that have come and gone in between calendar years or without achieving 500 flights in the calendar years shown.*

Changes since 2005 are set out in more detail in Table 3.3 (excluding Channel Islands and Isle of Man routes).

Source: *CAA airport statistics.*

Routes gained and lost since 2005

3.17 CAP 754 noted that the recent history of London services from UK regional airports showed a relatively favourable picture. Between January 2003 and January 2005, nine new routes to London were introduced (including two routes to Heathrow), two routes were introduced and then suspended, and two existing routes were suspended. As at November 2007, the two new Heathrow routes from Aberdeen and Inverness are still being operated, Aberdeen now operating six (from five) times daily

and Inverness between five and seven times a week. A further Heathrow destination was added in March 2007, twice-daily from Jersey, and a three-daily service from Belfast International is to be added from January 2008. Table 3.3 below shows other developments since the equivalent table in CAP 754 (correct as of January 2005).

Table 3.3 Regional routes from London gained and lost since January 2005

		Began	Typical weekday frequency	Ended	
Jet2.com	Gatwick–Manchester	**Jan 05**	3 x 737	**Mar 07**	
bmi regional	London City–Leeds Bradford	Nov 04	4 x ATR42	**Apr 05**	
Flyglobespan	Stansted–Glasgow	**Jun 05**	2 x 737	**Mar 06**	
Flyglobespan	Stansted–Edinburgh	**Jun 05**	2 x 737	**Mar 06**	
bmibaby	Gatwick–Durham Tees Valley	**Oct 05**	1 x 737	**Oct 06**	
Air Berlin	Stansted–Glasgow	**Dec 05**	2 x 737	**Oct 07**	
Air Berlin	Stansted–Manchester	**Dec 05**	2 x 737	**Oct 07**	
Eastern Airways	London City–Newcastle	**Jan 06**	4 x SAAB2000	**Jan 07**	
Eastern Airways	Stansted–Manchester	Mar 03	3 x J41	**Feb 06**	(a)
Air Berlin	Stansted–Belfast City	**May 06**	2 x 737	**Oct 07**	
Aer Arann	Luton–Newquay	**Jul 06**	1x ATR42	**Oct 06**	(b)
easyJet	Gatwick–Glasgow	**Oct 06**	3 x A319	current	
Atlantic Airways	Stansted–Sumburgh	**Oct 06**	1 x BAe146	summer only	(c)
British Airways	Gatwick–Newcastle	Nov 92	4 x 737	**Mar 07**	(d)
Jet2.com	Gatwick–Newcastle	**Mar 07**	3 x 737	current	
British Airways	Gatwick–Newquay	**Mar 07**	1 x 737	current	
City Jet	London City–Belfast City	**Mar 07**	3 x Do328	current	(e)
BA CitiFlyer	London City–Glasgow	**Mar 07**	4 x RJ100	current	
VLM	London City–Liverpool	Jan 04	2 x Fokker 50	**Jun 07**	
Ryanair	Stansted–Blackpool	May 03	2 x 737	**Jun 07**	
Ryanair	Stansted–Belfast City	**Oct 07**	4 x 737	current	
Eastern Airways	Stansted–Manchester	**Oct 07**	3 x J41	current	
Aer Lingus	Heathrow–Belfast International	**due Jan 08**	3 x 737	proposed	

The table excludes Channel Islands & Isle of Man routes.
(a) Recommences October 2007. (b) Four days a week. (c) Two days a week.
(d) Operated by franchisee CityFlyer under BA branding and code until 2003.
(e) Operated under Air France code.
Source: CAA airport statistics, OAG Flight Guides, airline websites.

3.18 Table 3.3 shows that there have been considerable changes, with routes being added and withdrawn relatively quickly, and some taken over by different airlines. This churn seems to follow the pattern observed to some extent on international routes. 15 services have started since January 2005, of which only the six most recent additions are still being operated. Routes from Stansted to Belfast City, Edinburgh, Glasgow and Manchester have seen Flyglobespan and/or Air Berlin enter and exit again; Edinburgh and Glasgow continue to be operated by easyJet; and the Belfast and Manchester services have been taken up by Ryanair and Eastern Airways from the Winter 2007/08 season. Jet2.com began serving Gatwick from Manchester but switched this to Newcastle when BA withdrew from the route. Of the 12 airport-pairs

suspended since January 2005, half are still being served by other carriers. CAP 754 noted the suspension of the turboprop route between London City and Cardiff/ Swansea (Air Wales, April 2003–October 2004). Since then, three other turboprop services to London City have been relatively short lived, from Leeds Bradford, Newcastle and Liverpool.Only routes that have been started or suspended since January 2005 are shown. Routes transferred from BA Connect to Flybe and BA CityFlyer are omitted.

Access to Heathrow

3.19 CAP 754 noted that congestion has created a scarcity of suitable take-off and landing slots at Heathrow, and that the availability of slots at congested airports (in particular, but not exclusively, Heathrow) was the main physical factor cited by industry representatives as constraining regional air services to those airports. Congestion has made these slots more valuable and therefore at risk of being switched if there is another service that may yield higher profits than a domestic service. Some regions still campaign to see access to Heathrow re-established where it has been lost, or have said that they regard their existing Heathrow service as under threat.

3.20 CAP 754 concluded that the introduction of a formalised market in slots seemed the best way of dealing with the problem of allocating scarce capacity at congested airports such as Heathrow and could make it easier for UK-based airlines to expand their portfolios, thus reducing the pressure on regional services. It might also provide opportunities for non-airline ownership of slots.

3.21 The slot allocation mechanism is governed by EU law. Since CAP 754 was published, the CAA has continued to work with Government, the European Commission and other stakeholders on reforming the system[8], although the law itself remains unchanged since it was updated in 2004[9]. This updating did seek to strengthen the provision of adequate air services to regional airports by changing the "new entrant" criteria; this gives some preference[10] to a carrier applying for slots at a slot-coordinated airport to provide a direct service to a regional destination where there is no other carrier operating a service between the two airports or airport systems concerned, providing it does not as a result hold more than five slots at the slot-coordinated airport for that service on the days concerned (i.e. a maximum of a twice-daily service). The impact of this change is unlikely to have, or to have had, any effect at London airports, because so few slots at suitable times are available for allocation, at least at Heathrow.

3.22 The increasing liberalisation of long-haul services, which are generally accepted as being the most profitable aspect of scheduled airlines' operations, may be perceived as a potential threat to regional services in terms of the priority given to the use of slots. CAP 754 made reference to the increased capacity in the UK/India market, which has since seen a substantial increase in flights[11]. The most significant liberalisation of long-haul services takes effect in March 2008, with the removal of restrictions on EU–US air services[12]. This agreement allows any EU or US airline to

8. See *Reforming Airport Slot Allocation in Europe: Making the Most of a Valuable Resource*, CAA, April 2006, www.caa.co.uk/docs/589/ERG_slots_doc.pdf; and *Competition Issues Associated with the Trading of Airport Slots*, a joint document by the OFT and CAA prepared for the European Commission, June 2005, www.caa.co.uk/docs/589/oft832.pdf .
9. Regulation (EC) No 793/2004 of the European Parliament and of the Council of 21 April 2004 amending Council Regulation (EEC) No 95/93 on common rules for the allocation of slots at Community airports.
10. Article 10 of the Regulation states that 50% of slots placed in the airport's slot pool (i.e. available for allocation) shall first be allocated to new entrants.
11. Between October 2004 and October 2006, the number of direct services between India and the UK rose from 34 to 112 services per week.
12. See http://ec.europa.eu/transport/air_portal/international/pillars/global_partners/us_en.htm

fly any route between the EU and US at any frequency, a significant change to the restrictive "Bermuda II" agreement which confined Heathrow–US services to just four airlines, restricting both the routes that could be flown and also the capacity offered.

3.23 As a result of this several carriers, including BA, have announced plans to switch services from Gatwick to Heathrow. bmi has long-stated intentions to operate Heathrow–US services but has deferred any launch until 2009 at the earliest. These new services may place a significant demand on slots, since the liberalisation of a bilateral agreement in itself does not make airport slots available or confer any special allocation priority. Airport Coordination Ltd (ACL), the slot coordinator at Heathrow, published a briefing note in March 2007[13] about the EU–US agreement and Heathrow access. This explained that Heathrow slots were scarce, with demand far outstripping supply. Incumbent carriers have "grandfather rights" to about 97% of the runway slots available, and the remaining slots are at the periphery of the operating day and at times generally considered unsuitable for transatlantic services. Grandfather rights are subject to a use-it-or-lose-it rule, but the failure rate is typically less than 0.5% each season. Some carriers, such as the US carriers currently restricted to Gatwick under Bermuda II, qualify under the slot allocation mechanism for higher priority as "new entrants" to Heathrow, but as noted above this is of little practical value where so few suitable slots are available. The most immediate prospect of additional runway capacity (mixed-mode operations using the existing runways, assuming that the necessary approvals are obtained) would be unlikely to be available in the near future.

3.24 Slots are not route specific, so incumbent carriers could (subject to the necessary approvals) transfer their existing slots to transatlantic services or exchange them, one for one, with other carriers through the secondary market. Slots currently used by regional services may therefore be in demand. It is of course for the carrier to decide what use it makes of any slots – whether it exchanges them on the secondary market or uses them for alternative routes – and this will depend on the value placed on these slots by the carrier. If there is considered to be market failure – for example in peripheral regions where a commercial service may not be viable – then this may be addressed through public policy initiatives (see Chapter 7 on the use of Public Service Obligations). There are other issues which may affect an airline's choice of whether to operate a Heathrow service, including the level of airport charges, which at Heathrow have been rising in real terms (with substantially increased investment), distinct from the apparent trend at many regional airports (see Chapter 6).

3.25 However, as shown above, despite these pressures, there has been no recent reduction in the domestic destinations served from Heathrow. Following its launch of Aberdeen and Inverness services from Heathrow in March 2004, bmi began a twice-daily service to Jersey[14] in March 2007 (although this service reportedly[15] has financial support for three years from the States of Jersey). Furthermore, the number of operators of domestic services at Heathrow increases to three from January 2008, when Aer Lingus is due to commence a three-daily service between Belfast International and Heathrow[16]. Significantly, Aer Lingus has taken a commercial decision to transfer the valuable slots for the new route from its Heathrow–Shannon service.

3.26 It is not possible to predict what the eventual outcome will be for UK domestic routes. Slots for new long-haul services could be obtained from existing short-haul European routes, or through acquisitions (perhaps from carriers prepared to transfer services

13. www.acl-uk.org and http://80.168.119.219/UserFiles/File/ACL%20EU-US%20BRIEFING%20NOTE%20260307.pdf
14. Not shown in Table 3.3, which omits Channel Islands services.
15. *Airline Subsidy is Investigated*, www.thisisjersey.com, 19 May 2007.
16. Codeshared with BA.

from Heathrow to other London airports), instead of domestic services. A network carrier will assess where the slots can be put to the most effective use, including which routes are providing essential feed traffic to long-haul services, and the expansion of services to key destinations such as the US and India may actually bolster feeder routes, for example to regional airports, rather than displace them.

Fares Comparison

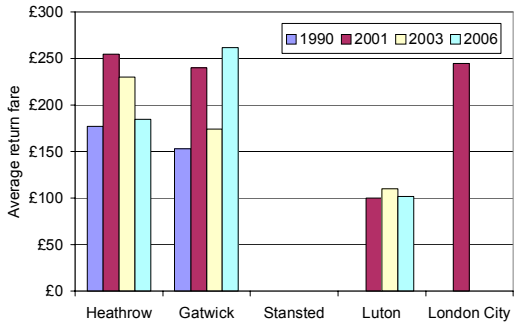
3.27 A passenger making a domestic journey to or from London will be concerned not only with the frequency of the service but also its price. CAP 754 used data from the CAA Passenger Survey to compare estimates of the average fare paid by passengers on flights between Scotland and London. CAP 754 explained that most of the new services on these routes were operated by no-frills airlines. Their entry had had a clear downward effect on fares paid by both business and leisure passengers. The effect was most noticeable at those airports where no-frills airlines were operating, but the impact of their entry also seemed to have reduced the average fares paid at Heathrow between 2001 and 2003.

3.28 Figure 3.5 updates this analysis using 2006 survey data. All the fares shown are unadjusted for inflation. Average fares paid by business travellers[17] from Heathrow and Gatwick rose by about 50% in nominal terms by 2001 compared with 1990. Figure 3.5 shows that the subsequent fall in these fares by 2003 continued through to 2006 on Heathrow–Aberdeen and Gatwick–Glasgow, but on other airport-pairs fares had risen again in nominal terms by 2006, particularly Gatwick–Aberdeen[18]. Average fares paid by business travellers in 2006 from Stansted and Luton have remained relatively unchanged and continue to be significantly lower than the average levels paid from Heathrow, less than half in the case of Glasgow and Edinburgh.

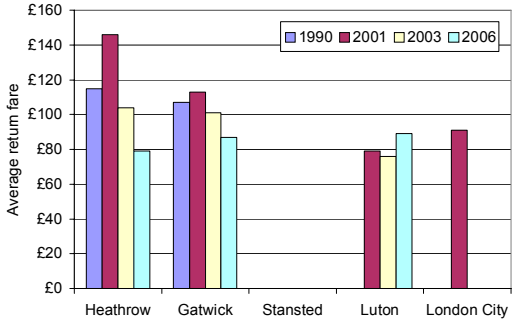
3.29 Average leisure fares are in most cases about the same level as those in 2003 and remain lower, in nominal terms, than those in 1990.

Figure 3.5 Average return fares on services between Scotland and London

London-Aberdeen (business)



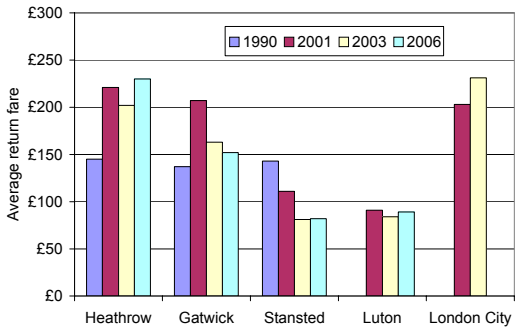
London-Aberdeen (leisure)



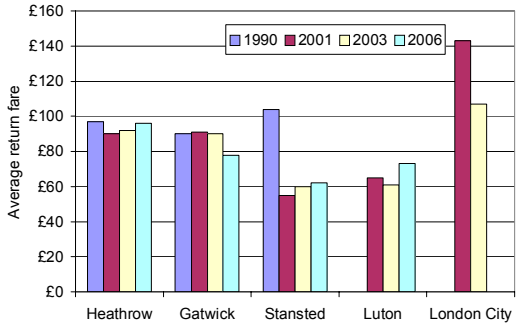
17. The survey questions determine journey purpose and the fare paid. The fares shown are therefore an average of the fares actually paid by the business travellers surveyed.
18. It is difficult to speculate on the reasons for the differences in relative fare levels, but there has been no entry by a no-frills carrier on Gatwick–Aberdeen, which is an important route for oil-related business passengers travelling on from Houston, which is served only from Gatwick.

Figure 3.5 Average return fares on services between Scotland and London (continued)

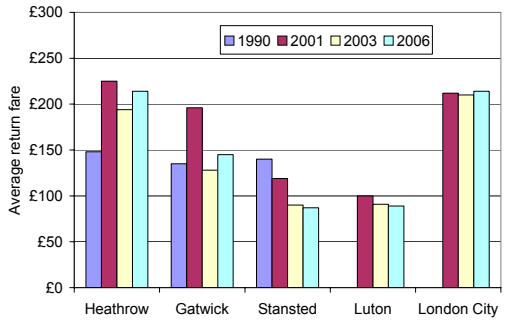
London-Glasgow (business)



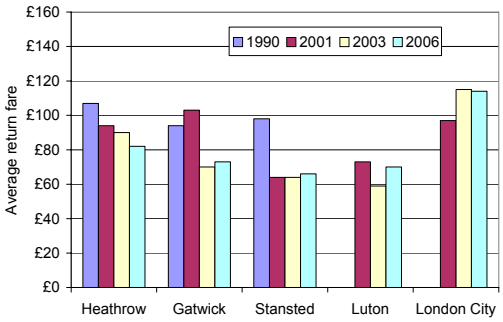
London-Glasgow (leisure)



London-Edinburgh (business)



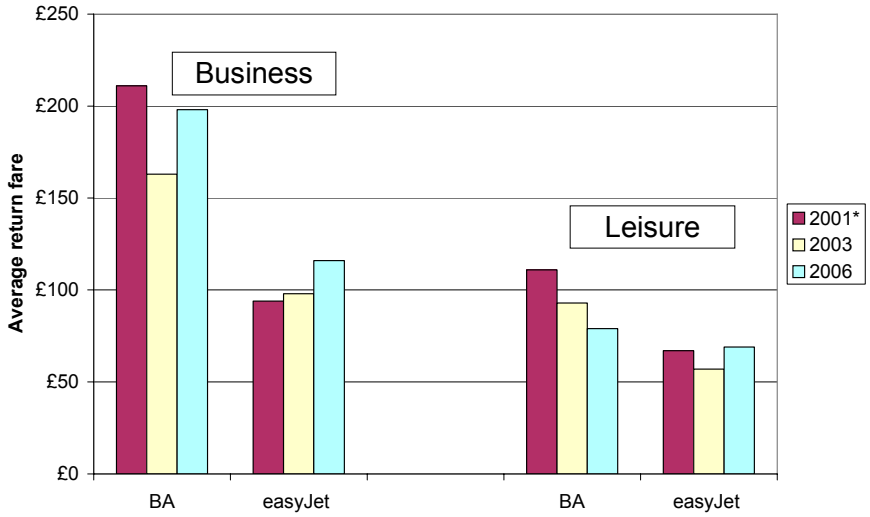
London-Edinburgh (leisure)



Notes: *Average fare levels have not been adjusted for inflation.*
Source: *CAA Passenger Survey.*

3.30 Figure 3.5 analyses in more detail the average fares paid by passengers on easyJet and BA flights between Edinburgh and Gatwick, where the two carriers have competed since 2002. Fares paid by the business passenger continue to show a significantly higher average amount for the BA service than easyJet; both have risen in nominal terms since 2003 after a fall in the average BA fare following easyJet's entry. However, BA's average leisure fare has continued to fall, and given the rise in easyJet's average leisure fare, the two were not far apart by 2006. This suggests that BA has been clawing back some of the premium it is able to maintain for passengers travelling on business when compared with easyJet fares, but that it has been unable to do so for more price-sensitive leisure passengers, who are now paying a similar price on both airlines.

Figure 3.6 Air fares on services between Edinburgh and Gatwick



Notes: *Average fare levels have not been adjusted for inflation.*
** easyJet began serving the route in February 2002. Data for easyJet therefore relates only to February and March 2002, which were within the period covered by the 2001 Edinburgh survey.*

Source: *CAA Passenger Survey.*

Services between UK Regional Airports

Traffic development on region-to-region routes

3.31 Table 3.4 shows that traffic between UK regional airports has more than doubled between 2000 and 2006, compared with the slower growth (and recent decline) in domestic traffic from London. Manchester traffic is shown separately in the table because of the differing growth patterns. Manchester traffic was relatively static until 2003, since when it has grown at between 10% and 19% each year. On other region-to-region routes annual growth has been strong since 2001, peaking in 2002 at 26%, but the growth reduced suddenly in 2006 to only 2%.

Table 3.4 Traffic on region-to-region routes

	Passengers (m)							Growth
Between	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2000–06**
Manchester and other regions	0.8	0.8	0.8	0.9	1.1	1.3	1.6	84%
All other regions	3.8	4.3	5.4	6.4	7.1	8.1	8.2	117%
Total	**4.6**	**5.1**	**6.2**	**7.3**	**8.2**	**9.4**	**9.8**	**111%**
London and regions	12.6	12.7	13.6	14.3	14.7	14.5	13.9	11%

Source: *CAA airport statistics, terminal passengers at reporting UK airports (excludes Channel Islands but includes Isle of Man routes).*

3.32 CAP 754 found that when comparing the 15 densest region-to-region routes in 2004 with those in 1990, some had shown substantial traffic growth following the entry of no-frills carriers, and the list of airport-pairs concerned had changed quite considerably, with only six of the 15 common to both years. Table 3.5 below compares the top 20 city-pairs in 2006 with 2004 to analyse what subsequent changes there have been; the list of routes has not changed greatly over this short period. Traffic from the two Belfast airports is totalled to give a clearer overall picture.

Table 3.5 Scheduled traffic on top 20 region-to-region city-pairs, 2004 and 2006

		Passengers (000)		
Between	**and**	**2004**	**2006**	**change 2004–06**
Belfast City	*Liverpool*	*---*	*51*	
Belfast Int'l	*Liverpool*	*551*	*474*	
Belfast (total)	Liverpool	551	525	-5%
Birmingham	Edinburgh	383	494	+29%
Belfast City	*Birmingham*	*300*	*263*	
Belfast Int'l	*Birmingham*	*28*	*175*	
Belfast (total)	Birmingham	328	438	+33%
Belfast Int'l	*Glasgow*	*313*	*310*	
Belfast City	*Glasgow*	*107*	*116*	
Belfast (total)	Glasgow	421	425	+1%
Belfast Int'l	*Edinburgh*	*314*	*313*	
Belfast City	*Edinburgh*	*92*	*109*	
Belfast (total)	Edinburgh	406	422	+4%
Belfast City	*Manchester*	*137*	*243*	
Belfast Int'l	*Manchester*	*152*	*179*	
Belfast (total)	Manchester	289	422	+46%
Birmingham	Glasgow	344	322	-6%
Bristol	Edinburgh	325	318	-2%
Bristol	Glasgow	303	277	-8%
Belfast Int'l	*Bristol*	*232*	*244*	
Belfast City	*Bristol*	*75*	*25*	
Belfast (total)	Bristol	307	269	-12%
Belfast Int'l	*Newcastle*	*151*	*230*	
Belfast City	*Newcastle*	*77*	*28*	
Belfast (total)	Newcastle	227	258	+13%
Edinburgh	Manchester	222	257	+16%
Bristol	Newcastle	240	245	+2%
Edinburgh	Southampton	198	236	+19%
Glasgow	Southampton	117	201	+72%
Manchester	Southampton	94	199	+112%
Belfast Int'l	*Leeds Bradford*	*94*	*112*	
Belfast City	*Leeds Bradford*	*104*	*83*	
Belfast (total)	Leeds Bradford	198	195	-2%
East Midlands	Glasgow	210	184	-12%
East Midlands	Edinburgh	331	175	-47%
Glasgow	Manchester	183	170	-7%
Total (top 20 city-pairs)		**5,649**	**6,005**	**+6%**

Notes: *20 city-pairs with greatest traffic in 2006.*
Source: *CAA airport statistics.*

3.33 Traffic on these top 20 city-pairs overall is up only 6% over 2004, indicating that the biggest growth is on smaller routes. The number of routes with more than 50,000 passengers annually has risen from 37 to 47 in those two years.

3.34 Some city-pairs (such as Belfast–Birmingham/Manchester, Birmingham–Edinburgh, and Southampton routes) show strong growth, while on others traffic is flat or has declined. The growth on the three Southampton routes is attributable to Flybe building up its services there in competition with BA Connect. Flybe has an extensive domestic network from Southampton with routes to Belfast City, Edinburgh, Glasgow, Isle of Man, Leeds Bradford, Liverpool, Manchester, Newcastle and the Channel Islands. Although it is feasible to operate larger aircraft types from Southampton, such as Boeing 737s and 757s, operational constraints including runway length limit the non-stop range of the aircraft or impose payload penalties.

3.35 Towards the bottom of Table 3.5 the two East Midlands routes to Scotland show a decline following the withdrawal of easyJet in 2004 (Glasgow) and 2005 (Edinburgh)[19]. bmibaby has however been expanding its operations on these routes, offering three-daily services in summer 2007, as well as on its parallel services from Birmingham, where it offered five and four services a day to Edinburgh and Glasgow respectively in summer 2007. bmibaby has brought a no-frills 737 service to routes that have previously been largely operated with regional jets and turboprops, and appears to be expanding. Flybe is rationalising its fleet and consolidating the frequency and capacity offered on routes where it overlapped with BA Connect. Table 3.6 below illustrates the competitive position on routes between major UK centres (Birmingham and Manchester on the one hand and Belfast, Aberdeen, Edinburgh and Glasgow on the other) between 2004 and 2006. The table illustrates the entry of bmibaby to replace BA Connect as a competitor to Flybe, while the Manchester–Scotland routes remain operated by bmi regional with smaller regional jets. The table also shows that another no-frills carrier, Jet2.com, began serving Edinburgh–Manchester but subsequently withdrew.

19. If the two East Midlands–Scotland routes are removed from the table, the growth for the remaining 18 routes over the two years rises sharply from 6% to 11%, although it should be noted that some of traffic lost on these routes may have been attracted to the Birmingham–Scotland routes shown in the table.

Table 3.6 Competition on routes between Birmingham/Manchester and Aberdeen/Edinburgh/Glasgow/Belfast, 2004–2006

		Number of flights		
		2004	**2005**	**2006**
Birmingham–Aberdeen	bmibaby	---	---	212(a)
	BA Connect	1,831	1,834	1,844
Birmingham–Edinburgh	bmibaby	---	1,372	1,722
	BA Connect	3,837	3,882	3,903
	Flybe	3,645	3,523	3,375
Birmingham–Glasgow	bmibaby	---	---	---(b)
	BA Connect	3,688	3,283	3,706
	Flybe	3,679	3,478	3,306
Birmingham–Belfast International	bmibaby	---	1,644	1,837
	MyTravel Lite	374	---	---
Birmingham–Belfast City	BA Connect	---	---	906
	Flybe	4,172	4,210	3,841
Manchester–Aberdeen	BA Connect	2,014	2,015	2,012(c)
	bmi regional	1,727	1,847	2,349
Manchester–Edinburgh	BA Connect	3,618	3,559	3,529
	bmi regional	2,815	2,753	2,910
	Jet2.com	---	1,461	905(d)
Manchester–Glasgow	BA Connect	3,468	3,493	3,473
	bmi regional	2,619	2,103	2,121
Manchester–Belfast International	bmi/bmibaby	1,895	2,094	2,180
Manchester–Belfast City	BA Connect	3,925	3,954	3,809
	Flybe	---	---	2,485

Notes: *BA Connect has now been acquired by Flybe.*
(a) Service started October 2006. (b) Service started March 2007. (c) Service suspended March 2007. (d) Service suspended October 2006.

Source: *CAA airport statistics.*

3.36 CAP 754 noted that the business model of some airlines, in particular Flybe, was to offer an air alternative for journeys between UK regions (using low fares as a market stimulant) where the surface journey is inconvenient because of geography, poor road or rail links or congestion. The significant increase in region-to-region traffic on smaller routes noted above would seem to confirm that such routes have developed further. Future trends are difficult to predict. The wider effects described earlier in this chapter may currently be dampening demand on shorter journeys, particularly where rail links have been improved, which might explain the lack of growth in Birmingham/Manchester–Glasgow traffic shown in Tables 3.5 and 3.6. However, on other cross-country routes where surface alternatives are less convenient, there would still appear to be potential for improved air links and traffic growth.

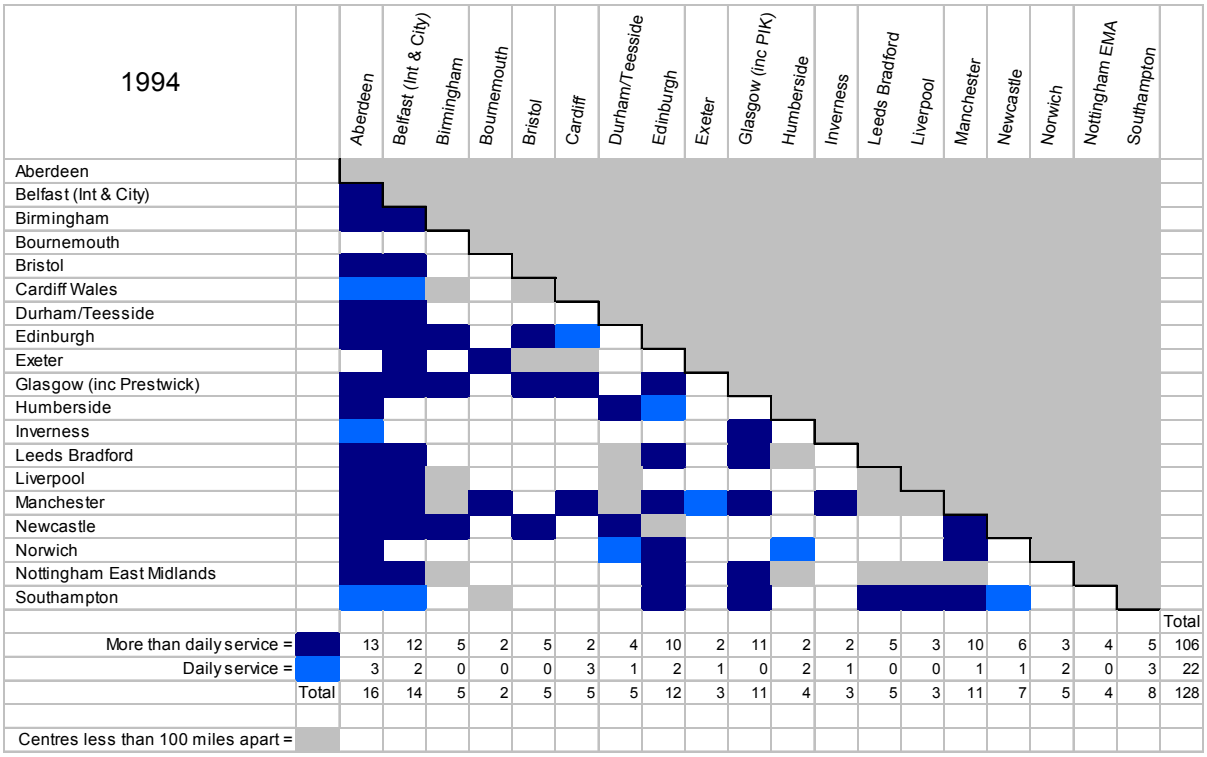
Connections between UK regions

3.37 Figure 3.7 illustrates the links between 19 selected UK regional centres[20], comparing 2007 with 1994 in order to update the similar diagram in CAP 754 which compared 2004 with 1994[21]. This also mirrors the analysis of international routes earlier in this document (Figure 2.2 in Chapter 2).

3.38 CAP 754 showed a slight fall in the number of these links between 1994 and 2004, from 64 to 59 routes, although services proposed for 2005 were expected to add another ten routes including three from Liverpool and three from Belfast. However, the 2007 diagram shows that there has been a net increase of only two routes (making 66) compared with 1994. This reflects some churn in the routes being operated even over the short period of the last three years, and several of the proposed Belfast and Liverpool routes are no longer operated. Over the same period, Inverness has however gained five new routes (although two are less than daily), Exeter has gained four and Leeds three. As noted in CAP 754, Northern Ireland and Scotland continue to have the most connections with other UK regional centres. In terms of total connections between these 19 UK regional centres, there has been no significant change compared with either 2004 or 1994, despite the significant overall traffic growth on region-to-region routes noted in Table 3.4.

20. The change between 2004 and 2007 is shown in the final row of the 2007 diagram. The diagram for 2004 is not shown, but can be found on page 27 of CAP 754.
21. For consistency, the same 19 regional centres are shown as in the equivalent diagram in CAP 754, based on the biggest 21 UK regional airports in terms of total traffic in 2004. The figure therefore omits the new airport at Doncaster Sheffield which currently has a twice-daily service to Belfast, but includes Humberside. Also, for ease of comparison, East Midlands is shown under "Nottingham" although its name has since changed.

Figure 3.7 Connections between selected UK regional centres – 1994 and 2007



1994

	Aberdeen	Belfast (Int & City)	Birmingham	Bournemouth	Bristol	Cardiff	Durham/Teesside	Edinburgh	Exeter	Glasgow (inc PIK)	Humberside	Inverness	Leeds Bradford	Liverpool	Manchester	Newcastle	Norwich	Nottingham EMA	Southampton	Total
Aberdeen																				
Belfast (Int & City)																				
Birmingham																				
Bournemouth																				
Bristol																				
Cardiff Wales																				
Durham/Teesside																				
Edinburgh																				
Exeter																				
Glasgow (inc Prestwick)																				
Humberside																				
Inverness																				
Leeds Bradford																				
Liverpool																				
Manchester																				
Newcastle																				
Norwich																				
Nottingham East Midlands																				
Southampton																				
More than daily service =		13	12	5	2	5	2	4	10	2	11	2	2	5	3	10	6	3	4	5	106
Daily service =		3	2	0	0	0	3	1	2	1	0	2	1	0	0	1	1	2	0	3	22
	Total	16	14	5	2	5	5	5	12	3	11	4	3	5	3	11	7	5	4	8	128
Centres less than 100 miles apart =																					

2007

	Aberdeen	Belfast (Int & City)	Birmingham	Bournemouth	Bristol	Cardiff	Durham T.V.	Edinburgh	Exeter	Glasgow (inc PIK)	Humberside	Inverness	Leeds Bradford	Liverpool	Manchester	Newcastle	Norwich	(Nottingham) EMA	Southampton	Total
Aberdeen																				
Belfast (Int & City)																				
Birmingham																				
Bournemouth																				
Bristol																				
Cardiff Wales																				
Durham Tees Valley																				
Edinburgh																				
Exeter																				
Glasgow (inc Prestwick)																				
Humberside																				
Inverness																				
Leeds Bradford																				
Liverpool																				
Manchester																				
Newcastle																				
Norwich																				
(Nottingham) East Midlands																				
Southampton																				
More than daily service =		10	11	6	0	7	3	1	11	4	8	1	3	6	1	9	7	3	4	7	102
Daily service =		2	3	0	1	1	1	0	0	4	3	0	4	2	1	0	0	0	0	2	24
Less than daily service =		1	0	0	0	0	0	0	0	0	0	0	2	0	2	0	0	0	1	0	6
	Total	13	14	6	1	8	4	1	11	8	11	1	9	8	4	9	7	3	5	9	132
Change since 1994		-3	+0	+1	-1	+3	-1	-4	-1	+5	+0	-3	+6	+3	+1	-2	+0	-2	+1	+1	+4
Change since 2004		-1	+0	+0	+0	+2	-2	-1	+0	+4	-1	+0	+5	+3	+1	+1	+0	+0	+1	+2	+14
Centres less than 100 miles apart =																					

Notes: *The UK regional centres are those with the 21 biggest airports in terms of total passenger traffic in 2004.*

One round trip each weekday is counted as a daily service.

Includes throughplane services with an intermediate stop.

Source: *OAG Flight Guides December 1994 and August 2007.*

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Chapter 4 Connections to the Global Network

Chapter Summary

This Chapter contains an analysis of airport statistics and survey data showing the travel patterns of passengers travelling to or from regional airports who are connecting via London or hubs outside the UK, and finds that:

- Survey data suggests that comparing 2005 with five years earlier:
  - for passenger journeys between a regional airport and Europe, the proportion of passengers flying via London, travelling by surface to London, or flying via a European hub, has declined, with a shift to direct flights from regional airports; and
  - for passenger journeys between a regional airport and a point *outside* Europe, the proportion of passengers flying via London, or travelling by surface to London, has declined, with a shift to direct flights from regional airports or to connecting flights via a European hub or a hub outside Europe.
- Links between UK regional airports and the Amsterdam and Paris hubs continue to improve, with at least a daily service from 19 and 13 UK regional airports respectively in 2006. Some of these services are provided by no-frills carriers, which carry virtually no connecting passengers on their flights.
- In contrast, typically between 7% and 20% of passengers on no-frills services from regional airports to London are connecting, depending on the route, despite most no-frills carriers not offering interlining services themselves. In all, around 11% of passengers at Stansted in 2006 were connecting.
- Nine regional airports had services to Heathrow in 2006, on which the proportion of passengers connecting was between one third and two thirds. This is a similar proportion to that on services to Amsterdam, although the number of passengers connecting at Heathrow is substantially greater.
- European hub carriers have in general maintained their connecting traffic despite direct competition from no-frills carriers on some routes. Nearly half of all passengers connecting at a European hub – a greater proportion than five years previously – are travelling to destinations outside Europe.
- Long-haul carriers offering services between regional airports and US or Middle East hubs typically carry around 50–80% connecting passengers. The proportion of passengers connecting over hubs outside Europe has increased, compared with five years previously.

4.1 CAP 754 noted that passengers travelling between the UK regions and more distant points are likely to continue to rely on a major airport hub because of the range of destinations that such hubs offer, a range which is unlikely ever to be matched by a UK regional airport. Such passengers have the option either of travelling by surface to the hub, or by a connecting flight from a regional airport closer to home.

4.2 However, the greater variety of available destinations and increased frequency from regional airports means that the proportion of traffic overall that relies on connections will tend to reduce. CAP 754 compared CAA origin-and-destination Passenger Survey

data for 1990 or 1994/95 with that for 2001 in respect of four UK regional airports. It concluded that the significance of London (and in particular Heathrow) as a connecting point for short-haul passengers had reduced when compared with alternative hubs that were connected to those regional airports, such as Amsterdam. CAP 754 recognised, nevertheless, that Heathrow remained a prime transfer point, especially for passengers connecting to long-haul flights and for those using regional airports without links to foreign hubs. But it was possible to show that even where a direct service was not offered, journey times to many destinations via foreign hubs can be competitive with those where travel is via London.

4.3 This Chapter updates much of the analysis in CAP 754 using the latest airport statistics and survey data available[1]. It begins by looking at more general travel patterns from the regions using a combination of CAA Passenger Surveys.

Changes in Travel Patterns since 2000

4.4 An analysis of CAA survey data to compare the position in 2005 with that in 2000 shows an apparent shift in the travel patterns of "regional" passengers (defined as those travelling on scheduled flights from a UK airport with a UK origin or destination outside the South-East region)[2].

4.5 Table 4.1 overleaf shows, for each year, the number of such passengers travelling by surface to a South-East airport, taking a direct flight from a regional airport, or taking a flight from a regional airport in order to connect with a different flight at another airport – and shows whether that connection was in the UK, elsewhere in Europe, or outside Europe.

4.6 These results show that for passengers on scheduled flights in 2005, approximately the same number travelled by surface to London to catch a flight to their destination as travelled on direct flights from a regional airport to their destination. Together these passengers made up just over 90% of total passengers on scheduled flights. The remaining 10% travelled by air to connect to another flight in London (4%), in Europe (4%), or outside Europe (2%).

4.7 The picture is completely different for charter passengers. In 2005, nearly 90% travelled on direct flights from regional airports to their destination, with the balance travelling by surface to London. Virtually none took connecting flights.

4.8 Overall traffic growth of 26% between the two sample years means that, for a given category, there may have been a rise in passenger numbers even though the proportion they represent of the total has fallen. In order to assess any trends in passenger numbers on scheduled flights, Figures 4.1 and 4.2 therefore show graphically how the proportion of total "regional" passengers has altered between the two sample years, categorised by passengers' ultimate destination (domestic, international short haul and international long haul). Figure 4.1 shows the same data as Table 4.1 but in the form of pie charts. Figure 4.2 shows the percentage-point change between the 2000 and 2005 snapshots.

1. With the exception of the continuous survey at Manchester, surveys carried out at UK regional airports are on a rotating basis. Therefore data used in this Chapter is available only for selected years, which explains why a full comparison with CAP 754 is not always possible.
2. Since not all UK airports were surveyed in 2000, a snapshot of UK demand was created from the survey data from 1999, 2000 and 2001, with the results weighted to the traffic levels in 2000. A similar process was used on the survey data from 2003 and 2005 to create the 2005 snapshot. This is the basis for the data used in Table 4.1, Figure 4.1 and Figure 4.2.

4.9 It can be seen that between 2000 and 2005, on scheduled flights:

- The number of regional passengers using *direct flights from regional airports to their destination* has increased, as has the proportion (from 35% to 46%);
- The number of passengers travelling by *surface to a South-East airport* has risen, but the proportion these represent of all regional passengers has fallen (from 53% to 45%), this fall largely accounted for by passenger taking short-haul flights;
- The number of regional passengers *flying to London to connect to another flight* has fallen, as has the proportion these represent of all regional passengers;
- The number of regional passengers *flying to a European hub to connect to another flight* is broadly the same, but the proportion these represent of all regional passengers has fallen; within this, there has been a shift from passengers connecting to short-haul flights (in decline) to those connecting to long-haul flights (growing), such that nearly half the passengers connecting at a European hub are travelling on to long-haul points; and
- The number of regional passengers f*lying to a hub outside Europe to connect to another flight* has increased, as has the proportion these represent of all regional passengers travelling to long-haul points (from 5% to 7%; the proportion this represents of all regional passengers remains constant at around 2%).

4.10 These results seem to point to a shift away from the use of London airports (including when used as a connecting hub) and (for short-haul destinations) from European hubs to direct flights from regional airports, and a greater use of other European and non-European hubs for long-haul connections.

Table 4.1 Changes in the airports and connections used by UK regional passengers, 2000 and 2005

2000	Scheduled								Charter					
Between UK region and >	Domestic		Int. short-haul		Int. long-haul		Total		Int. short-haul		Int. long-haul		Total	
Journey pattern	Passengers (m)	%	Passengers (m)	%	Passengers (m)	%	Passengers (m)	%	Passengers (m)	%	Passengers (m)	%	Passengers (m)	%
Surface to South-East airport	5.4	25%	18.2	56%	17.2	74%	40.8	53%	2.9	12%	0.8	36%	3.6	14%
Direct flight from regional airport	15.8	74%	10.4	32%	1.1	5%	27.3	35%	21.0	88%	1.3	63%	22.3	86%
Flight from regional airport connecting at:														
UK airport	0.3	1%	1.6	5%	2.4	10%	4.3	6%	---		---		---	
other European airport	---		2.2	7%	1.4	6%	3.6	5%	---		---		---	
non-European airport	---		---		1.2	5%	1.2	2%	---		---		---	
Total	21.5	100%	32.5	100%	23.3	100%	77.3	100%	23.9	100%	2.1	100%	26.0	100%

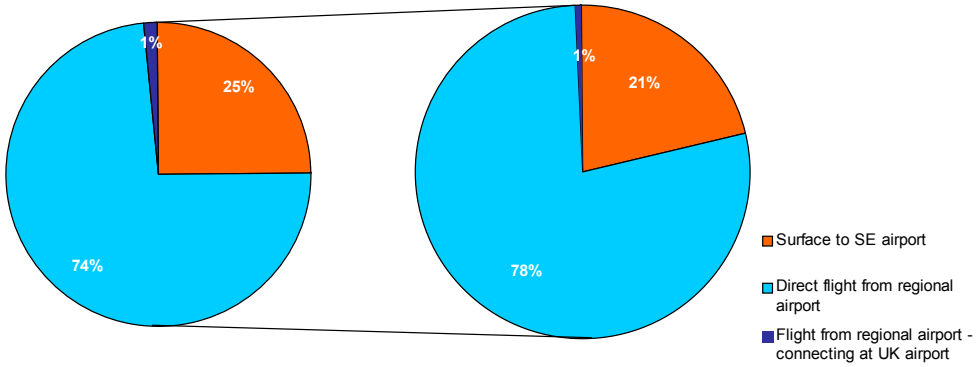
2005	Scheduled								Charter					
Between UK region and >	Domestic		Int. short-haul		Int. long-haul		Total		Int. short-haul		Int. long-haul		Total	
Journey pattern	Passengers (m)	%	Passengers (m)	%	Passengers (m)	%	Passengers (m)	%	Passengers (m)	%	Passengers (m)	%	Passengers (m)	%
Surface to South-East airport	5.6	21%	22.9	44%	19.4	71%	48.0	45%	2.3	11%	0.7	31%	3.0	12%
Direct flight from regional airport	20.6	78%	25.6	49%	1.9	7%	48.2	46%	19.7	89%	1.5	68%	21.1	88%
Flight from regional airport connecting at:														
UK airport	0.2	1%	1.4	3%	2.3	8%	3.8	4%	---		---		---	
other European airport	---		2.0	4%	1.7	6%	3.7	4%	---		---		---	
non-European airport	---		---		2.0	7%	2.0	2%	---		---		---	
Total	26.4	100%	51.9	100%	27.4	100%	105.8	100%	22.0	100%	2.2	100%	24.1	100%

Notes: *--- indicates fewer than 50,000 passengers. In terms of origin or destination, "international short-haul" is defined here as geographical Europe, North Africa and Turkey.*

Source: *CAA Passenger Survey, covering all passengers with a UK origin or destination outside the South-East planning region.*

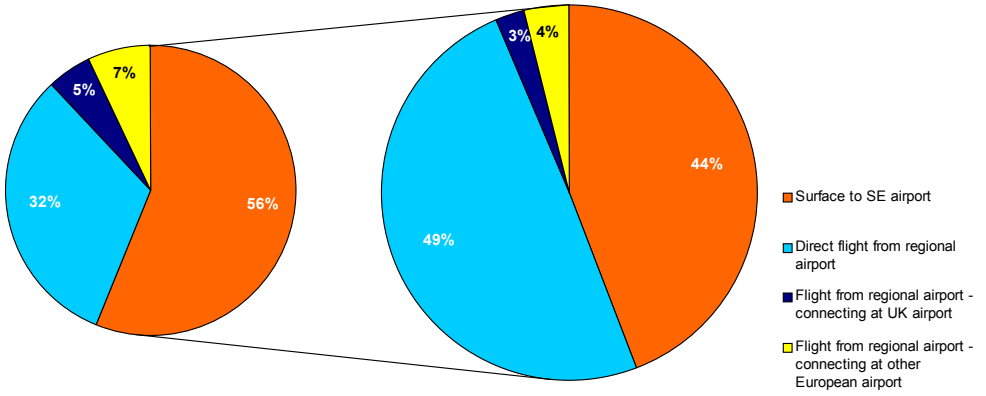
Figure 4.1 Change in journey patterns by passengers travelling to/from UK regions on scheduled flights, 2000 and 2005

a) *Passengers travelling between a UK region and another point in the UK*



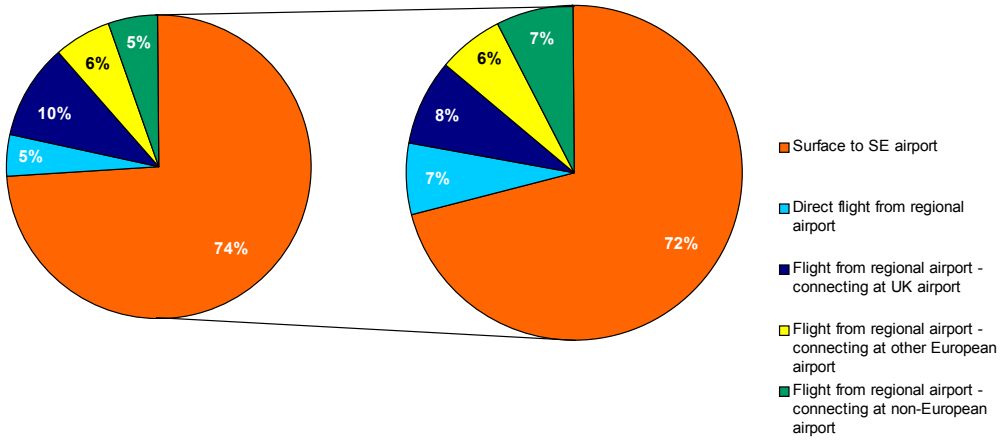
2000: 21.5m 2005: 26.4m

b) *Passengers travelling between a UK region and a short-haul point (except UK)*



2000: 32.5m 2005: 51.9m

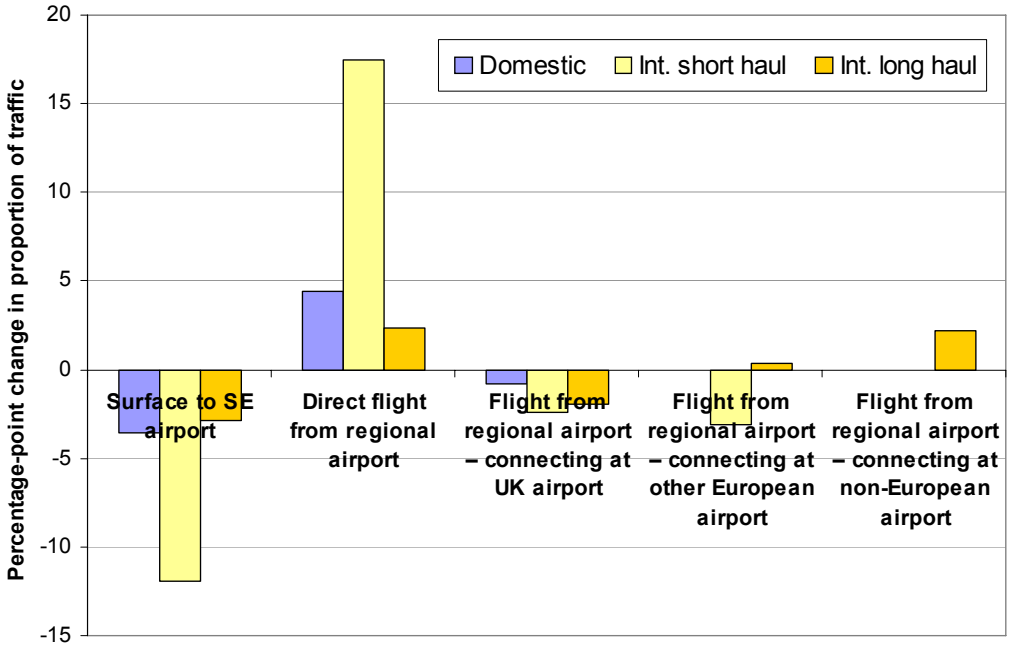
c) *Passengers travelling between a UK region and a long-haul point*



2000: 23.3m 2005: 27.4m

Source: *CAA Passenger Survey, covering all passengers with an origin or destination outside the South-East planning region.*

Figure 4.2 Percentage-point change in journey patterns by passengers travelling to/from UK regions on scheduled flights, 2000 and 2005



Source: CAA Passenger Survey covering all passengers with an origin or destination outside the South-East planning region.

Use of London as a Connecting Point

4.11 Table 4.2 uses 2005 survey data to show in more detail for four UK regional airports what proportions of passengers travelling by air in order to make a connection continue to rely on London as the transfer point. This updates a similar table in CAP 754[3].

3. CAP 754 data was based on a slightly different definition, hence the 2001 figures shown here have been adjusted from CAP 754 so that the 2001 and 2005 figures are based on common criteria.

Table 4.2 Hub share of passengers from regional airports who connect en route, 2001 and 2005

		Final destination			
Origin	**Connecting point**	**Short haul**		**Long haul**	
		proportion of passengers			
		2001	*2005*	*2001*	*2005*
Edinburgh	Heathrow	31%	25%	61%	50%
	Gatwick	8%	13%	5%	9%
	Other London	15%	19%		
	Other hub	46%	43%	34%	41%
	Total	*100%*	*100%*	*100%*	*100%*
Glasgow	Heathrow	31%	28%	45%	39%
	Gatwick	10%	16%	9%	7%
	Other London	13%	19%		
	Other hub	46%	37%	46%	54%
	Total	*100%*	*100%*	*100%*	*100%*
Aberdeen	Heathrow	32%	37%	38%	45%
	Gatwick	15%	10%	21%	20%
	Other London	8%	7%		
	Other hub	45%	46%	41%	35%
	Total	*100%*	*100%*	*100%*	*100%*
Newcastle	Heathrow	26%	19%	55%	54%
	Gatwick	10%	10%	14%	14%
	Other London	4%	23%		
	Other hub	60%	48%	31%	32%
	Total	*100%*	*100%*	*100%*	*100%*

Notes: *Figures for Scottish airports include only those passengers whose surface origin is in Scotland, and figures for Newcastle include only those passengers whose surface origin is in the Northern planning region. In each case this captures the majority of passengers at these airports.*

Source: *CAA Passenger Survey.*

4.12 CAP 754 compared the 2001 position with 1990 or 1994/5 and recorded significant reductions in the proportion of passengers connecting at Heathrow. When compared with 2001, the Heathrow 2005 figures above do not show as great a margin of change, but there are some observable trends. For passengers travelling to *short-haul* destinations, the table shows that the proportion using Heathrow as a connecting point in 2001 was generally much greater than that using other London airports. By 2005, the margin had narrowed, probably reflecting the low-fare options now available to and from other London airports, and the greater range of short-haul destinations at those airports than in the past. The exception was Aberdeen, where passengers have fewer alternative services to other airports. From Newcastle the proportion of passengers using Stansted to connect to a short-haul flight exceeded that at Heathrow. The proportion of passengers connecting to short-haul flights at

hubs outside London (collectively) continues to exceed that connecting at Heathrow, although it has declined slightly.

4.13 For passengers travelling to *long-haul* destinations, the proportion of passengers using London airports other than Heathrow as a connecting point is not surprisingly much less, as there are significantly fewer long-haul services at those airports. The main choice is therefore between Heathrow and a non-London hub. Table 4.2 shows that in 2005 a larger proportion of passengers was connecting at Heathrow than at non-London airports, except from Glasgow. Since 2001, the proportion of passengers connecting at Heathrow has declined from Edinburgh and Glasgow, but has remained constant from Newcastle and risen from Aberdeen. This reflects the expansion of long-haul flights to hubs in the US and Dubai from Edinburgh and/or Glasgow alongside the existing European hub connections. It could be concluded that while Heathrow remains an important connecting point, particularly for long-haul passengers, where there is an increased range of alternatives on direct services or via alternative hubs, its significance is lessened.

Services between UK Regional Airports and European Hubs

4.14 Table 4.3 summarises the connections between UK regional airports and the principal European hubs, comparing 2006 with the years 1990 and 2003 that were recorded in CAP 754. The number of links with Amsterdam and Paris CDG has continued to increase, with services from 19 and 13 UK regional airports respectively.

Table 4.3 Development of services between UK regional airports and European hubs, 1990, 2003 and 2006

	UK regional airports served			Average round trips per day		
	1990	**2003**	**2006**	**1990**	**2003**	**2006**
Amsterdam	15	16	19	35	71	73
Paris CDG	9	11	13	19	46	48
Frankfurt Main	2	4	4	7	18	18
London Heathrow	18	8	9	118	79	81

Notes: *The table shows routes with 500 or more one-way flights (in either direction) over the year, broadly equating to a daily weekday round-trip service.*

Source: *CAA airport statistics.*

4.15 The 2006 services shown in aggregate in Table 4.3 are itemised separately in Table 4.4 below, which also includes services to three other European airports that have connecting opportunities.

Table 4.4 Services between UK regional airports and European hubs, 2006

	Average round trips per day						
	London Heathrow	**Amster-dam**	**Paris CDG**	**Brussels**	**Frankfurt Main**	**Copen-hagen**	**Milan Malpensa**
Aberdeen	10.5	5.0	2.9			1.0	
Belfast City	7.6						
Belfast International		1.0	1.0				
Birmingham		7.5	9.9	3.7	7.3	1.7	1.7
Bournemouth		1.0					
Bristol		5.0	4.4	2.2	1.0		1.0
Cardiff Wales		4.4					
Coventry		0.8					
Doncaster Sheffield		0.8					
Durham Tees Valley	2.8	3.0	0.7				
East Midlands		1.9	1.4	2.1			
Edinburgh	17.8	5.8	5.1	2.3	3.0	1.7	
Exeter			1.7				
Glasgow	16.3	4.4				1.0	
Humberside		3.1					
Inverness	1.0						
Leeds Bradford	3.5	5.0	3.4	2.0			
Liverpool		3.5	2.0				
Manchester	15.4	8.6	9.5	4.9	6.8	2.5	3.5
Newcastle	5.8	6.0	3.8	1.7			
Norwich		3.8					
Southampton		2.9	2.5	1.9			
Total	**80.5**	**73.3**	**48.3**	**20.8**	**18.1**	**7.9**	**6.2**
UK regional airports served	**9**	**19**	**13**	**8**	**4**	**5**	**3**

Notes: *There were no services from UK regional airports to Milan Linate and Rome Fiumicino in 2006.*
Source: *CAA airport statistics.*

Comparing the use of European hubs with Heathrow as a connecting point

4.16 Table 4.5 uses CAA survey data to quantify the connecting traffic on services between nine UK regional airports and the four main European hub airports. It shows the numbers of passengers using these flights to make a connection, and what proportions these passengers form of the total carried on each airport pair.

Table 4.5 Connecting traffic on services between nine UK regional airports and European hubs, 2005/2006

		Year	Heathrow	Amsterdam	Paris CDG	Frankfurt
Aberdeen	Connecting passengers (000s)	2005	292	163	48	Not served
	% of total passengers on route		44%	68%	69%	
Edinburgh	Connecting passengers (000s)	2005	552	217	53	108
	% of total passengers on route		34%	53%	32%	63%
Glasgow	Connecting passengers (000s)	2005	453	174	Not served	Not served
	% of total passengers on route		32%	55%		
Belfast	Connecting passengers (000s)	2006	242	2	2	Not served
	% of total passengers on route		37%	2%	2%	
Birmingham	Connecting passengers (000s)	2006	Not served	225	97	103
	% of total passengers on route			46%	26%	36%
Durham Tees Valley	Connecting passengers (000s)	2005	74	90	0	Not served
	% of total passengers on route		49%	72%	0%	
Leeds Bradford	Connecting passengers (000s)	2005	120	81	5	Not served
	% of total passengers on route		68%	33%	4%	
Manchester	Connecting passengers (000s)	2006	701	312	178	209
	% of total passengers on route		65%	51%	40%	59%
Newcastle	Connecting passengers (000s)	2005	284	175	47	Not served
	% of total passengers on route		54%	67%	27%	

Notes: *From some regional airports such as Aberdeen there may be a significant number of passengers (in aggregate) connecting at airports other than the four shown, which explains any difference from the percentages shown under "other hubs" in Table 4.2.*

Source: *CAA Passenger Survey.*

4.17 For these nine regional airports, based on 2005 and 2006 survey data, there were more passengers from each airport that connected at Heathrow than connected at each of the other three European hubs, with the exception of Birmingham (not served from Heathrow) and Durham (where more are carried over Amsterdam). There were significantly more connecting passengers using Amsterdam than Paris or Frankfurt.

4.18 The proportion of passengers on routes from Belfast, Edinburgh and Glasgow to Heathrow that connected at Heathrow was around one third, whereas the proportion from Manchester and Leeds Bradford was as high as two thirds. On routes to other European hubs the proportion of passengers in each case was quite variable depending on whether a hub carrier served the route and on its market share. For example, from Birmingham, Edinburgh, Glasgow and Manchester to Amsterdam around half of the traffic was connecting, and around a third from Leeds; each of these routes had a no-frills carrier operating in competition with KLM. From Aberdeen, Durham and Newcastle, two thirds or more of the traffic is connecting; on each of these routes KLM was the sole operator.

4.19 CAP 754 included a similar table using earlier survey data for four of these airports allowing a comparison for the four years between 2001 and 2005 (Edinburgh, Newcastle) and for the three years between 2003 and 2006 (Birmingham, Manchester). Bearing in mind the differing timescales necessitated by when the surveys were carried out, and that surveys are by their nature subject to sampling error, the number of connecting passengers on services to Heathrow was about the same from Edinburgh, down 11% from Manchester, and up 17% from Newcastle. The proportion these passengers represented of the total was broadly unchanged, except from Manchester where the proportion had increased (i.e. the number of point-to-point passengers has fallen more quickly).

4.20 The number of connecting passengers on services to Amsterdam has risen by up to a third from Edinburgh and Newcastle (between 2001 and 2005), and Manchester (2003–2006) and by more than three quarters from Birmingham (2003–2006). The number of connecting passengers on services to Paris has increased more than a third from Birmingham (2003–2006), but has reduced slightly from Edinburgh and Newcastle (2001–2005) and Manchester (2003–2006). The number of connecting passengers on services to Frankfurt has increased by around a third from Edinburgh (2001–2005), Birmingham and Manchester (2003–2006). On all these routes to European hubs, the proportion that connecting passengers represented of the total was not greatly different from the previous survey.

Variations between airlines in the use of European hubs as a connecting point

4.21 Analysis of CAA Passenger Survey data at the airline level demonstrates a variation in the proportion of connecting passengers depending on the carriers operating the route (although sampling error at this level of detail will be greater, and will depend on the number of interviews obtained in the year relative to the size of the route). For example, on routes between a European hub and regional airports where a survey was carried out in 2006, typically only 1–2% of no-frills carriers' traffic was connecting at the European hub and only around 5–15% of traffic carried by BA Connect and bmi regional[4]. This compares with between 40% and 68% of traffic carried by Air France, KLM and Lufthansa between Birmingham or Manchester and Paris, Amsterdam and Frankfurt respectively. These carriers are best placed to offer good connections over the hub, and they offer through fares from end to end. Airlines such as BA Connect (and its successor Flybe) and bmi regional can, by means of the IATA multilateral interline system[5], offer interline connections at non-UK hubs to destinations beyond, including through ticketing and baggage and some reassurance over missed connections. However, they are unlikely to be as competitive either with the connecting times or the through fares that the hub carrier can offer (unless the carrier they are interlining with is a member of the same alliance, in which case there may be opportunities for codesharing and through fares). This explains why they achieve only 5–15% connecting traffic in the examples noted above. Most no-frills airlines do not interline at all, which requires the passenger to book each sector as a completely separate ticket, so, even to the extent that no-frills airlines serve non-UK hubs (rather than secondary airports), they are carrying very little connecting traffic.

4.22 Chapter 5 of CAP 754 considered in more detail the question of what it termed "self-interlining", because of evidence that despite the finding above, passengers on no-frills airlines' flights to London *were* using London airports as a connecting point. It noted that CAA survey data for 2003 showed around 14% of passengers using

4. These figures relate to services by no-frills carriers on Belfast–Amsterdam/Paris, East Midlands–Amsterdam/Paris and Manchester–Amsterdam, and to services by BA Connect/bmi regional on East Midlands/Manchester–Brussels, Birmingham/Manchester–Frankfurt and Birmingham–Paris.
5. CAP 754 explains these points in more detail on pages 52–54.

Stansted to be connecting to another flight, a total of 2.5m passengers, despite the very few formal interlining opportunities offered by airlines serving Stansted. The explanation seemed to be that the sheer range of destinations and relatively low fares, even in two transactions, did make this attractive. More recent survey data for subsequent years shows that although the number of passengers self-interlining has remained about the same, the proportion they represent of the total at the airport has fallen, to around 11% by 2006. The reduction might be attributable to the relatively greater range of destinations now available as direct services from regional airports.

4.23 Table 4.6 uses 2005 survey data to analyse, by airline, the proportion of passengers on various domestic routes to London who were using London as a connecting point. The table confirms that on domestic services to London, BA and bmi continue to carry a high proportion of connecting passengers, between one quarter and two thirds, with shorter routes tending to have a higher proportion because point-to-point passengers are more likely to use surface alternatives. Aberdeen and Inverness also show a high proportion of connecting passengers, probably because of strong oil-related traffic and the lack of alternative hub connections, respectively. Although the results are not greatly different from the equivalent table in CAP 754, the proportion of connecting traffic seems to have fallen slightly on a number of routes, Aberdeen being an exception. The nine easyJet routes show a proportion of connecting traffic ranging from 7–21%, slightly less than in 2003, and with no obvious pattern between the three London airports served. Nevertheless, it is clear that the proportion of connecting traffic carried by easyJet on domestic services to London is significant, and quite different to the 1–2% carried by no-frills airlines on services to European hubs, noted above.

Table 4.6 Connecting traffic at London airports from UK regional airports, 2005

	% of passengers on the route connecting at London airport				% of passengers on the route connecting at London airport		
Aberdeen	Gatwick	BA	50%	Inverness	Gatwick	easyJet	9%
	Heathrow	BA	53%		Gatwick	BA	37%
	Heathrow	bmi	27%		Heathrow	bmi	48%
	Luton	easyJet	20%		Luton	easyJet	7%
Edinburgh	Gatwick	BA	33%	Leeds Bradford	Heathrow	bmi	68%
	Gatwick	easyJet	10%				
	Heathrow	BA	39%	Manchester	Gatwick	BA	36%
	Heathrow	bmi	26%		Gatwick	Jet2	13%
	Luton	easyJet	11%		Heathrow	BA	56%
	London City	BA	10%		Heathrow	bmi	42%
	London City	Scot Airways	3%		London City	VLM	10%
	Stansted	easyJet	17%				
	Stansted	Flyglobespan	10%	Durham Tees Valley	Heathrow	bmi	49%
Glasgow	Gatwick	BA	39%	Newcastle	Gatwick	BA	42%
	Heathrow	BA	36%		Heathrow	BA	54%
	Heathrow	bmi	26%		Stansted	easyJet	21%
	Luton	easyJet	10%				
	Stansted	easyJet	7%	Prestwick	Stansted	Ryanair	4%
	Stansted	Flyglobespan	8%				

Source: CAA Passenger Survey.

Connections at Hubs Outside Europe

4.24 As noted in the analysis of long-haul routes in Chapter 2, the majority of long-haul services from UK regional airports are dependent on a hub at the destination to generate connecting traffic travelling on to other destinations on the hub carrier's network. These are largely to points in the US or Middle East. Table 4.7 shows the proportion of connecting passengers that these services carry, where CAA survey data is available.

Table 4.7 Connecting traffic on routes to the USA and Middle East from UK regional airports, 2005/2006

			- - - - - - Passengers (000s) - - - - - -				
			Point-to-point	- - - - Connecting - - - -			
				Ultimate destination			Connecting as % of total
Airline	**Route**	**Year**		**Principal**		**Other**	
American Airlines	Glasgow–Chicago	2005	11	USA	42	1	80%
	Manchester–Boston	2006	44	USA	26	0	37%
	Manchester–Chicago	2006	25	USA	102	5	81%
	Manchester–Miami	2006	10	USA	1	1	19%
bmi	Manchester–Chicago	2006	24	USA	113	0	83%
British Airways	Manchester–New York (JFK)	2006	108	USA	8	0	7%
Continental Airlines	Belfast–Newark	2006	45	USA	54	3	56%
	Birmingham–Newark	2006	45	USA	74	2	63%
	Edinburgh–Newark	2005	40	USA	76	2	66%
	Glasgow–Newark	2005	52	USA	69	4	58%
	Manchester–Newark	2006	93	USA	91	5	51%
Delta Airlines	Manchester–Atlanta	2006	35	USA	90	4	73%
	Manchester–New York (JFK)	2006	49	USA	38	2	45%
US Airways	Glasgow–Philadelphia	2005	9	USA	40	1	81%
	Manchester–Philadelphia	2006	52	USA	89	3	64%
Virgin Atlantic	Manchester–Orlando	2006	253	USA	6	1	2%
Emirates	Birmingham–Dubai	2006	92	Australia	81	136	70%
	Glasgow–Dubai	2005	46	Australia	51	70	72%
	Manchester–Dubai	2006	85	Australia	89	237	79%
Etihad Airways	Manchester–Abu Dhabi	2006	32	Thailand	26	27	62%
Qatar Airways	Manchester–Doha	2006	10	Thailand	42	63	91%

Source: CAA Passenger Survey.

4.25 The analysis in Chapter 2 noted the development by Continental Airlines of a network of services between its New York (Newark) hub and six regional airports (Belfast, Birmingham, Bristol, Edinburgh, Glasgow and Manchester), some of which are now sustaining double-daily services. Table 4.7 shows that these services carry a broadly similar proportion of connecting passengers of between a half and two thirds, and therefore also carry a substantial number of point-to-point passengers, New York being a popular origin/destination in its own right. This can also be seen in the Delta Airlines figures where New York attracts a much higher proportion of point-to-point passengers than the service to its principal hub at Atlanta.

4.26 Other US carriers providing connections to their global network via their hub from a UK regional airport are American (Manchester–Chicago) and US Airways (Glasgow– and Manchester–Philadelphia). bmi also feeds its codeshare and alliance partner United's hub with a Manchester–Chicago service. Table 4.7 shows the high proportion of connecting passengers (64–83% in 2005/06) on these services. This can be contrasted with the two leisure-dominated Manchester–Florida services, and also with BA's Manchester–New York JFK service, on which relatively few passengers are connecting.

4.27 In terms of passenger numbers, Emirates is the biggest long-haul operator from UK regional airports. As well as providing a link to the business and tourist centre of Dubai, a prime market is the carriage of passengers connecting at its Dubai hub onto its network of more than 90 destinations, providing an alternative to London or continental hubs for long-haul passengers travelling between the UK regions and Africa, Asia or Australasia. Emirates' services from UK regional airports began with a twice-weekly service from Manchester in 1990. By 2006, Emirates was operating twice daily from Birmingham and Manchester and had added a daily service from Glasgow in 2004. In September 2007 Emirates started a new daily Newcastle–Dubai service, Newcastle's first long-haul scheduled service and regarded by the airport as the most important new route in its history. Table 4.7 shows that on Emirates' services from Birmingham, Glasgow and Manchester, between 70% and 79% of passengers were connecting at Dubai in 2005/06.

4.28 Etihad Airways and Qatar Airways also feed their respective Middle East hubs with daily services from Manchester and carry a high proportion of connecting passengers. CAA survey data suggests that only around 9% of Qatar Airways' traffic has its origin or destination in Doha itself.

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Chapter 5 Developments in Regional Services – the Airline Perspective

Chapter Summary

This Chapter contains a commentary on airline developments including traffic and competition issues, and finds that:

- easyJet was by far the biggest scheduled operator at UK regional airports in 2006 with nearly 15m passengers arriving or departing at nine airports. With its acquisition of BA Connect in 2007, Flybe is also now among the major players, along with the three airlines of the bmi group and Ryanair. BA continues to have a strong presence, but apart from Manchester–New York, all its regional routes are now to London.
- Airlines using the no-frills model are operating the bulk of short-haul regional services. The main exceptions are BA and bmi services to London, niche or business-focused services operated with aircraft of 50 seats or less, and services to foreign hubs or other main cities by foreign national carriers.
- Hub carriers KLM/Air France and Lufthansa have maintained or increased their presence despite the competitive pressure from the expansion of no-frills airlines. The biggest long-haul carriers at UK regional airports are Emirates and Continental, feeding hubs in Dubai and Newark respectively.
- The biggest charter airlines at UK regional airports in 2006 were Thomsonfly, First Choice, Thomas Cook and MyTravel. These airlines' tour operator parent companies consolidated into two groups in 2007, which is likely to give rise to some restructuring in future.
- Blurring between the typical full-service, no-frills and charter airline business models has continued, partly as airlines have sought both to find their unique selling proposition within each model and to remain competitive. Full-service carriers have adopted elements of the no-frills model, no-frills airlines are offering a menu of frills for a supplement, traditional charter operators are increasingly offering scheduled services, and some no-frills airlines are seeking to attract the package holiday market. The result is that the consumer has a rich mix of airline products.
- There are indications that in a highly competitive environment airlines may be more inclined to suspend poorly performing routes sooner, and therefore to switch resources to another route if they can see a more profitable opportunity (either lower costs or better yield).

Airlines Operating from UK Regional Airports

5.1 In the context of the rapid expansion of regional air services, Chapter 6 of CAP 754 noted that the most dramatic changes had occurred where no-frills airlines had entered the market on short-haul scheduled routes, offering low fares with relatively few ticket conditions. The traditional "full-service" airlines had been forced to react as no-frills carriers began to attract away increasing amounts of business traffic, and had begun to adopt elements of the no-frills model (for example containing costs, restructuring fares and increasing load factors). The distinction between no-frills and full-service airlines had become more blurred, resulting in a rich mix of airlines with a

range of different offerings in the UK regional market. This Chapter looks at what further developments there have been from the airline perspective.

Scheduled services

5.2 Table 6.1 of CAP 754 showed the relative sizes and networks of airlines operating scheduled services from UK regional airports. It illustrated how no-frills airlines, and in particular easyJet, Ryanair and Flybe, had, in less than a decade, become major players on regional routes, such that their passenger throughput at regional airports was comparable with established airlines such as BA and bmi. An updated version of this table is shown overleaf for the calendar year 2006 (Table 5.1). The table is arranged in order of total scheduled passengers by airline or airline group, and by airport[1].

Traffic carried by airlines with a substantial UK base

5.3 The table shows that easyJet continued to be the biggest operator at UK regional airports with 14.8m passengers arriving or departing at nine regional airports in 2006, an increase of around 13% on the figure quoted in CAP 754 (which was for the year ending August 2004). BA and regional subsidiary BA Connect accounted for 9.6m passengers, and bmi, bmibaby and bmi regional collectively accounted for 9.4m. The next biggest were Ryanair at 8.5m, Flybe at 6.7m, and Jet2.com at 2.9m. (It should be noted that all these figures necessarily count domestic passengers between two regional airports twice, once at each airport.) The next entries in the table reflect the substantial growth in the scheduled services of Monarch, Thomsonfly and Flyglobespan, services which have developed from the need for tour operators to remain competitive with no-frills airlines in the seat-only market (see also below).

5.4 The most significant development since 2005 is too recent to be reflected in the table. This is the acquisition by Flybe of BA Connect (see Case Study A below). It is significant for several reasons. The combined size of the two operations is such that in one transaction Flybe has become one of the biggest operators from regional airports. This has further increased the proportion of flights at regional airports operated by carriers using a no-frills model. With the exception of BA's Manchester–New York service, the acquisition also marks the end of BA's long history of "non-London" regional operations. BA continues its extensive domestic services between regional airports and three London airports, and the BA brand and code remains on some franchise or codeshare services from regional airports operated by independent carriers[2].

Traffic carried by foreign airlines

5.5 The second part of the table shows that the airlines feeding continental hubs remain a significant presence on UK regional routes. Traffic for KLM and Air France (now under common ownership) and Lufthansa has increased compared with the CAP 754 figures. This confirms that despite the competitive pressures from the rapid expansion of no-frills airlines, these airlines have been able to retain their traffic.

5.6 Also apparent from this part of the table are the significant operations to regional airports by no-frills airlines Air Berlin and Wizz Air. Air Berlin, one of Europe's largest no-frills airlines, began UK domestic services in 2005/06 from Stansted but subsequently withdrew these in October 2007. Wizz Air, a fast-expanding Hungarian no-frills carrier which started operations in 2004, had operating bases in four Eastern European countries by 2007, and had begun services linking Eastern Europe, and in particular Poland, with seven UK regional airports[3].

1. The table includes the Isle of Man but omits Channel Islands airports.
2. The use of the BA brand by franchisees will however decline significantly during 2008. BA's franchise agreement with GB Airways ends in March 2008, following easyJet's agreement to buy GB Airways in October 2007, and BA's franchise agreement with Loganair will be replaced by a codeshare arrangement in October 2008.

5.7 Of the foreign long-haul airlines, Emirates and Continental were by far the most significant carriers at UK regional airports in 2006, with 0.9m and 0.8m scheduled passengers.

Charter airlines

5.8 The biggest charter airlines at UK regional airports in terms of passengers in 2006 were Thomsonfly (5.6m), followed by First Choice (3.3m), Thomas Cook (3.2m) and MyTravel (2.9m). With the consolidation of the tour operator owners of these four airlines into two groups following the merger of First Choice with TUI, and of MyTravel with Thomas Cook, it seems likely that some restructuring can be expected to take place. The next biggest charter airlines were XL Airways (1.7m) and Monarch Airlines (1.0m).

3. The seven airports concerned are Belfast, Bournemouth, Coventry, Doncaster Sheffield, Durham Tees Valley, Liverpool and Prestwick. Some services are too recent to be shown in Table 5.1.

Table 5.1 Principal scheduled airlines serving UK regional airports

	Scheduled passengers (000s)														
	All regional airports	Manchester	Edinburgh	Glasgow	Birmingham	Liverpool	Bristol	Belfast Int.	Newcastle	E. Midlands	Aberdeen	Leeds Brad.	Prestwick	Belfast City	So'hampton
All airlines	74,810	13,596	8,318	6,858	6,466	4,681	4,336	4,317	3,701	3,194	2,450	2,351	2,237	2,096	1,893
(i) UK airlines (or those with significant UK base)															
easyJet (a)	14,835	---	1,977	1,497	---	2,292	2,840	3,265	1,681	755	149	---	---	---	
British Airways	*5,023*	*1,235*	*1,274*	*1,141*					*691*	---	*682*				
BA Connect	*4,588*	*1,168*	*787*	*420*	*972*		*361*	---		---	*127*	---	---	*134*	*225*
British Airways (total)	9,611	2,403	2,062	1,561	972		361		691		809			134	225
bmibaby	*5,505*	*880*	*482*	*266*	*1,100*		*3*	*580*		*1,152*	*14*				
bmi	*2,908*	*607*	*601*	*519*				---	---		*207*	*147*		*663*	
bmi regional	*985*	*241*	*226*	*120*	---					*49*	*149*	*164*	---		
bmi (total)	9,398	1,728	1,309	905	1,100		3	580		1,201	371	311		663	
Ryanair	8,496	399	322	---	274	1,880	405	---	270	1,167	110	253	2,124		
Flybe	6,691	322	606	520	963	90	125	---	183	---	36	179	---	1,165	1,425
Jet2.com	2,942	894	69					312	196			1,335			
Monarch Airlines	1,693	1,107	---	---	486						42				
Thomsonfly	1,478	8			---					---					
Flyglobespan	1,367	9	465	881		8		---	---		3				
Loganair	962	---	93	204							107				
Eastern Airways	919	30	5	---	65	---	43		123	22	251	45			90
Euromanx	501	49				151		---						20	
Air Southwest	408	73					102					55			---
GB Airways	346	331					9			6					
Virgin Atlantic	294	294													
Other UK	774	213	92	60	28		33	10	8	24		3	5	8	66
Total (i)	**60,715**	**7,862**	**6,998**	**5,628**	**3,888**	**4,420**	**3,922**	**4,167**	**3,153**	**3,176**	**1,879**	**2,181**	**2,129**	**1,990**	**1,805**
(ii) Top 10 European airlines/groups															
KLM (b)	*2,925*	*486*	*363*	*276*	*355*		*169*		*277*	---	*248*	*158*	*40*		
Air France (c)	*941*	*332*	*106*		*244*				*101*		*84*				*74*
Air France KLM (total)	3,866	818	469	276	599		169		378		332	158	40		74
Lufthansa (d)	*1,250*	*585*	*221*		*428*				*17*	---					
Swiss	*259*	*156*			*103*										
Lufthansa/Swiss (total)	1,509	740	221		531				17						
Aer Lingus	988	303	102	165	322	32	54	---	9						
Aer Arann	454	78	74		15	23	18	---				7	9	43	14
SAS (e)	*508*	*311*	*11*		*107*										
SN Brussels	373	105		4	154		63		48						
Air Berlin	369	188		86										62	
Wizzair	231	---			---	159							59		
(iii) Top 5 long haul															
Emirates	918	416		193	309					---					
Continental	758	190	133	128	121		84	102							
Pakistan International	339	233		28	78										
Delta Airlines	277	217	60												
American Airlines	275	224		51											
(iv) Other non-UK airlines	3,217	1,904	247	298	337	48	26	41	96	14	158	3			
Total (ii, iii and iv)	**14,082**	**5,727**	**1,317**	**1,229**	**2,573**	**262**	**414**	**143**	**547**	**14**	**490**	**169**	**108**	**105**	**88**

Table 5.1 Principal scheduled airlines serving UK regional airports (continued)

		Scheduled passengers (000s)													
	All regional airports	Cardiff	Bournem'th	Exeter	Inverness	Durham	Doncaster	Coventry	Norwich	Blackpool	Newquay	City of Derry	Other Scotland	Other UK (exc. Scot.)	Isle of Man
All airlines	74,810	1,058	771	715	660	648	628	606	551	517	342	321	514	204	781
(i) UK airlines (or those with significant UK base)															
easyJet (a)	14,835	---	---		321		---			---					
British Airways	*5,023*														
BA Connect	*4,588*	---	---	---	*144*					---				---	*247*
British Airways (total)	9,611				144										247
bmibaby	*5,505*	*674*	---	---		*291*					*63*				
bmi	*2,908*				*51*	*112*									
bmi regional	*985*					---			*27*				*7*		
bmi (total)	9,398	674			51	403			27		63		7		
Ryanair	8,496	40	328		15	84	104			314	98	275		33	
Flybe	6,691		---	699	---	---	7	---	326	---	5			3	35
Jet2.com	2,942		---			---				136					
Monarch Airlines	1,693			---						49	8				
Thomsonfly	1,478	8	367				486	606							
Flyglobespan	1,367					---									
Loganair	962				69							46	415		28
Eastern Airways	919	13		---	44	39		---	53				17	30	49
Euromanx	501													---	280
Air Southwest	408	20		---		---			13		143				
GB Airways	346														
Virgin Atlantic	294														
Other UK	774	56	13	4	5					17	17		70		34
Total (i)	**60,715**	**811**	**708**	**703**	**649**	**526**	**596**	**606**	**419**	**516**	**333**	**321**	**509**	**66**	**674**
(ii) Top 10 European airlines/groups															
KLM (b)	*2,925*	*168*		---		*121*			*131*					*133*	
Air France (c)	*941*														
Air France KLM (total)	3,866	168				121			131					133	
Lufthansa (d)	*1,250*														
Swiss	*259*														
Lufthansa/Swiss (total)	1,509														
Aer Lingus	988														
Aer Arann	454	57		---	11						8	---		---	97
SAS (e)	508														
SN Brussels	373														
Air Berlin	369		33												
Wizzair	231						9								
(iii) Top 5 long haul															
Emirates	918														
Continental	758														
Pakistan International	339														
Delta Airlines	277														
American Airlines	275														
(iv) Other non-UK airlines	3,217	18		6									3		9
Total (ii, iii and iv)	**14,082**	**243**	**33**	**6**	**11**	**121**	**9**		**131**		**8**		**3**	**133**	**106**

Notes: *Passengers on domestic routes will be counted at both UK airports. --- indicates less than 2,500 passengers, to remove diversions, but these are included in the totals. (a) includes easyJet Switzerland (b) includes KLM Cityhopper and Transavia (c) includes Britair, City Jet and Regional (d) includes Lufthansa Cityline, Eurowings and Germanwings (e) includes SAS Braathens.*

Source: *CAA airport statistics.*

Case Study A: Flybe's Acquisition of BA Connect

Case Study 5 in CAP 754 set out the recent history of Flybe and its restructuring from a long-standing traditional regional airline to a low-fares airline in 2002. Driven by a focus on reducing costs, the airline sought to rationalise its fleet, moving away from 30-seat turboprops and under-performing routes and adopting a unique interpretation of the no-frills airline model in basing its operations around a fleet of 78-seat Dash 8 Q400 turboprops, plus larger BAe146 jets which it is now replacing with the 118-seat Embraer 195. Its business model has yet to be replicated by other regional airlines, except perhaps for Air Southwest[i].

Case Study 6 in CAP 754 set out the restructuring plans of British Airways' regional subsidiary BA CitiExpress, which was also formed in 2002 consolidating the regional operations of BA Regional (based in Birmingham and Manchester), Brymon Airways and former franchisees British Regional Airlines Group and Manx Airlines. The airline, which focused on point-to-point passengers in business markets, rationalised its network and fleet quite substantially. Having already announced eight route closures from Manchester and two from Birmingham in 2005, in February 2006 BA made a further attempt to restructure the business significantly. The airline was rebranded as BA Connect and from the summer 2006 season adopted a more "no-frills" approach, with a move to a single cabin class, lower prices and buy on-board catering. BA's regional operations had lost £20m in the financial year 2005/06 and £27m the year before.

In March 2007 Flybe completed its acquisition of BA Connect, doubling its fleet and also its turnover to around £600m and greatly increasing its presence at Birmingham and Manchester airports. Its already rapid network expansion leapt from 62 routes in 2004 to 152 by May 2007, with operations from 22 UK and 34 European airports, and passenger numbers expected to reach 10m by the end of 2008. It plans to replace older aircraft types in the combined fleet including BA Connect regional jets and aims to have a fleet of more than 80 aircraft by 2010, of which around 65 will be Q400s and the remainder Embraer 195s.

BA retained BA Connect's operations from London City (rebranded as BA CityFlyer) and the Manchester–New York route. The deal included financial protection for Flybe of £96m during the transition period to cover the inefficiencies from operating BA Connect's 50-seat Embraer 145 jets and potential exposure in terms of future value of these aircraft. In exchange BA received a 15% interest in Flybe, valued at £49m.

The Office of Fair Trading (OFT) considered whether the acquisition gave rise to sufficient competition concerns to warrant a reference to the Competition Commission. It looked at the 11 overlapping routes on which both airlines provided services from similar or neighbouring airports, analysing the competitive circumstances affecting each route, including potential new entrants and surface competition. The OFT's analysis found that new entry or expanded services by incumbents would be sufficient to counter any reduction of direct competitive constraint as a result of the merger. There was one exception where the OFT had concerns, which was Southampton–Manchester. This was addressed by Flybe undertaking to provide any potential new entrant with a parking stand at Southampton Airport, which might otherwise be a constraint on new entry. As a result, the acquisition was not referred[ii].

i. See Case Study 9 in CAP 754.
ii. See www.oft.gov.uk/news/press/2007/88-07 and www.oft.gov.uk/advice_and_resources/resource_base/Mergers_home/decisions/2007/Flybe.

Flybe serves London from five regional airports – from Belfast City, from Inverness and the Isle of Man (both routes inherited from BA Connect), and from the Channel Islands. As the UK's biggest non-London-based carrier, the airline also continues to focus on linking the UK's regions. More than two-thirds of its passengers are on domestic routes, broadly unchanged from before the acquisition. Flybe's biggest non-London routes link Belfast City, Birmingham, Edinburgh, Glasgow, Manchester and Southampton. Flybe has however withdrawn most of the services it started from Liverpool; the airline says that local business passengers travelling to UK destinations were not attracted to Liverpool in sufficient numbers. Flybe contrasts this with its success at Exeter and Southampton, where it has built a network of 24 and 34 routes respectively.

Flybe has acquired some significant additional European routes to prime business destinations and the associated slots, and its network now includes services to five German cities including between Birmingham/Manchester/Southampton and Dusseldorf/Frankfurt/Hannover; between Milan and Birmingham/Manchester; between Brussels and five UK regional airports including Birmingham and Manchester; and between Paris and eight UK regional airports including Birmingham and Manchester. The proportion of its services formed by these European city destinations has increased to around 20% compared with around 5% pre-merger, showing the strategic change in direction the acquisition represents. The remaining 10% or so of the business is made up of regional France, Spain and ski routes.

Some routes between Birmingham and Manchester and European business destinations were, however, suspended by BA Connect and Flybe prior to and during the acquisition process. BA Connect's base at Bristol was also closed, with the loss of a number of routes to business destinations in Europe, and to Edinburgh and Glasgow. Flybe was already operating some routes from its existing base nearby at Exeter, and the Bristol–Scotland routes faced direct competition from easyJet 737s over relatively long domestic sectors.

Unlike the traditional no-frills model, Flybe continues to participate in Global Distribution Systems (GDSs) through which travel agents or travel websites can make bookings. This includes interline journeys with other carriers and Flybe also maintains some codeshare agreements. For example, Flybe has recently entered a codeshare agreement with SN Brussels Airlines on certain UK/Belgium routes. With the reduction in costs in the areas of commission and GDS charges, and increased access to hubs at Gatwick and in Europe, this gives Flybe a potential advantage over the standard no-frills carrier model, in attracting some relatively high-yielding interline passengers.

For the future, Flybe intends to concentrate on routes that are uneconomical for 150-seat operators, although it admits that there is fierce competition on overlap routes. The airline believes that Europe's traditional regional carriers will increasingly be pushed into a niche role, serving thin business routes, as the budget regional model spreads. It intends to exploit its business model in other European countries where there are underdeveloped point-to-point regional networks.

Source: CAA discussions with Flybe, Flybe and OFT websites, BA Annual Report and Accounts, Flight International 16-22 October 2007, and other relevant press articles.

Variations in Airline Business Models

Network, full-service or niche airlines

5.9 The acquisition of BA Connect by Flybe was of some significance not just in terms of market shares but also the actual make-up of airlines serving regional airports. BA Connect focused on point-to-point business routes with a fleet largely comprised of regional jets. Faced with high fuel prices (which can significantly worsen the economics of small regional jets) and competition from no-frills airlines and European hub carriers, it sought to bring its operation into profit through repeated pruning and restructuring. The airline eventually moved away from the traditional full-service model closer to a no-frills product, illustrating the kind of "blurring" referred to at the beginning of this Chapter. The traditional model of the full-service carrier has been to provide competitive frequency and services that are attractive to higher-yielding business passengers, and to secure sufficient leisure traffic to provide the necessary volume to support these services. However, this leisure traffic is easily attracted away, being price-sensitive, and this can have a big impact on off-peak flights where yields are already generally lower and the economics more marginal.

5.10 Following BA Connect's demise, the traditional full-service product on short-haul routes from regional airports is now largely confined to routes operated by network carriers serving their hub or home base, such as services to Heathrow (BA, bmi), Gatwick (BA) or London City (BA CityFlyer) on domestic trunk routes, and services to foreign hubs or other main cities by foreign national carriers.

5.11 The bmi group has maintained its strategy of operating three separate airlines under different business models (bmi, based at Heathrow, bmi regional, operating regional jets on regional business routes, and no-frills bmibaby[4]). In May 2005, bmi announced a change in strategy on its mainline short-haul operation from Heathrow. This was to remove the separate business class product (introduced in 1993) on all routes except Heathrow to Glasgow, Edinburgh, Belfast City, Dublin and Brussels[5]. The strategy was intended to deliver significant cost savings, presumably to keep the airline competitive with no-frills competition, and included a modular approach with passengers only paying for enhanced product and flexibility where they required it, a concept (described below) increasingly adopted by no-frills airlines. Of particular relevance here is the decision to retain the separate business class on the three domestic trunk routes. bmi clearly feels it important to continue differentiating its business product from BA's (and other carriers') single-class equivalent.

5.12 BA Connect's routes between Birmingham and Manchester and major European business centres have now been absorbed by Flybe. These include routes in competition with Air France and Lufthansa feeding traffic to their continental hubs. As noted above and in Chapter 4, these hub carriers, along with KLM, have generally been able to maintain or increase traffic to their hubs in recent years, despite the greater competition from the rapid expansion of no-frills carriers on regional air services and the consequent likelihood of downward pressure on fare levels. Although there are variations between routes, between 2000 and 2006, traffic carried by these carriers to/from UK regional airports increased by 5% for Air France, 25% for KLM and 58% for Lufthansa, including regional subsidiary and franchise operations. These services are greatly reliant on connecting passengers – for example, more than 60% of KLM passengers from Birmingham and Manchester are connecting at Amsterdam. The difficulty for competitors of obtaining peak-time slots at major hubs will of course tend to limit the competition that these carriers face.

4. Case Study 8 in CAP 754.
5. Certain frequent-flyer members continue to qualify for complimentary on-board catering. bmi's Heathrow–Jersey service which commenced in 2007 also offers a business class.

5.13 Despite the "blurring" between airline business models referred to in CAP 754 (and discussed further below), the more distinct difference that can be observed between network carriers (offering connections to their hub) and no-frills carriers (concentrating on serving the point-to-point market) appears to remain in place. There are a number of examples where these two types of carriers operate in direct competition (Table 5.2). The network or hub carrier offers a connecting product with through ticketing and fares and will tend to arrange schedules to ensure convenient connections at the destination airport. Most no-frills airlines do not participate in the IATA multilateral interline system, as noted in Chapter 4; while they may serve a hub airport, any connecting journey would (with certain exceptions) therefore require two separate tickets and two fares. No-frills carriers, focusing only on the point-to-point market, will be looking to maximise the utilisation of their aircraft to keep costs as low as possible. Thus on some routes the no-frills carrier may offer a lower frequency and timings that are less suitable for business passengers (such as afternoon or very late flights, aiming more at the city-break leisure market). On other routes the no-frills carrier may time its flights more with the business passenger in mind.

Table 5.2 Services between UK regional airports and European hub airports

Route	*Interlining airline daily frequency*	*No-frills airline daily frequency*	*Departure times*			
			interlining	*no frills*	*interlining*	*no frills*
Belfast–Amsterdam	Aer Lingus	easyJet	Belfast to Amsterdam		Amsterdam to Belfast	
	2 x A320	1 x 737-700	06:15		09:30	
			17:15	14:40	20:45	17:40
Bristol–Amsterdam	KLM Cityhopper	easyJet	Bristol to Amsterdam		Amsterdam to Bristol	
	3 x Fokker 70	1 x A319	06:00		09:55	
	1 x Fokker 100		10:55		12:25	
			13:25		15:50	
			17:45	18:55	21:45	21:40
Leeds/Bradford–Amsterdam	KLM Cityhopper	Jet2.com	Leeds to Amsterdam		Amsterdam to Leeds	
	2 x Fokker 100	2 x 737-300	06:05	07:00	09:20	09:45
	1 x Fokker 70		09:55		13:55	
			17:25	18:00	19:55	20:45
Newcastle–Paris	Brit Air(Air France)	easyJet	Newcastle to Paris		Paris to Newcastle	
	3 x CRJ 700	2 x 737-700	06:20	07:20	10:20	10:30
			12:05		15:25	
			16:55	18:10	20:10	21:20
Gatwick–Inverness	Flybe	easyJet	Gatwick to Inverness		Inverness to Gatwick	
	3 x BAe146	1 x A319	09:35		07:00	
			14:40	14:00	12:10	16:10
			19:50		17:05	

Notes: *Departure times are local for a Monday in early June 2007, except the first example, which is December 2007.*
Source: *OAG Flight Guide May 2007 and Worldspan Global Distribution System.*

5.14 In addition to the full-service carriers operating larger aircraft, there remains a substantial number of services operated by traditional regional carriers flying smaller aircraft of 50 seats or less, and focusing on business-orientated or niche routes. There is some variation in the type of routes on which these aircraft are deployed, and in individual business models of these airlines. Smaller aircraft can be used to allow a high frequency on a denser route, or to serve relatively thin "niche" routes at a frequency which will at least allow a day trip for a business passenger. CAP 754

included some examples[6] of relatively high-frequency domestic services operated by carriers using smaller aircraft – frequency which a no-frills carrier operating aircraft of 150 seats, for example, would be unable to match.

5.15 The airlines concerned include Aer Arann, Air Southwest, bmi regional, Eastern Airways, Euromanx, Loganair, Scot Airways and VLM. bmi regional's operation is based on regional jets of 49 seats (or 37 seats), while the others are predominantly or wholly turboprop operators. Since CAP 754 was published[7], the high price of fuel has had a significant effect on the operating costs of regional jets of this size. Manufacturers are therefore finding that, in Europe at least, the airline focus has now switched back to turboprops, or to larger regional jets in the 70–100 seat range.

5.16 Loganair's network is centred on providing links to and within the Highlands and Islands of Scotland. Eastern Airways' network focuses on providing good frequency services on routes between 16 UK regional airports (plus Brussels and Stavanger) which do not lend themselves to other modes of travel, thus appealing to the business market. Eastern operates a fleet of nearly 30 turboprops, a mix of 29-seat Jetstreams plus six 50-seat SAAB2000s. Scot Airways, having operated as an independent brand since 1999 (and as Suckling Airways since 1986), entered into a partnership arrangement in 2007 such that its domestic routes from London City now operate under the "City Jet for Air France" brand and Air France codes. Air Southwest and VLM were the subject of case studies in CAP 754.

No-frills airlines

5.17 As noted above, Flybe's acquisition of BA's regional routes means that the bulk of scheduled regional air services are now operated by no-frills airlines.

5.18 In general terms, the rapid growth of no-frills airlines has resulted in short-haul regional air services becoming highly competitive. Although the relative thinness of many routes means that there are few significant overlaps, airlines are shifting their capacity to look for the best profit opportunities. Some elements of airlines' networks may focus on particular types of route or market segment. For example, Ryanair has a strategy of serving secondary airports, easyJet has a significant presence serving the domestic trunk routes to London in competition with full-service carriers, Jet2's focus is largely on international leisure routes, while bmibaby and Flybe have been building up routes linking major UK cities outside London (see Chapter 3). As noted in CAP 754[8] and the CAA's 2006 study of the impact of no-frills carriers[9], these airlines can carry a significant proportion of business passengers, depending on the route.

5.19 Where a particular airline has the bulk of operations at a regional airport – such as Jet2 at Leeds, or Thomsonfly at Coventry or Doncaster – it does have a certain freedom to adjust its operations flexibly without constraint, quite different to operating from a major airport such as Manchester which is catering for the needs of a large number of airlines with potentially conflicting demands. By using smaller aircraft, predominantly turboprops, Flybe has found its own niche among the no-frills airlines and is very strong at airports such as Belfast City, Exeter and Southampton.

5.20 As well as route density, these differing strategies could also explain why there remain few significant overlaps in no-frills networks, even though there are now a number of airports where more than one no-frills carrier has a significant base – for example, Belfast International (easyJet, Jet2), Birmingham (bmibaby, Flybe, Monarch), Bristol (easyJet, Ryanair), East Midlands (bmibaby, easyJet, Ryanair),

6. See Case Study 2 on VLM, Table 6.4 and Table 6.5 in CAP 754.
7. See Case Study 7 about regional jets in CAP 754.
8. Tables 6.2 and 6.3 of CAP 754.
9. CAP 770 *No-frills Carriers: Evolution or Revolution?*, November 2006, www.caa.co.uk/cap770. This study contains more detail on the impact of no-frills carriers.

Edinburgh (easyJet, Flybe, Flyglobespan, Jet2), Liverpool (easyJet, Ryanair), Manchester (bmibaby, Flybe, Jet2, Monarch[10]) and Newcastle (easyJet, Jet2). Occasional overlaps are starting to appear on denser leisure routes and some domestic routes, and there will be some competition between services from neighbouring airports. Occasionally a no-frills carrier may move on to a thinner regional route developed by a niche carrier, and more rarely, vice versa[11].

5.21 In terms of product, there are clear signs of no-frills airlines seeking to differentiate their product, while staying true to the low-cost philosophy. This goes wider than regional air services, of course, and so is summarised only briefly here. For example, bmibaby has rolled out a product aimed at business passengers and giving some additional "frills". These include on-line check-in, no weight limit on hand luggage, points in bmi's frequent flyer programme linked to travel on Star Alliance airlines, and (for an additional fee) access to the airport business lounge, the ability to switch to earlier or later flights, and advance seat allocation. Other no-frills airlines are offering similar options. These ancillary items are what short-haul business passengers would once have expected to be bundled in a one-price fully flexible fare, whereas this strategy allows passengers – not just business passengers but anyone requiring additional comfort, facilities or flexibility – to make the choice of a basic product or any of a range of value-added options, bringing additional sources of revenue for the airline, while allowing it to keep basic costs down.

5.22 For an airline like Flybe with a high proportion of domestic passengers, the majority of trips are likely to be relatively short stays requiring little luggage. Flybe was the first airline to begin charging for hold luggage, discouraging passengers from taking unnecessary luggage, potentially driving the airline's costs down, and aiming at those costs being borne only by the passengers using the facility. Other airlines have now followed with similar charges. Other examples generating this increasing ancillary revenue (over and above established ones of catering and credit/debit card revenue) include priority boarding, extra-legroom seats, in-flight entertainment, retail revenue (from hotels and car hire to "billboard" advertising on the side of aircraft), on-board sales and insurance[12].

5.23 There are also operational differences. Unlike many other no-frills airlines which make no concession to connecting passengers, Air Berlin operated twice-daily UK domestic services between 2005/2006 and October 2007 from Belfast City, Glasgow and Manchester to Stansted with the express purpose of encouraging connections on to its network of services to various points across Germany[13], offering through fares and through-checked baggage (on its own services). As noted above, Flybe participates in GDSs (see Case Study A) and the IATA multilateral interline system, and it also operates a quite different fleet from other no-frills airlines. Jet2 began operations with a fleet of Boeing 737s but has acquired a number of significantly larger (and longer range) Boeing 757s, which, with 238 seats (compared with 148-seat Boeing 737s), allow it flexibility in the capacity and frequency it can offer when developing new and existing markets. Although relatively uncommon among no-frills airlines, Monarch and Thomsonfly are other operators of the 757 on leisure routes, taking advantage of the aircraft's lower seat costs in charter markets where frequency is less important.

10. Manchester is also a base for GB Airways' scheduled services to leisure-oriented destinations, which will operate under the easyJet brand after March 2008.
11. Case Study 8 in CAP 754 described the way some routes were switched within the same airline group between bmibaby and bmi regional. Stansted–Manchester and Cardiff–Dublin are examples of routes which have reverted to turboprop services from no-frills carriers.
12. For example, ancillary revenues accounted for 17% of Ryanair's total revenues in Q1 2007/08 and the airline expects this to rise to 20% over the next three years. www.ryanair.com/site/about/invest/docs/2008/q1_2008_doc.pdf.
13. The airline already operates substantial hubs at Nuremburg and Palma.

Blurring between charter and no-frills airlines

5.24 As noted in Chapter 2, tour operators and charter airlines continue to adopt a number of strategies to respond to the new forms of demand and increased competition from no-frills airlines. While MyTravel withdrew its no-frills scheduled subsidiary MyTravelLite in October 2005, TUI's equivalent, Thomsonfly, Flyglobespan and Monarch Scheduled have continued to grow. For example, 60% of Monarch's flights are now scheduled. Thomsonfly operates services from more than 20 UK regional airports and more than a quarter of its flights are now scheduled. Its scheduled no-frills operations are focused on Bournemouth, Coventry and Doncaster Sheffield, some capacity on which is sold through tour operators. The airline is thus able to mix traditional inclusive tour passengers with "self-packagers" without cannibalising its existing inclusive tour market. Its charter flights, which in some cases operate from neighbouring airports, now carry the same branding and are thus effectively indistinguishable to the consumer. The blurring is also occurring from the other end of the spectrum, with some no-frills airlines using separate branding to offer flights with associated accommodation or car hire etc. to attract the package holiday market[14]. An increasing number of no-frills leisure routes are being operated at relatively low frequency. With no regulatory distinction between scheduled and charter airlines within the EU, and the traditional business models constantly evolving, even less differentiation between the scheduled and charter airline models could be expected in the future.

Cost pressures and switching capacity

5.25 Against a background of continuing pressure to reduce costs to remain competitive, and vulnerability to short-term shocks, most recently security threats and high fuel prices, the industry has been forced to focus on those elements of its cost base where it sees scope to make further economies. Among these it has identified airport charges, where deals are now widespread, as described in Chapter 6; and for airlines selling through travel agents, commissions, which have largely disappeared in the UK (with agents charging the customer directly for their services) and Global Distribution System fees, where some airlines have been able to negotiate more favourable arrangements.

5.26 CAP 754 noted that one reason that route development funding (see Chapter 7) was thought to be having an impact was because the decisions airlines were having to take on launching new routes were becoming more marginal – with the more obvious route opportunities having been taken up, small amounts of funding could swing the balance.

5.27 These considerations seem to fit with the observation in Chapter 2 that new routes are often relatively low frequency, and also with industry observations that airlines are becoming more "flighty" – that is, more inclined to move capacity. One airport said that whereas an airline would once have persevered on a poor-performing route, anticipating an eventual profit three or more years down the line, now it might be more inclined to move the resources to a more profitable opportunity within as short a timeframe as a year.

5.28 Some evidence has been identified earlier in this study that might support this contention, although clearly the rapid expansion of networks at regional airports is likely to lead to an increased element of churn in any case as some routes are dropped. An analysis of services by two of the larger no-frills airlines at UK regional airports shows that in successive years between 2004 and 2007, two, five, four and

14. Jet2holidays.com has acquired an Air Travel Organiser's Licence and has begun selling packages that involve travel on other airlines.

nine routes were no longer operated compared with the previous calendar year. Although these numbers are very small relative to the total number of routes, there is clearly an increase in both the number and the proportion of routes suspended.

5.29 The decision to move capacity depends on the opportunities on a different route for the airline to lower its operating costs while maintaining a similar yield, or to gain a higher yield for similar operating costs. From the cost perspective, a key element of a typical no-frills operation is maximising aircraft utilisation, as noted above. One airline explained that its model for an efficient operating pattern is for a given aircraft to operate short business-oriented sectors in the morning and evening, and a longer leisure route during the day. With many route opportunities (such as Spain) now taken, airlines have in some cases explored more distant markets. However, longer sectors can bring utilisation problems, because the longer the sectors in the middle of the day, the earlier and later the morning and evening rotations respectively have to be operated. This potentially makes those short sectors less attractive to the business passengers, which the airline is keen to attract because of the relatively high yields, but for whom schedule may be more important than price. Utilisation and yield may also depend on the geography of the UK base. For example, from an airport in the north of England, the sector lengths to Spain are longer, and there is a limited choice of short "business" rotations which are both of sufficient distance to be competitive with surface alternatives and have sufficient demand to support an air service.

5.30 The cost side of the equation is also likely to be influenced by airport charges and the timescales of contracts with the airport where the aircraft is based (see Chapter 6). The cost of the switch itself and the risk implications are additional material considerations. For example, switching capacity to an existing route to increase the frequency might be considered easily achievable, and less of a risk, than starting services from a new base or from an existing base to a completely new destination. This also assumes that there are no operational or governmental restrictions, which might, for example, be the case with longer routes outside the EU where larger aircraft may be required or bilateral air services agreements may restrict market entry.

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Chapter 6 Developments in Regional Services – the Airport Perspective

Chapter Summary

This Chapter contains a commentary on airport developments including traffic, ownership and competition issues, and finds that:

- In terms of total traffic in 2006, 24 UK regional airports exceeded 0.5m passengers. Manchester, Birmingham, Glasgow and Edinburgh have remained the most significant regional airports over the last 15 years. In 2006, Manchester was by far the biggest with 22m terminal passengers, with traffic growth over the last 15 years comparable to London airports as a whole, while the fourth-biggest, Edinburgh (8.6m), showed the fastest growth of the four over this period. These are followed by five airports (Bristol, Newcastle, Belfast, Liverpool and East Midlands) with total traffic in 2006 in the range 4.7m–5.7m; these airports have grown very rapidly more recently. The make-up of traffic in terms of international, domestic, scheduled and charter can vary widely from airport to airport.
- With the recent sale of Exeter and Leeds Bradford, virtually all of the larger UK regional airports are now wholly/substantially privately owned, except for the Manchester Airport Group.
- Airports have further intensified their commercial outlook, actively hunting airlines to plug gaps in their route portfolio to give a good mix of destinations, frequency and links to a hub for onward connections, and within this airports seem to aim for a good spread of scheduled/charter and short/long haul services, and leisure/business or outbound/inbound passengers.
- Competition between airports – both with neighbouring airports in serving the local catchment, and more widely with any airport where airlines might choose to deploy capacity – now seems to be regarded by the industry as a "given" and is seen as positive in terms of delivering benefits to customers.
- Contact between airports and airlines is reported as closer, more frequent, intense and challenging. Many airports confirm the existence of contracts setting out commercial arrangements with airlines.
- Continuing downward pressure on airport charges is widely reported, suggesting that the rapid expansion of no-frills airlines at regional airports has increased the competitive pressure at regional airports.
- In general, regional airports have taken steps to improve awareness of the air services they now offer, promoting the airport as the region's gateway and linking with regional development and tourism bodies in marketing the region.
- Passengers at the more peripheral regional airports tend to travel by air more frequently than those at London airports, whereas at other regional airports, they travel less frequently than at London airports.

- While the greater range of destinations available from London airports than at regional airports will tend to attract passengers from further afield, passengers generally have considerably shorter journey times to regional airports than to London airports. For example, whereas only 20% of passengers take 30 minutes or less to reach London airports, the proportion is 33% at Manchester and 63% at Edinburgh.
- The challenge for regional airports seems to be to maintain their attractiveness to passengers in terms of their proximity, and the speed, convenience and lack of congestion they can offer relative to, for example, Heathrow or Gatwick, while increasing the choice of routes and frequencies available. This requires infrastructure development to keep pace with what may be a rapid growth in passengers and a shift to a greater proportion of international scheduled services, including where possible long haul.

Table 6.1 Total passengers at top 25 UK regional airports 1990–2006

	Passengers (000s)		Growth	Growth	
	1990	2006	1990–2006	2002–2004	2004–2006
Manchester	10,146	22,124	118%	13%	6%
Birmingham	3,492	9,056	159%	11%	3%
Glasgow	4,286	8,820	106%	10%	3%
Edinburgh	2,492	8,607	245%	16%	8%
Bristol	774	5,710	638%	35%	24%
Newcastle	1,555	5,407	248%	39%	15%
Belfast International	2,294	5,015	119%	24%	14%
Liverpool	474	4,962	947%	18%	48%
East Midlands	1,280	4,721	269%	35%	8%
Aberdeen	1,947	3,163	62%	3%	20%
Leeds Bradford	834	2,787	234%	55%	18%
Prestwick	95	2,395	2421%	45%	11%
Belfast City	548	2,106	284%	11%	1%
Cardiff Wales	593	1,993	236%	32%	6%
Southampton	489	1,913	291%	94%	25%
Exeter	217	971	347%	82%	58%
Bournemouth	137	961	601%	26%	95%
Durham Tees Valley	342	900	163%	18%	14%
Doncaster Sheffield	---	899	n/a	n/a	n/a
Isle of Man	532	783	47%	6%	3%
Norwich	206	745	262%	5%	68%
Inverness	216	671	211%	43%	29%
Coventry	17	610	3487%	11631%	32%
Blackpool	137	553	303%	278%	108%
Humberside	135	516	282%	8%	-3%

Source: CAA airport statistics.

6.1 Table 6.1 shows the 25 UK regional airports where total passenger numbers exceeded 0.5m in 2006[1], in descending order. As noted in Chapter 1, Manchester, Birmingham, Glasgow and Edinburgh have remained the biggest regional airports over the last 16 years, with Manchester by far the biggest and having grown over this period at a rate comparable to aggregate traffic at London airports. Of the four, Edinburgh showed the fastest growth over this period. Below them in the table there are five airports (Bristol, Newcastle, Belfast, Liverpool and East Midlands) that have grown very rapidly more recently, each with passenger numbers in the range 4.7m–5.7m in 2006. However, as shown in Table 2.7 in Chapter 2, the make-up of this traffic in terms of international, domestic, scheduled and charter traffic can vary widely from airport to airport.

6.2 There has continued to be very strong growth at many airports, including those where no-frills airlines have become established and that have gained international scheduled services for the first time on any significant scale. Doncaster Sheffield is perhaps noteworthy as a completely new regional airport that began commercial operations in 2005 and already serves around 1m passengers a year.

Airport Ownership

6.3 CAP 754 noted that over the last 20 years, many airports in the UK had moved from being predominantly in public ownership to being mainly in private ownership, either wholly or partially. This trend has continued, most recently with the sale of Exeter and Leeds Bradford airports, leaving very few of the UK's main airports that do not have substantial private ownership (Table 6.2).

Table 6.2 Ownership of UK airports

Publicly owned

Airport	Owners
Bournemouth, Manchester, East Midlands, Humberside*	Manchester Airports Group (owned by ten local authorities) *Manchester Airport plc 83%, North Lincolnshire District Council 17%
City of Derry	Derry City Council
Newquay (civil facilities)	Cornwall County Council
Barra, Benbecula, Campbeltown, Inverness, Islay, Kirkwall, Stornoway, Sumburgh, Tiree and Wick	Highlands & Islands Airports Ltd (owned by the Scottish Ministers)
Dundee	Dundee City Council (to be transferred to Dundee Airport Ltd, a wholly owned subsidiary of Highlands & Islands Airports Ltd, from December 2007)

1. Excluding the Channel Islands but including the Isle of Man.

Table 6.2 Ownership of UK airports (continued)

Wholly or substantially privately owned

Airport	Owners
Aberdeen, Edinburgh, Gatwick, Glasgow, Heathrow, Southampton, Stansted	BAA Ltd (BAA is owned by Airport Development Investment Ltd (ADI) – ADI is owned by Ferrovial Infraestructuras, S.A. 62%, Caisse de dépôt et placement du Québec 28% and Baker Street Investment Pte Ltd 10%)
Birmingham	Birmingham Airport Holdings Ltd (owned by 7 West Midlands District Councils 49%, Airport Group Investments Ltd (AGIL owned by Ontario Teachers' Pension Plan and Victoria Funds Management Corporation) 48.25%, Employee Share Trust 2.75%)
Belfast International, Cardiff, Luton*	Airport Concessions and Development Ltd (owned by Abertis Infraestructuras 90%, Aena Internacional 10%) *owned by Luton Borough Council but operated, managed and developed by Airport Concessions and Development Ltd under a concession agreement
Belfast City	Ferrovial
Biggin Hill, Southend	Regional Airports Ltd
Blackpool	MAR Properties Ltd 95%, Blackpool Borough Council 5%
Bristol	South West Airports Ltd (owned by Macquarie Airports Group 50%, Macquarie European Infrastructure Fund 50%)
Cambridge	Marshall of Cambridge Aerospace Ltd
Coventry	CAFCO (Coventry) Ltd – a joint venture between Howard Holdings plc and Convergence-AFCO Holdings Ltd
Doncaster Sheffield, Liverpool, Durham Tees Valley*	Peel Airports *Peel Airports 75%, five local authorities 25%
Exeter	Regional City Airports (Exeter) Ltd (owned by Balfour Beatty Capital 60%, Galaxy Sarl 40%)
Glasgow (Prestwick), Kent International (Manston)	Infratil Ltd
Leeds Bradford	Bridgepoint Capital
London City	AIG Financial Products Group 50%, Global Infrastructure Partners 50% (GE and Credit Suisse)
Newcastle	Seven local authorities 51%, Copenhagen Airport 49%
Norwich	Omniport 80%, two local authorities 20%
Plymouth	Sutton Harbour Holdings plc

Notes: *Airport groups may also own airports outside the UK.*

Source: *CAA records, airport websites.*

6.4 Some of the privately held interests in airports have also changed hands since CAP 754 was published, the prime example being BAA, acquired by a consortium led by Ferrovial in 2006. Other examples are Bristol and Birmingham. A more unusual case is Coventry airport, purchased by TUI with the aim of creating a new base for its no-frills carrier Thomsonfly, which began operations there in April 2004. TUI sold the

airport in January 2006 once this objective was achieved and the airline had been established. For airport groups with ambitions to acquire more airports, there are few remaining candidates in the UK, although there may be opportunities elsewhere in Europe. An interesting development has been the creation by the Peel Airports group of an entirely new, sizeable regional airport at Doncaster Sheffield, previously the military airfield Finningley (see Case Study B).

Case Study B: Robin Hood Airport Doncaster Sheffield

Robin Hood Airport Doncaster Sheffield is the UK's newest purpose-built international airport. In June 1999, Peel Holdings purchased the former Royal Air Force air base, RAF Finningley, to convert it to a commercial airport, aiming to cater for 2.3m passengers and 62,000 tonnes of freight annually, and to be the airport of choice for 6m people living east of the Pennines within one hour by road. A key focus of the airport is to attract inbound passengers from other countries utilising the "Robin Hood" brand name to create an attractive tourism proposition and a gateway to Yorkshire, Lincolnshire, Derbyshire and Nottinghamshire. The project is part-financed by the EU European Regional Development Fund, delivered through the South Yorkshire Objective 1 Programme.

Commercial operations began in April 2005. The airport runway is just under two miles long (2891 metres), the second-longest in the north of England after Manchester airport, meaning that there are no runway constraints on the type of aircraft the airport can accommodate. Peel has a considerable land holding, to which it is adding, which as well as allowing for future airport development, including improved surface access, is also being used for a range of ancillary business and services, including the Directions Finningley training/recruitment facility and future development of an associated aviation academy.

The airport is currently handling just over 1m passengers annually (year to July 2007). Scheduled flights are offered by Thomsonfly, Ryanair, Flybe, Wizz Air and Flyglobespan. The most frequent services are Flybe's double-daily service (daily at weekends) to Belfast City, Thomsonfly's daily or six per week services to Amsterdam, Alicante, Malaga, Palma, Prague and Jersey, and Ryanair's daily service to Dublin. With charter flights included, more than 45 destinations are now offered, including some long-haul flights to Canada, Florida and Mexico.

Source: Airport website and CAA discussions with the airport.

6.5 Industry representatives report a noticeable change in the way airports are owned and managed (one airline described it as a "revolution"). With airports now being acquired as investment opportunities, sometimes with high levels of debt, the need for them to maximise profits purely as a business is reportedly achieving a far greater prominence. The increasing commercial pressures from airlines on charges, coupled with the need for airports to plan future investment as traffic continues to grow rapidly, means that airports are under increasing pressure to manage their cost base and maintain yields, possibly through non-aeronautical revenue. One airline commented that whereas discussions with an airport would once have been more focused on an operational level, contact was now with business development managers specifically tasked with enlarging the business.

6.6 By breaking away from close local authority ownership, whether through partial or complete sale, or achieving a more independent status, airports would be expected to have gained the greater freedom they need to take commercial decisions as a self-standing business. In some cases this may have given an opportunity to tackle certain costs that might be less easy to control under public ownership, for example, the

closer match of staffing levels with the peaks and troughs of demand. Some functions might also be more efficiently contracted out altogether. Airports may be able to react more easily to a sudden need to adapt, for example to new security arrangements.

Competition Cases

6.7 As a result of this shift to the private sector, the ownership of airports is now occasionally giving rise to competition cases. A 1995 inquiry by the Monopolies and Mergers Commission, now the Competition Commission (CC), into the proposed purchase of Belfast City by the owners of Belfast International took the view that the two airports should remain in separate ownership. More recently, in November 2005 an offer to purchase Exeter by the owners of Bristol was withdrawn after the Office of Fair Trading (OFT) referred the case to the CC. The OFT said that the merger raised concerns about a loss of competition between the two airports that might ultimately adversely affect the choice of low-cost and charter flights for air passengers in the South-West.

6.8 In June 2006, the OFT announced that it was conducting a market study[2] into the UK airport sector. BAA's consistently high share of the market for air passengers (more than 60% of all UK air passengers) was one of the considerations that led to the launch of a market study. In December 2006, the OFT published its findings[3] and formally proposed to refer the supply of airport services by BAA in the UK to the CC. It concluded that the current market structure did not deliver best value for air travellers in the UK, and that greater competition within the industry could bring significant benefits for passengers. Although much of the focus was on the three BAA London airports, the reference includes BAA's three Scottish airports, Aberdeen, Edinburgh and Glasgow, as well as Southampton. The OFT noted that BAA's Scottish airports handled more than 80% of Scottish air passengers, that their charges to airlines were higher than those at Gatwick and Stansted, and that of the three, the largest price decreases had occurred at Glasgow, which faces some competition from Prestwick. The study also found further evidence that competition between independently owned airports – such as Liverpool and Manchester – led to improved value for air travellers. The decision to make a reference to the CC was confirmed in March 2007 and the CC inquiry is currently underway[4]. The market study noted that the OFT received no submission concerning a lack of competition between airports other than those owned by BAA.

6.9 The CC is now considering whether there are any features of a market in which BAA operates that prevent, restrict or distort competition. The outcome of the CC's inquiry might have significant implications for the future structure of the UK airports market. In the context of this study of regional airports, an issue of particular relevance is whether Southampton remains in common ownership with BAA's three London airports, and whether BAA's three Scottish airports remain in common ownership.

Airport Competition

6.10 CAP 754 concluded that, on the evidence available, competition between airports appeared to be beneficial, and that the market seemed to be the best determinant of what services could be sustained at any particular airport. Although combining

2. The Enterprise Act 2002 allows the OFT to investigate markets in which it appears competition is prevented, restricted or distorted.
3. www.oft.gov.uk/news/press/2006/175-06
4. More information about the CC's Market Investigation, including the precise issues being considered, can be found at www.competition-commission.org.uk.

services at one airport might lead to benefits from economies of scale, this might not necessarily provide a better outcome than competition between airports, spurred by the ability of the airlines to switch, which provides a check on airports' pricing and service quality.

6.11 This concept of competition between airports, which might once under widespread local-authority ownership have seemed more difficult to accept, now seems to be widely acknowledged in the industry. Further, as noted above, the OFT's market study into UK airports recognised the potential for competition between airports to deliver benefits to airport customers.

6.12 Since CAP 754 was published, airport competition issues have been considered by the CAA in considerable depth in the context of the price regulation of Manchester and Stansted airports. The Government is currently considering whether these airports should be de-designated for the purposes of price regulation on grounds that include airport competition having developed to the point where specific regulation is no longer necessary[5]. The CAA's own conclusion in respect of Manchester, in its advice to Government, is that continued designation would deliver very few incremental benefits, but that its costs and risks are significant, in particular the risk of harming the prospects for enhanced competition from other airports[6].

6.13 Evidence gathered for this updated study suggests that the comments in *CAP 754* about airport competition hold good in 2007. Airlines are constantly seeking out new market opportunities and actively comparing airport charges, and airports are in competition to secure that capacity, not just with neighbouring airports but across the UK and Europe. This applies not just to no-frills airlines or short-haul routes, but also to tour operator charter programmes and long-haul services. Even neighbouring airports with quite different portfolios in terms of business and leisure routes are actively competing. The extent of competition is likely to be limited only by hard physical constraints such as runway length and surface access. The continuing and increasing competition between airports is seen positively by the industry as delivering benefits to airport customers.

6.14 As noted in Chapter 5, the industry has suggested that airlines are more inclined than before to move capacity between airports if a route is not performing well and a more profitable opportunity presents itself. This kind of switching might occur when a contract with the airport concerned becomes due for renegotiation, or when the airline no longer qualifies for initial start-up discounts. However it does also occur in a much shorter timeframe, with some airlines commencing and suspending routes within the space of a year, whereas in the past the route might not have been expected to turn a profit until, say, its third year.

6.15 Some airports may find it preferable to enter into contracts with airlines so as to secure commitments to based aircraft, crew and support staff, and therefore income, for a set period of time. The airport may still see advantages in achieving a balance between based aircraft and inbound flights by aircraft based elsewhere, as the latter may be more likely to operate at shoulder periods, helping to utilise capacity more evenly across the day where terminal, apron and/or the runway are close to capacity in the peak.

5. www.dft.gov.uk/consultations/

6. In particular, the CAA highlighted that competition from other airports is likely to increase over time. Price controls could inadvertently result in price caps that are too low and that harm the prospects for enhanced competition from other airports. This would ultimately be to the detriment of consumers. In addition, the five-yearly cycle of price caps reduces the ability of the airlines and airport to negotiate and enter into normal commercial agreements and could inhibit innovation. The cost of these distortions appears significant. See www.caa.co.uk/docs/5/ergdocs/de-designation_advice.pdf and www.caa.co.uk/docs/5/ergdocs/infocus_manchester.pdf.

6.16 Chapter 2 noted that while airlines were continuing to add capacity at UK regional airports, many of the prime route opportunities were now taken up and newer routes were relatively low frequency and the subject of careful scrutiny by airlines. Some UK airports believe therefore that competition between airports for any new market opportunities will tend to intensify.

Future Growth

Expanding the route portfolio

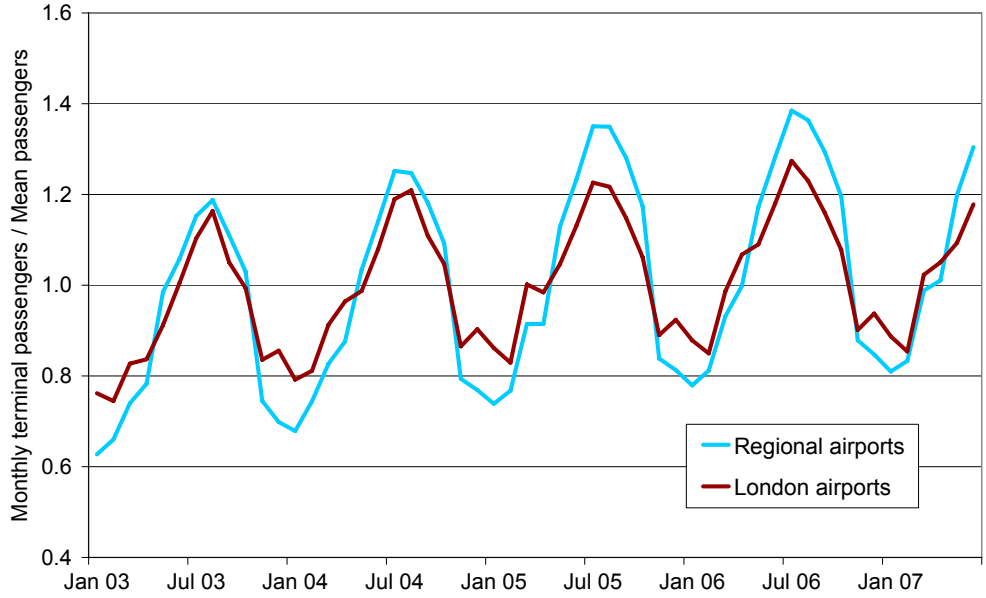
6.17 Research for this study suggests that the more commercial outlook adopted by airports (which was identified in CAP 754) has intensified further. There has been a shift from an airport market characterised by airlines taking the initiative to start services, with the airport offering standard published charges, to the current market where airports also work to attract airlines, based on charges and the type of passengers that they are likely to deliver. Some airports variously described the contact between airports and airlines as being closer, and more frequent, intense and challenging than in the past.

6.18 The developed route networks that regional airports have lacked in the past are now much better established. Airports now have the challenge of filling out their route portfolio to plug perceived gaps in terms of destinations, frequency and links to a hub for onward connections, and attach particular importance to the latter. Airports also seem to aim for a good spread of scheduled/charter and short haul/long haul services, and leisure/business or outbound/inbound passengers. Many airports aim at a good mix of these and are nervous of route overlaps unless the products are significantly different. In this respect a regional airport could be seen as competing for passengers as well as airlines.

Seasonal variations

6.19 Regional airports experience greater peaks and troughs in demand than London airports. This is illustrated by Figure 6.1, which shows for regional and London airports the monthly terminal passengers between January 2003 and June 2007, divided by the mean number of passengers across this period of four and a half years. The greater seasonal variation at regional airports is perhaps not surprising given that charter flights account for between one third and one half of passengers at most bigger regional airports, whereas London airports have predominantly scheduled services (Gatwick excepted).

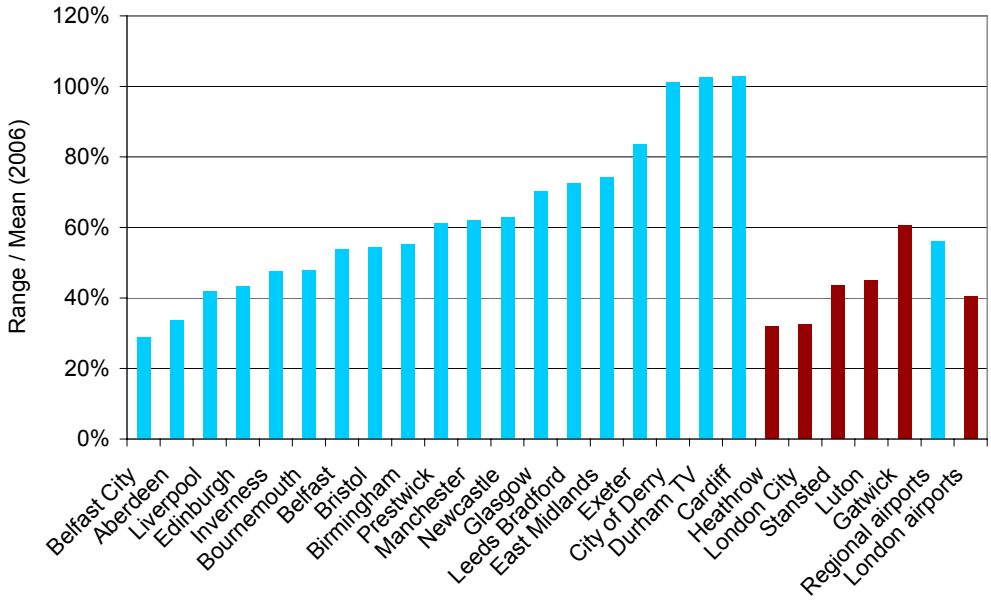
Figure 6.1 Monthly terminal passengers divided by the average number of passengers, January 2003–June 2007



Notes: *Based on the sample of 19 regional airports shown in Figure 6.2.*
Source: *CAA airport statistics.*

6.20 Figure 6.2 compares the seasonal variation of passenger demand at individual airports, based on 2006 traffic statistics (and a sample of 19 regional airports). The seasonality of demand is likely to reflect the business/leisure and scheduled/charter traffic mix at the airport concerned. The chart shows that in 2006 the range between minimum and maximum of monthly passengers divided by the annual mean (known as the range per cent variation) was 40% for London airports and 56% for regional airports – in other words regional airports experience greater peaks and troughs in demand than London airports. An extreme example is a comparison of London City and Cardiff airports, which have similar annual traffic (2.4m and 2.0m passengers respectively in 2006). London City, being a predominantly business airport with 59% (2003 survey) of its passengers flying on business, experiences very low seasonality of demand, with a range percent variation of 32%. Cardiff, however, with only 11% (2003 survey) of its passengers flying on business, has a range percent variation of 103% (i.e. the range is larger than the mean).

Figure 6.2 Seasonal (range per cent) variation for passengers at UK airports, 2006



Source: CAA airport statistics.

Expansion by no-frills carriers

6.21 Earlier Chapters of this study (as well as CAP 754) have documented the substantial growth of no-frills carriers at UK regional airports. As noted in Chapter 5, there are now a number of regional airports where more than one no-frills carrier has a base. In the case of some fast-growing airports, a second or third based no-frills carrier now complements the carrier which gave rise to initial growth, for example at Bristol, East Midlands, Liverpool and Newcastle. Although these airlines' international networks remain largely complementary, with only occasional overlaps on leisure routes, there are more significant overlaps between no-frills airlines based at neighbouring airports, for example between Manchester and Liverpool, Leeds and Doncaster, and between Birmingham, Coventry and East Midlands.

6.22 Research for this study suggests that while rapid traffic growth may be a short-term goal to utilise existing airport infrastructure more fully, some airports may not necessarily encourage no-frills airlines at any cost. Some appear wary of becoming overly dependent on a single airline because of the buyer power this strategy confers. The attraction of strong traffic throughput must be balanced with the effect on existing or potential new services. No-frills airlines are also becoming increasingly adept at maximising on-board and website ancillary sales, which may affect the airport's ability to recoup revenue through non-aeronautical sources. Another consideration, as noted by Chapter 6 of CAP 754[7], is whether some routes may be better suited to more frequent services by smaller aircraft than the Boeing 737 or A319 used in the typical no-frills model – particularly those where business travellers are sensitive to the timings offered or where hub connections are important.

6.23 Some airports may therefore choose to adopt differing business models, for example by foregoing quick, dramatic growth for a better mix of opportunities in the future, aiming for a more variegated pattern of carriers and potentially higher yielding traffic.

7. See for example Case Studies 5 and 8, and Table 6.4.

Assessing growth potential

6.24 It is important for regional airports to build a picture of the travel patterns of their passenger base and identify where there is a significant number of passengers within its catchment that are using other airports or transport modes[8]. In general, most airports and airlines interviewed for this study were of the view that the potential for further significant growth still existed. To some extent this might involve diverting traffic from another regional airport, and therefore could depend on what the offering was from that airport. The analysis extends to identifying the travel needs of local companies that are potential generators of high-yield business traffic. Economic regeneration in some areas of the country has also created higher disposable incomes, which airports see as increasing the demand for air travel. The CAA's 2006 analysis of the impact of no-frills carriers[9] observed a trend for middle- and higher-income and socio-economic groups to fly more often (and often on shorter trips) than in the mid-1990s. One airline gave the example of second-home ownership abroad, which when analysed was found to be more widespread in the UK than it had realised. This gave good repeat business from the owners and friends and family making multiple trips over the course of a year.

6.25 Information the airport (or regional body) collects can be shared with airlines to secure an airline's interest in operating a route, such as illustrating the relative wealth and make-up of the region, its trade links, the leisure market, and traffic on existing air links. The analysis of catchment area is also very important. CAP 754 identified the difficulty airlines and airports say they have in judging the size of the potential market, because of a lack of data. This can create a potential barrier because airlines are naturally averse to commencing services on what may prove to be a relatively marginal, thin regional route. The CAA publishes data collected from UK airports, and passenger survey data showing existing origin and destination flows (see Case Study C)[10], but it is still difficult to estimate the likely degree of stimulation of a market. Less tangible factors that may affect predictions have also been reported, such as regional loyalty[11], which may to some extent inhibit fluidity of the market.

8. Often referred to as "leakage".
9. Chapter 5 of CAP 770 *No-frills carriers: evolution or revolution?*, November 2006, www.caa.co.uk/cap770.
10. The airport can obviously conduct its own passenger surveys which it can make available to airlines, and can back this up with other sources, for example, postcode data from car park bookings.
11. In other words, despite there being good surface links to neighbouring airports, fewer passengers from the region than might be expected were flying from those airports.

Case Study C: CAA Passenger Survey

The purpose of the CAA Passenger Survey is to collect information that is not readily available from other sources. The CAA has been undertaking departing air passenger surveys at UK airports for more than 35 years.

Airports and airlines make significant use of the survey data, in addition to published traffic statistics that come from the industry itself. This information can be used to help form a better understanding of the relevant determinants surrounding the demand for domestic and international UK air travel. For example, the surveys provide information about origin and destination journey patterns that traffic statistics alone do not reveal. An airport can use this data to assess how much of its "natural" catchment area is using another airport. It allows airports to demonstrate to airlines what market potential there is in the vicinity. The data could be seen as improving the functioning and therefore competitiveness of the market through information provision, although it will not, of course, reveal what new demand might be stimulated by a new air service.

A continuous survey is run at Gatwick, Heathrow, Luton, Stansted and Manchester airports, where on average around 150,000 departing air passengers are interviewed each year. In parallel with these continuous surveys, 12-month surveys are undertaken at other airports with more than 300,000 passenger movements per year, with each airport typically being surveyed once every four years.

Departing air passengers are interviewed for around 6 minutes on a variety of subjects including passenger demographics (gender, age, income, socio-economic group, family size), UK surface origin or destination, mode of accessing the airport, origin and ultimate destination, and ticket class and price. Sample interviews undergo a strict validating and editing programme before being weighted to actual monthly traffic flows.

The information collected from the survey is used by customers for a variety of purposes, ranging from inputs into sophisticated forecasting models, to advertising companies wishing to track passengers through terminal buildings. It may allow airports to demonstrate to airlines possible future untapped market potential.

MIDT (Marketing Information Data Transfer) data from bookings through the Global Distribution Systems used worldwide by travel agents has historically also been a prime source of information for the industry, showing itinerary and location of the booking. However, its usefulness has been eroded by changes in the way tickets are sold, for example as airlines increasingly use the internet for selling tickets rather than travel agents, or where corporate travel management is outsourced to a different location from the point of origin. It also does not show surface travel, so for example it will not show the substantial number of passengers travelling by surface to London for whom flying from a regional airport is a potential option. Against this background, the CAA Passenger Survey has become even more useful to the industry.

A common observation made by the industry is that data on other transport modes is less readily available, in particular on traffic carried by train operators. This is a problem, for example, where an airline or airport wishes to assess the potential of a new domestic route. CAP 754 noted that this could be regarded as a barrier to new regional air services, because such routes tend to be relatively thin, and airlines are more reluctant to enter a thin market where they have difficulty properly assessing the market size. It would seem to be all the more prominent to the extent that rail services are providing more of a competitive challenge on shorter air routes, as discussed in Chapter 3.

Airport Charges and Contracts with Airlines

6.26 CAP 754 discussed a "virtuous circle", whereby the more commercial approach adopted by airports, attraction of new services and consequent greater passenger throughput allows the airport to increase its non-aeronautical revenue. This in turn means the airport can be less reliant on airport charges revenue, and can price competitively to attract further air services, the potential for which is also aided by the overall heightened visibility of the airport. As noted above, the airport will have in mind the type of airlines and routes it wants to attract, including the differing yields these will bring from both aeronautical and non-aeronautical revenue.

6.27 At the same time, with airport charges forming a core element of airline costs, airlines are looking to negotiate these charges as low as possible. They are also naturally extremely conscious of what is being offered to their competitors. Airports report that this has given rise to the more frequent and complex interactions between airlines and airports.

6.28 Many airports report that they have been experiencing a continuing downward pressure on charges. Linked to this seems to be a greater prevalence of long-term contracts which airports are entering into with airlines, particularly the bigger operators. Such contracts may last several years (if not longer) and vary in content, but in broad terms specify the obligations on both sides and the airport charges. The contract may, for example, incentivise traffic growth by including a low marginal rate for per-passenger airport charges above existing levels. Marketing activity may also form part of the deal. Although this seems to vary from airport to airport and may depend on the airline and route concerned, in general airports are working more closely with airlines on marketing, seeking to ensure that all avenues are explored at each end of the route.

6.29 As the airport-airline contracts are commercially confidential, there is largely only anecdotal evidence of the relatively low airport charges, including "zero deals", that are reportedly offered. However, because UK airports' published accounts show aeronautical revenue separately from non-aeronautical revenue, it is possible to derive an indication[12] of the extent of the downward pressure on airport charges, by calculating a weighted average revenue yield per passenger for airport charges using aggregated figures for aeronautical revenue and passenger numbers at the 14 biggest regional airports[13]. On this basis, accounts for 2005/06 or 2005 show a fall of nearly 7% in average revenue yield when compared with two years earlier. This seems to support the anecdotal evidence that airport charges have fallen in the last few years, and is likely to reflect the large increases in passenger numbers, the greater scope for airports to increase non-aeronautical revenue (see below), and the relatively low levels of capital investment required to accommodate the current levels of growth. It also suggests that the rapid expansion of no-frills airlines at regional airports has increased the competitive pressure at regional airports.

Non-aeronautical Revenue

6.30 Given airports' increased reliance on non-aeronautical revenue noted above, maintaining passenger throughput is potentially extremely important to their business. Because few costs are avoided if passenger numbers drop, airports are ideally seeking to keep a tight control on costs, while pursuing a growth strategy that will spread fixed costs over a greater volume of passengers.

12. Figures at different airports may not be directly comparable because of variations in the activities covered by the charges and the way discounts are shown in the accounts.
13. This calculation omits East Midlands, because of the high proportion of movements (around one third) that are all-cargo flights, revenue from which is not separated in the accounts, and which would therefore be likely to distort the results.

6.31 There may also be economies of scale in variable costs, such as better staff utilisation. The traffic mix can have some influence on non-aeronautical revenue. One airport observed that the average retail spend of charter and long-haul passengers – presumably as less frequent travellers – appears to be higher than, say, no-frills passengers. While business passengers may spend least of all, with minimum "dwell" time they could also be seen as a more efficient use of terminal facilities.

6.32 Airports are having to adapt to more stringent security requirements and an increase in the volume of international flights and the proportion those flights form of their total traffic. These changes have implications for the physical layout of terminals. In focusing on increasing non-aeronautical revenue while simultaneously adapting to the new security requirements, a number of airports have therefore been reconfiguring terminals, including moving more retail outlets airside. One airport suggested that a contract could encourage passengers to move airside at an early stage by stipulating the minimum number and latest opening time of check-in desks.

Challenges for Capacity Development

Airport and airspace capacity

6.33 The Government's *Future of Air Transport* White Paper[14] promoted making better use of existing airport capacity, and the development of regional airports as part of this. Airport capacity issues have subsequently gained a higher profile in EU fora, for example in a Commission Communication[15] on the issue and the Air Traffic Management Target Concept stage of the SESAR project[16]. These documents consider the constraints applying at some congested hubs and high-density terminal airspace areas, and suggest that additional capacity needs to come both from new runways and from greater use of regional and other uncongested airports.

6.34 A potential obstacle can arise where the need for safe access to the airways system requires changes to controlled airspace for safety reasons. An increase in controlled airspace may also have a knock-on effect on other airspace users, requiring the airport to consult with its local community and to take into account the environmental impacts of any change. Given the increasing pressure on airspace in the South East of England, it might appear that the development of regional airports could ease this pressure. However, shifts in air services to regional airports will not always relieve pressure on South-East airports and their associated controlled airspace depending on the proximity of new routes to existing traffic patterns.

Future investment

6.35 Regional airport investment strategies differ according to circumstances. Some airports have had to balance the need for a charging regime appropriate to their level of investment with the need to remain competitive and to avoid deterring new services because of high charges. It is claimed that some airports with pre-existing spare capacity have on occasions entered into long-term contracts that were highly favourable to airlines, because the airport may have found it profitable to encourage traffic growth in order to use existing assets fully, as the airport's incremental costs were relatively low. While this strategy provides the growth in passenger throughput that such airports are seeking, it might not be a sustainable strategy in the longer term. This might be particularly so in the case of airports that are close to using up

14. The White Paper was published in 2003, see www.dft.gov.uk/about/strategy/whitepapers/air/, and a progress report in 2006, see www.dft.gov.uk/about/strategy/whitepapers/air/aviationprogressreportsection/.
15. http://ec.europa.eu/transport/air_portal/airports/doc/2007_capacity_en.pdf
16. www.eurocontrol.int/sesar/gallery/content/public/docs/DLM-0612-001-02-00.pdf

their spare capacity and need to invest substantially to provide the necessary capacity to accommodate further growth.

6.36 Where a no-frills carrier is expanding rapidly, it may be that in discussing with airline customers what future investment is needed, the airport can adopt a relatively simple, no-frills solution that provides the necessary extra capacity[17] without deterring that expansion through the higher charges that might be needed to pay for a development with more extensive facilities[18]. Other customers may require different products – perhaps a full-service long-haul carrier looking to add a further spoke to its hub from a UK regional airport, which may demand convenience, a good retail offering and business lounges for its passengers.

6.37 Two UK airports have adopted a different strategy, introducing airport development fees to fund new infrastructure. Uniquely, at the present time, these are compulsory charges levied by the airport direct on the passenger at the point of departure (Case Study D). The implication is that the airport sees merit in charging the passenger direct rather than raising airport charges.

Case Study D: Airport Development Fees

Newquay introduced its airport development fee of £5 per departing passenger in October 2005. This was the first such fee in the UK, although similar fees had been introduced at Connaught (Knock) and Kerry airports in the Republic of Ireland. Cornwall County Council says that the fee will ensure the future viability of the airport. It regards the airport as essential for the future economic prosperity of Cornwall, providing an essential lifeline for many local businesses and helping to overcome the accessibility issue when marketing Cornwall as a business location or a holiday destination. The airport is expected to handle 0.4m passengers in 2007 compared with 70,000 in 2001. The fee has helped to fund a £2.8m expansion programme including a terminal extension, improved catering, apron improvements, increased car parking and increased security. The transition of the airport from military to civil ownership means the council is assuming responsibility for considerable operational costs previously borne by the Ministry of Defence.

Norwich introduced a similar fee of £3 per passenger in April 2007. The airport stresses the importance of the airport to the local economy. It says that it must further develop services, facilities and infrastructure with an £18m, five-year programme to cater for the sharp rise in the number of passengers using the airport, expected to reach nearly 0.8m in 2007 compared with 0.4m in 2004. Having already invested in enhancements to car parking, passenger terminal, apron and aircraft parking, taxiways, manoeuvring areas, and airport and air traffic control equipment, future investment will include a fire training ground, engine testing area, electric tugs, noise-monitoring equipment, link roads to facilitate better bus services, and establishing controlled airspace.

The introduction of these fees was not without some controversy. Monarch Airlines and Ryanair (Newquay) and Flybe (Norwich) each attributed subsequent cutbacks in services at these airports to the effect of the new fees, although this was disputed by the airport operators.

Source: Council and airport websites and literature, press articles.

17. Examples of basic canvas-and-frame terminal extensions specifically built to accommodate expansion by no-frills carriers are East Midlands and Leeds Bradford.
18. One airline claimed that if the new capacity planned by a regional airport had gone ahead as originally planned it would have had little choice but to scale back its operations there.

Visibility

6.38 CAP 754 made reference to the "visibility" of an airport. A recurring theme in regional interviews was that regional airports continued to suffer from insufficient awareness by the immediate population of scheduled services from their local airport. At the same time, passengers travelling to a region from elsewhere, particularly from abroad, may not be aware of services by a no-frills airline, because such flights are not usually bookable through the main reservation systems used by travel agents or travel websites. One view put forward is that because air services rather than airports are the generators of passengers, in the past some airports may have been less inclined to devote resources to marketing the airport as a regional air gateway to potential passengers. The airline would advertise its services but would not market the airport specifically.

6.39 In general, regional airports have gone to considerable lengths to redress this visibility issue, taking steps to put themselves on the map, and establishing some kind of brand awareness. Many have linked with regional development and tourism bodies in marketing the region as somewhere worth visiting and doing business, and promoting the airport as the region's gateway. In a more interventionist approach, some regions have also used public money to kick-start new routes using route development funds (see Chapter 7).

6.40 CAP 754 identified what seemed to be a "snowball" effect. Airports perceived there to be a "critical mass" in terms of traffic and route network which, once achieved, in itself drew attention to the airport and the region. This in turn led to a rush of new air services, such as has occurred at Liverpool and other fast-growing airports. This is facilitated by events such as routes conferences, now a routine part of the industry calendar allowing airlines and airports to hold a rapid series of meetings to discuss new route opportunities: the industry equivalent of speed-dating and a good example of the regular interaction that has developed in recent years in order to maintain the competitive momentum.

6.41 A new high-profile air service is said to attract the interest of other airlines, either at the same airport or in similar opportunities elsewhere. A good example is the spread of long-haul services feeding hubs in the US and Middle East, allowing access to the global network that would have previously required travel via London or a continental hub. A number of airports with no or limited long-haul scheduled services have actively pursued such connections and in the last few years these have translated into services to New York (Belfast, Bristol, Edinburgh) and Dubai (Glasgow, Newcastle), for example.

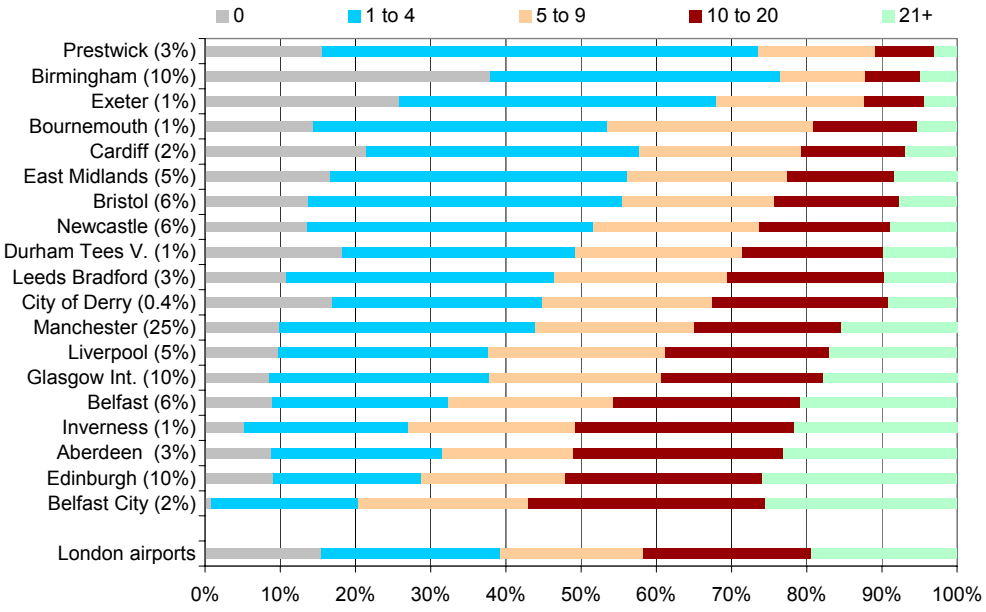
Passenger Aspirations and Experience

6.42 The passenger's perspective on air travel has attracted considerable publicity recently. The Government's Air Transport White Paper Progress Report 2006[19] commented on passenger aspirations and attitudes to flying. The report recorded survey findings that the UK population had very strong aspirations to fly more in the future, because of a desire to travel, increased incomes, the growing affordability of air travel and the greater range and flexibility of services on offer. The proportion of passengers travelling for leisure had risen between 2000 and 2005. At the same time, however, the survey also showed a marked increase in public awareness of climate change and the environmental implications of air travel.

19. www.dft.gov.uk/about/strategy/whitepapers/air/aviationprogressreportsection/

6.43 CAA survey data for the years 2003–2006[20] can be used to compare the frequency of travel by air for passengers travelling from individual airports (Figure 6.3). The data shows that of passengers travelling from London airports, around 60% had been on more than four one-way flights (i.e. equating to two round trips) in the 12 months prior to the survey[21] and around one quarter had been on between one and four flights. A pattern can be discerned where at the more peripheral regional airports, as might be expected, passengers tended to travel by air more frequently than at London airports, whereas at other regional airports, they travelled less frequently than at London airports[22]. Birmingham stands out in having the biggest proportion – nearly 40% – of passengers who had not flown in the previous 12 months.

Figure 6.3 Number of one-way flights taken in the previous 12 months



Notes: *Percentage in brackets shows the share of the terminal passengers at the 19 regional airports listed, based on CAA airport statistics for 2006.*

Source: *CAA Passenger Survey 2003–2006*

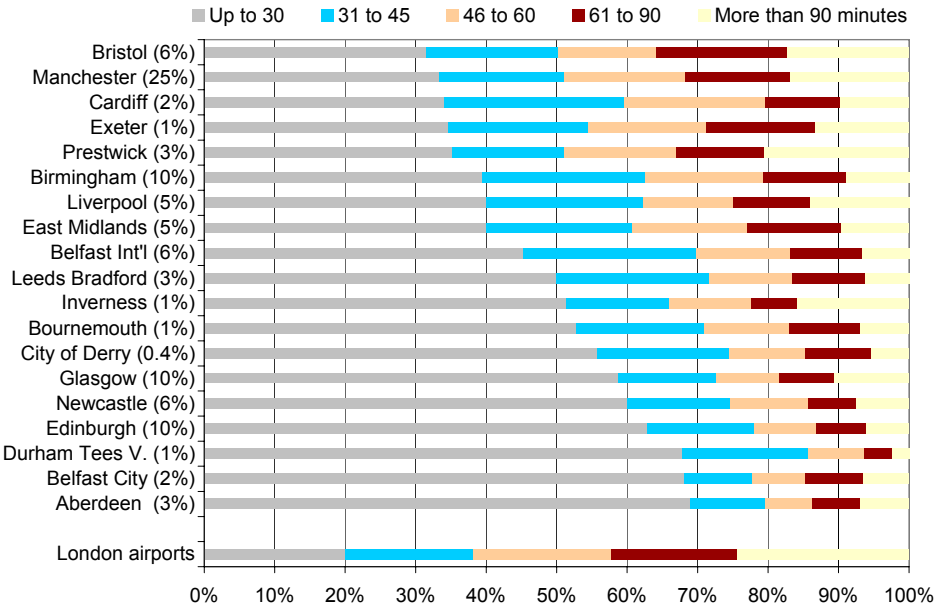
6.44 The relationship between the airport and the passenger is an interesting one. As noted above, because airlines focus on marketing themselves and the routes flown rather than the merits of the origin airport specifically, airports may need to market themselves to the public in order to raise their profile in the region.

6.45 Faced with a choice of flying from the local airport or travelling to a more distant airport such as London, the unique selling proposition of the former in terms of a more pleasant passenger experience should weigh heavily in favour of regional services if the product is comparable in other respects. These advantages would typically be regarded as greater convenience in terms of surface access, less congestion and speed. This might include more convenient car parking closer to the terminal, less crowded terminals and facilities, quicker baggage reclaim and generally faster progress through the airport, but could also extend to straight-in arrivals by aircraft instead of air traffic delays caused by stacking and airspace congestion.

20. Because regional airports are not surveyed continuously, survey data in this comparison may come from different years and therefore may not be directly comparable. No survey data was available for Southampton, Doncaster Sheffield or Norwich.
21. Not including the flight they were taking when interviewed, which explains the presence of 'zero' answers.
22. These previous trips may have been for any purpose, i.e. business or leisure.

6.46 CAA survey data for 2003–2006[23] shows the amount of time passengers have taken in their journey to the airport (Figure 6.4). The results for the London airports contrast strongly with those for regional airports, where passengers generally have considerably shorter journey times. This is perhaps not surprising given the greater range of destinations from London airports, which will tend to attract passengers from further afield. Nevertheless, it can be seen that to reach Manchester, by far the biggest regional airport, 33% of passengers take 30 minutes or less, compared with only 20% for the London airports. Looking at smaller airports their attractiveness is even clearer; for example 63% of passengers take 30 minutes or less to reach Edinburgh airport. At the other extreme, nearly a quarter of London airport passengers take more than an hour and a half to reach the airport. At Manchester the figure is 17% and at Edinburgh 6%.

Figure 6.4 Passenger journey times to the airport



Notes: *Percentage in brackets shows the share of the terminal passengers at the 19 regional airports listed, based on CAA airport statistics for 2006.*

Source: *CAA Passenger Survey 2003–2006*

6.47 The challenge for regional airports is to ensure that this selling point is maintained with growth, and that infrastructure development keeps pace with what can be a rapid expansion of services. While growth is necessary in order to offer the route choice and frequency needed to compete with the offering at larger airports, it may reduce some of the original attractions in terms of the passenger experience. If some of these advantages are lost, then other, perhaps larger airports offering greater frequency, airline choice or lower priced fares may begin to look more attractive, even though they may be less convenient in terms of location.

6.48 Some elements may be outside of the airport's control. For example, the industry has reported that the recent introduction of stricter security requirements and consequent queuing has deterred air passengers with a choice of transport mode, and that this has affected shorter domestic sectors in particular (as noted in Chapter 3)[24].

23. Because regional airports are not surveyed continuously, survey data in this comparison may come from different years and therefore may not be directly comparable. No survey data was available for Southampton, Doncaster Sheffield or Norwich.

6.49 This Chapter concludes with updated tables from CAP 754 illustrating quite starkly from a passenger's perspective the increased choice resulting from the growth in international scheduled services at two examples of fast-growing regional airports. Tables 6.4 and 6.5 represent departure boards for a summer Wednesday in 1993, 2004 (reflecting CAP 754 data[25]) and 2007. Only international scheduled services are shown. The range of services at Bristol airport declined slightly between 2006 and 2007 with the withdrawal of BA Connect's services prior to and following its acquisition by Flybe.

24. On a relatively short domestic flight, a long queue for security and restrictions on what can be carried on board could have a deterrent effect when no such clearance is necessary by surface public transport. The industry has called on the Government to provide more assistance to aviation to cover heightened security (*Air Industry in Security Costs Call, The Guardian*, 14 July 2007 www.guardian.co.uk/uklatest/story/0,,-6780175,00.html). A recent travel poll suggested that a rising proportion of UK business passengers regard flight delays and cancellations as the biggest irritant (*Flight disruption biggest irritant for business travellers,* TravelMole 24 September 2007, www.travelmole.com/stories/1122652.php).
25. The 2004 column shows flights for June, to be consistent with 1993 and 2006, and so differs very slightly from CAP 754, which took August 2004 as its benchmark.

Table 6.3 International scheduled services from Liverpool

9th June 1993			*2nd June 2004*			*6th June 2007*		
						06:05	Granada	Ryanair
			06:10	Amsterdam	easyJet	06:15	Amsterdam	easyJet
						06:15	Faro	easyJet
						06:20	Rome (CIA)	Ryanair
			06:30	Malaga	easyJet	06:30	Malaga	easyJet
						06:30	Dublin	Ryanair
						06:30	Riga	Ryanair
						06:35	Poznan	Ryanair
						06:35	Pisa	Ryanair
			07:00	Nice	easyJet	07:05	Barcelona	easyJet
			07:40	Barcelona	easyJet	07:10	Cologne	easyJet
			07:50	Basel	easyJet	07:55	Paris (CDG)	easyJet
			08:00	Paris (CDG)	easyJet	08:05	Palma	easyJet
08:50	Dublin	Ryanair	08:10	Palma	easyJet	09:00	Nimes	Ryanair
			09:45	Amsterdam	easyJet	09:25	Amsterdam	easyJet
			10:30	Dublin	Ryanair	11:20	Nice	easyJet
						11:45	Geneva	easyJet
			11:55	Geneva	easyJet	11:55	Berlin (SXF)	easyJet
			12:05	Berlin (SXF)	easyJet	12:05	Limoges	Ryanair
			12:25	Malaga	easyJet	12:05	Shannon	Ryanair
			12:40	Madrid	easyJet	12:45	Madrid	easyJet
			12:50	Dublin	Ryanair	12:55	Reus	Ryanair
						13:10	Venice (Treviso)	Ryanair
						13:20	Basel	easyJet
						13:25	Malaga	easyJet
			13:35	Amsterdam	easyJet	13:35	Alicante	easyJet
			13:55	Paris (CDG)	easyJet	14:00	Warsaw	WizzAir
						14:20	Cork	Ryanair
						15:00	New York (JFK)	Flyglobespan
			15:20	Alicante	easyJet	15:20	Murcia	Ryanair
			15:45	Amsterdam	easyJet	15:40	Amsterdam	easyJet
						15:40	Oslo (Torp)	Ryanair
						16:00	Dublin	Ryanair
						17:05	Krakow	Ryanair
			17:20	Nice	easyJet	17:15	Alicante	Ryanair
			17:45	Malaga	easyJet	17:15	Krakow	easyJet
			17:55	Barcelona	easyJet	17:35	Barcelona	easyJet
						17:55	Nice	easyJet
						18:20	Milan (Orio)	Ryanair
						18:30	Santander	Ryanair
						18:35	Gerona	Ryanair
			18:55	Amsterdam	easyJet	18:55	Paris (CDG)	easyJet
			19:15	Paris (CDG)	easyJet	19:10	Amsterdam	easyJet
			19:40	Palma	easyJet	19:40	Palma	easyJet
			20:00	Gerona	easyJet	20:25	Malaga	easyJet
						21:30	Dublin	Ryanair
21:55	Dublin	Ryanair	22:10	Dublin	Ryanair	21:55	Gdansk	WizzAir

Source: OAG Database of BACK Information Services.

Table 6.4 International scheduled services from Bristol

9th June 1993			*2nd June 2004*			*6th June 2007*		
			06:10	Malaga	easyJet	06:00	Amsterdam	KLM Cityhopper
			06:25	Amsterdam	KLM Cityhopper	06:15	Malaga	easyJet
			06:35	Brussels	SN Brussels	06:40	Alicante	easyJet
			06:40	Alicante	easyJet	07:00	Nice	easyJet
07:00	Amsterdam	KLM Cityhopper	07:05	Paris (CDG)	BA CitiExpress	07:15	Valencia	easyJet
			07:20	Amsterdam	easyJet	07:20	Pisa	easyJet
						07:30	Paris (CDG)	easyJet
						07:35	Brussels	SN Brussels
			07:40	Palma	easyJet	07:40	Palma	easyJet
07:55	Paris (CDG)	BA	08:20	Dublin	Ryanair	07:55	Dublin	Ryanair
08:30	Brussels	Sabena				08:05	Hamburg	OLT
09:00	Dublin	Aer Lingus	08:40	Paris (CDG)	BA CitiExpress	08:20	Krakow	easyJet
09:35	Paris (CDG)	Air France				08:50	Milan (MXP)	easyJet
			10:25	Barcelona	easyJet	10:30	Barcelona	easyJet
10:20	Amsterdam	KLM Cityhopper	10:35	Amsterdam	KLM Cityhopper	10:30	Newark	Continental
			10:35	Nice	easyJet	10:55	Amsterdam	KLM Cityhopper
			10:50	Brussels	SN Brussels	11:10	Toulouse	easyJet
			10:50	Munich	BA CitiExpress			
			10:55	Prague	easyJet			
			11:40	Paris (CDG)	BA CitiExpress			
			11:50	Bergerac	Flybe	12:10	Bordeaux	easyJet
						12:20	Galway	Aer Arann
						12:50	Faro	easyJet
						13:00	Prague	easyJet
			13:10	Venice	easyJet	13:10	Geneva	easyJet
			13:40	Dublin	Ryanair	13:15	Amsterdam	KLM Cityhopper
			14:00	Dublin	Aer Lingus	13:15	Rome (CIA)	easyJet
			14:10	Copenhagen	easyJet	14:00	Paris (CDG)	easyJet
14:35	Brussels	Sabena	14:50	Berlin (SXF)	easyJet	14:20	Madrid	easyJet
			14:55	Bilbao	easyJet	14:55	La Rochelle	easyJet
15:00	Frankfurt	Brymon	15:25	Frankfurt	BA CitiExpress			
15:05	Amsterdam	KLM Cityhopper	15:30	Amsterdam	KLM Cityhopper			
15:05	Paris (CDG)	BA	16:00	Paris (CDG)	BA CitiExpress	16:20	Cork	Aer Arann
			16:30	Brussels	SN Brussels	16:45	Dublin	Ryanair
16:35	Dublin	Aer Lingus	16:35	Faro	easyJet	16:45	Murcia	easyJet
			16:45	Toulouse	Flybe	17:30	Venice	easyJet
			17:00	Amsterdam	KLM Cityhopper	17:35	Berlin (SXF)	easyJet
			17:15	Paris (CDG)	BA CitiExpress	17:45	Amsterdam	KLM Cityhopper
						18:10	Nice	easyJet
						18:20	Shannon	Ryanair
						18:25	Hamburg	OLT
18:55	Brussels	Sabena	18:50	Dublin	Ryanair	18:30	Barcelona	easyJet
18:55	Paris (CDG)	Air France	19:00	Amsterdam	easyJet	18:55	Amsterdam	easyJet
			19:30	Malaga	easyJet	19:05	Malaga	easyJet
19:50	Dublin	Aer Lingus	19:40	Alicante	easyJet	19:45	Alicante	easyJet
						20:15	Brussels	SN Brussels
						20:35	Gerona	Ryanair
						22:10	Dublin	Ryanair

Source: OAG Database of BACK Information Services.

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Chapter 7 Public Policy Initiatives

Chapter Summary

This Chapter contains a commentary on public policy initiatives relating to regional air services, namely public service obligations, route development funds and the Scottish air discount scheme, and finds that:

- The UK Government currently imposes Public Service Obligations (PSOs) on 25 routes within Scotland and one within Wales that cannot otherwise sustain a commercial air service. In addition, the Scottish Executive launched an Air Discount Scheme in 2006 offering lower air fares to eligible residents of Scottish Islands and the far north of the mainland in lieu of earlier proposals to extend the Scottish PSO network.
- In 2005 the UK Government issued guidelines on when it would be prepared to use the PSO mechanism to protect regional air access to London. The guidelines noted that a PSO would be considered only when an airline's withdrawal or reduction of a currently operated service reduces the service below an adequate level, and that withdrawal of a service to one London airport would not be enough to trigger consideration of a PSO as long as there is an adequate overall service provided to the London airport system as a whole. No such PSO has been imposed so far.
- Route Development Funds (RDFs) involve the use of public funding to help to provide a limited "kick-start" to new air services. Airlines and airports seem generally supportive of such schemes providing they are fair and transparent. Funds in Scotland and Northern Ireland have now run their course. The Scottish scheme agreed to fund 48 international routes (including four to North America and one to Dubai) and 13 domestic routes. The Northern Ireland scheme funded six international routes including Belfast–Newark, and three domestic routes which have since been withdrawn. Both nations believe that funds have directly contributed to a significant enhancement of connections by air.
- While the Scottish and Northern Ireland schemes were running, the European Commission issued guidelines on how State aid and competition rules applied to start-up aid of this kind. The guidelines have had a serious impact on the two schemes – which were required to be made compliant by June 2007 – in that they confined funding to routes operated by EU carriers, and required EU clearance for funding of any routes from airports of more than 5mppa such as Belfast International, Edinburgh and Glasgow.
- In 2006, the Commission gave State aid approval for a UK Government scheme governing the operation of RDFs, which allowed similar funds in Wales and North-East England to commence. These schemes agreed to fund ten routes in total, but four have already been withdrawn after a relatively short period.
- In view of the restrictions imposed by the Commission's guidelines from June 2007, the Welsh scheme is not currently operating, the North-East scheme will not accept applications after 2007, and another planned fund in North-West England did not begin. Along with Scotland and Northern Ireland,

which are reviewing the impact of their funds, these regions are now considering their future strategy, which might focus on joint marketing initiatives rather than direct financial support.

- Many of the views expressed in CAP 754 about the suitability and appropriateness of public policy initiatives appear to have been reflected in subsequent developments; for example European Commission guidelines on such initiatives restricting their use to particular circumstances. It appears that while there are potential benefits from targeted intervention in specific cases, it is important that those cases are carefully defined to avoid knock-on effects such as distortions in the market.

Public Service Obligations

7.1 Public Service Obligations (PSOs) are used to protect certain routes that are vital to the economic development of a region and that cannot otherwise sustain a commercial air service. The criteria that must be met before a PSO can be imposed are governed by European law[1] and are described in Chapter 8 of CAP 754. In summary, imposing a PSO allows a Member State – providing no carrier is otherwise prepared to operate the services specified by the PSO – to offer by open public tender the right to operate the route, including the payment of subsidy and monopoly protection for up to three years, and to ring-fence slots at fully coordinated airports, preventing those slots being used for other destinations.

UK-imposed PSOs

7.2 The number of routes with PSOs imposed by the UK has increased since CAP 754 to 25 within Scotland and one within Wales (Table 7.1).

Table 7.1 Public Service Obligations imposed by the UK

Route	*Subsidised by*	*Contract expires*	*Operator*
Oban to Coll, Colonsay, Tiree*	ABC	31.03.10	Highland Airways
Coll to Tiree*	ABC	31.03.10	Highland Airways
Glasgow to Barra, Campbeltown, Tiree	Scottish Exec.	31.03.09	Loganair
Stornoway to Benbecula	CNES	31.03.09	Highland Airways
Benbecula to Barra	CNES	31.03.09	Loganair
Kirkwall to Eday, North Ronaldsay, Sanday, Stronsay, Papa Westray, Westray	OIC	31.03.09	Loganair
Sumburgh to Fair Isle, Foula, Out Skerries, Papa Stour	SIC	31.07.09	Loganair
Tingwall to Fair Isle, Foula, Out Skerries, Papa Stour	SIC	31.07.09	Directflight
Sumburgh, Tingwall to Unst	SIC	No services operated	
Cardiff to RAF Valley, Anglesey	WAG	20.02.10	Highland Airways

Notes: ** Services yet to commence.*
ABC = Argyll and Bute Council CNES = Comhairle nan Eilean Siar (the Council in the Western Isles of Scotland) OIC = Orkney Islands Council SIC = Shetland Islands Council WAG = Welsh Assembly Government

Source: *European Commission, Scottish Executive, airline websites.*

1. Council Regulation (EEC) No. 2408/92 of 23 July 1992 on access for Community air carriers to intra-Community air routes.

7.3 There are new PSOs on four Inner Hebrides routes (where services have yet to commence), and Shetland Mainland routes are now shown separately for the two Shetland airports. The first PSO in Wales was imposed in October 2006 between Cardiff and RAF Valley on Anglesey. Services began in May 2007 under a three-year contract. If it proves successful, the Welsh Assembly Government says it will consider developing further an intra-Wales air network.

The use of PSOs to protect a regional service to London

7.4 CAP 754 noted that following a commitment made in the 2003 *Future of Air Transport* White Paper, the UK Government had consulted on, but had yet to develop, guidance on the protection of regional air access to London using the PSO mechanism. The main reason for this would be in order to reserve the slots at the London airport used for the regional service concerned and thus prevent them from being transferred to other routes[2].

7.5 CAP 754 gave the CAA's views on the use of PSOs in such circumstances. Imposing PSOs may in some cases be appropriate in order to maintain essential air services, providing they are used sparingly, in tightly defined circumstances, and are regularly reviewed, to mitigate negative impacts. Preventing slots at congested airports from being put to alternative uses could impose a high and hidden cost on the airline industry and on the economy generally. The barrier to entry created by limiting access to the route to a single airline for a set period of time can also risk stunting innovation and the development of more efficient services, new products and lower fares. Although the Government does not envisage subsidy on routes to London, the CAA's general view is that where subsidy is paid to an airline to provide a PSO service, the cost should be borne by those who stand to reap the wider benefits, and the tender process framed so as to encourage bidding and innovative solutions. There would then be a much greater likelihood of decisions on the level of subsidy taking proper account of the likely benefits of the service.

7.6 The Government subsequently issued its guidance[3] in December 2005. Since then, no formal application for a PSO to protect a regional service to London has been received. In summary, the guidance states that:

- European law does not permit a PSO on a route between two cities or regions on which adequate services are already being operated commercially, so a PSO would be considered only when an airline's withdrawal or reduction of a currently operated service reduces the service below an adequate level;
- withdrawal of a service to one London airport would not be enough to trigger consideration of a PSO as long as there is an adequate overall service provided to the London airport system as a whole;
- airlines are asked to follow a voluntary early warning system to provide as much notice as possible of any intention to withdraw regional services to London;
- the Government considers it unlikely that PSOs would be appropriate for the launch of new routes from the regions to London or the continuation of routes which have received start-up funding but do not subsequently prove commercially viable;

2. This is governed by Council Regulation (EEC) No. 95/93 of 18 January 1993 on common rules for the allocation of slots at Community airports, as amended by Regulation (EC) 793/2004 of the European Parliament and of the Council of 21 April 2004. Only slots at fully coordinated airports can be reserved, i.e. in this case Heathrow, Gatwick and Stansted.
3. www.dft.gov.uk/pgr/aviation/domestic/praa/

- for the Government to consider a PSO, the relevant regional body would need to make the economic case for the importance of the service to the economic development of the region, as required by European law;
- the Government itself would undertake the specific cost-benefit and commercial analyses, including the value (and passenger benefits) of a slot at a London airport;
- the Government thinks it unlikely that the imposition of a PSO on a route to London would require subsidy, and would confer monopoly rights to the route only where absolutely necessary; and
- final judgement on the eligibility of a route for a PSO would rest with the Secretary of State for Transport and would be based on the merits of each case against the criteria in European law.

The use of PSOs in other Member States

7.7 Other Member States have also imposed PSOs to varying degrees, and related notices are published in the European Commission's Official Journal. The Commission has also now placed on its website a useful consolidated table of all PSOs within the EU[4] and any recent changes, improving transparency. France continues to have the highest number of PSO routes among EU Member States with nearly 80, of which 17 link French mainland regional airports with Paris Orly[5]. Other Member States with a significant number include Italy with 31, Portugal with 27 and Greece with 25, whereas Finland and Germany, for example, have very few[6].

7.8 There have been several formal complaints by no-frills airlines to the European Commission that the monopoly provisions of PSOs have prevented them from operating services on a normal commercial basis[7]. In 2006 the Commission opened an inquiry in respect of certain PSO conditions imposed by the Italian Government on routes between Sardinia and mainland Italy after an airline was directed to stop selling tickets because a PSO was being imposed. The Commission's decision in April 2007[8] accepted the principle of PSOs applying on these routes, but required the lifting of certain conditions attached to the PSOs, which it found to be unduly restrictive or disproportionate. easyJet has since commenced services between Milan Malpensa and Cagliari/Olbia in October 2007.

Revision of European law setting out the PSO criteria

7.9 The current PSO criteria are in the process of being revised as part of a wider modernisation and simplification of the Regulations governing the EU Third Package of liberalisation measures (which created the single European market in 1993). The European Commission consulted on possible revisions in 2003 and published a draft Regulation in July 2006, which is now making its way through the EU legislative process. The basic principles governing PSOs are unchanged by the new Regulation, but some amendments have been proposed to make their application more efficient. The maximum period for restricting a route to a single operator is to be extended to four years, or five years for ultra-peripheral regions, in order to encourage more

4. http://ec.europa.eu/transport/air_portal/internal_market/pso_en.htm
5. Source: European Commission website and OAG Flight Guide August 2007. The other 62 PSO routes comprise 23 routes between French regional airports; 12 routes between Corsica and the French mainland; 9 routes between Strasbourg and principal European cities; 5 routes between Dijon and London airports and 13 routes within or to French departments overseas.
6. A significant number of PSOs are also imposed in Norway, which although not an EU Member State, is within the European single aviation market governed by Regulation 2408/92.
7. Documented examples include Paris Orly–Ajaccio and Milan Malpensa–Olbia (easyJet), and Rome Ciampino–Alghero (Ryanair).
8. Commission Decision of 23 April 2007 on public service obligations on certain routes to and from Sardinia under Article 4 of Regulation (EC) No 2408/92 on access for Community air carriers to intra-Community air routes.

airlines to tender for the route. The new Regulation also seeks to avoid abuse of the system, in particular excessive recourse to PSOs by Member States as a pretext for closing certain markets to competition[9].

Route Development Funds

7.10 CAP 754 explained that in addition to incentives routinely offered by airport operators to "kick-start" the inauguration of new routes, some air services may also qualify for financial assistance from regional bodies by way of a Route Development Fund (RDF). The RDF is intended to provide incentives to air services that are deemed beneficial to the region's overall economic development, encouraging inbound tourism or providing new air links beneficial to businesses. RDFs were set up in Scotland in November 2002 and Northern Ireland in September 2003. The 2003 *Future of Air Transport* White Paper, in which the UK Government indicated its support for the sustainable development of regional airports and air services, invited the Welsh Assembly Government and English Regional Development Agencies to consider whether or not they would wish to set up RDFs of a similar nature to those in Scotland and Northern Ireland.

UK protocol on RDFs[10]

7.11 Any such fund needs to comply with UK and EU law, especially in respect of state aids and competition policy, and therefore is required to operate within strict criteria. For this reason the Government worked with regional bodies to develop a framework of rules and guidance in the form of a protocol to which devolved administrations and development agencies could adhere. The protocol was designed to ensure that RDFs were in line with the objectives of the White Paper, complied with UK and EU law, were consistent in terms of transparency, non-discrimination and proportionality, and confined their operation to providing carefully targeted, time-limited interventions which worked with the market to help to share the risk of starting new routes from regional airports with airport operators and airlines.

7.12 In May 2006 the European Commission approved a national scheme for the UK under the terms of Articles 87 and 88 of the Treaty of Rome, allowing two further funds to begin operating in Wales and the North-East of England from 30 June 2006[11]. The operators of these funds were required to operate in accordance with the protocol in order to benefit from the State aid approval. Previously, the European Commission had itself developed and issued guidelines on the financing of airports and start-up aid to airlines departing from regional airports, which took effect in December 2005.

European Commission Guidelines

7.13 The stated purpose of the Commission's guidelines[12] was to clarify how EU competition rules apply to the financing of airports and to start-up aid granted to airlines by Member States. The Commission linked the guidelines with tackling air transport congestion in the main European airports and the potential for regional airports to help regional economic development, but at the same time ensuring that the competition rules are complied with. The guidelines stemmed from the Commission's February 2004 decision[13] ruling on a complaint made in 2001

9. European Commission Press Release IP/06/1010 and MEMO/06/294 of 18 July 2006 on a proposed Regulation of the European Parliament and the Council on common rules for air services in the EU.
10. www.dft.gov.uk/pgr/aviation/domestic/anationalprotocolforukrouted2873
11. Jersey is not part of the EU, but it should also be noted that the States of Jersey is reportedly providing three-year financial support to bmi's Heathrow–Jersey service that commenced in March 2007, see for example *Airline Subsidy is Investigated*, www.thisisjersey.com, 19 May 2007.
12. *Community Guidelines on Financing of Airports and Start-up Aid to Airlines Departing from Regional Airports,* 2005/C 312/01 http://eur-lex.europa.eu/LexUriServ/site/en/oj/2005/c_312/c_31220051209en00010014.pdf

concerning financial aid by Charleroi Airport and the Walloon region of Belgium to Ryanair.

7.14 The guidelines impact directly on the way RDFs are operated. The guidelines defines four categories of airports by annual passenger volume:

- Category A: large Community airports (more than 10m)
- Category B: national airports (between 5m and 10m)
- Category C: large regional airports (between 1m and 5m)
- Category D: small regional airports (less than 1m)

7.15 Aid can be given for routes linking a regional airport in Category C or D to another EU airport. Aid for routes between national airports (Category B) can be considered only in substantiated exceptional cases, in particular where one of the airports is located in a disadvantaged region. Aid for routes between Category A airports is not permitted.

7.16 Funding can be granted only for new air links or additional frequencies between Community airports. The operator must hold an EU Operating Licence. In most circumstances funding can only be granted for three years and must include an element that decreases over time. The amount of aid in any one year cannot exceed 50% of the total costs that are eligible for assistance, and in total the aid cannot exceed 30% of eligible costs. Funds operating under the UK RDF scheme were, as a condition of the State aid approval, permitted to offer aid totalling a maximum of 50% of eligible costs for services commencing on or before 31 May 2007.

7.17 As the Scottish and Northern Ireland funds were operating prior to publication of the guidelines, the Commission agreed that they could continue in their existing form until 31 May 2007. This allowed funds to be provided for up to three years on routes that did not comply with the guidelines, such as those operated by non-EU carriers, providing the service commenced before June 2007.

7.18 After that date, the two funds can operate only in a modified form. Aid can be granted only to EU carriers on EU routes and only in exceptional cases on routes from Belfast International, Edinburgh and Glasgow airports, which exceed 5mppa.

Scottish Route Development Fund

7.19 CAP 754 (Case Study 13) explained that the Scottish RDF was set up in November 2002 by the Scottish Executive to help secure new direct air services to Scotland. The RDF ran until 31 May 2007 and was operated on a partnership basis with Highlands and Islands Enterprise, VisitScotland and Scottish Enterprise, which administered the fund on the Executive's behalf.

7.20 In the 10 years prior to the introduction of the RDF the number of international air services from Scotland had remained fairly static (see Table 2.5 in Chapter 2) and Scotland had been almost entirely reliant on connections via London. The Scottish Executive believes that the fund has contributed to the dramatic improvement in Scotland's air network. The fund has invested in 46 routes that are currently operating (Table 7.2). 15 additional services were funded but subsequently suspended, although alternative carriers have taken over five of these, including three of the four routes operated by Duo, a carrier which failed in 2004. Inbound tourism, an important industry for Scotland, has increased by 30% over this time, although it is not possible to link this directly to the effect of the RDF. The overall cost of the scheme to date

13. Commission Decision 2004/393/EC of 12 February 2004 concerning advantages granted by the Walloon Region and Brussels South Charleroi Airport to the airline Ryanair in connection with its establishment at Charleroi.

has been £6.4m, which the Scottish Executive believes to have represented good value for money.

7.21 Funding was allocated against strict criteria. Any new external direct route had to be of economic benefit to Scotland, such as encouraging inbound tourism and/or benefiting business travellers, it had to operate at least five days a week, year round and not compete with an existing service. Less strict criteria were applied to/from the Highlands and Islands, which made provision for UK domestic links, reduced frequency and seasonal operations (the Atlantic Airways service between Shetland and Stansted being an example).

7.22 The scheme has contributed funding to some long-haul services, notably Emirates' Glasgow–Dubai and Continental's Edinburgh–Newark services, which commenced in April and June 2004 respectively. These routes have now reached the end of their three-year period of investment under the RDF. Frequency on Edinburgh–Newark was increased to double-daily in summer 2007. Delta's Edinburgh–Atlanta service provided access to an alternative major US hub, but the airline will be switching this service from Atlanta to New York in May 2008, where it will be effectively head-to-head with Continental's Newark service. The New York service is not subject to RDF investment.

7.23 The effect of the Commission's guidelines was to curtail the RDF in its current form as of 31 May 2007, with the last service to start under the scheme (Edinburgh–Dortmund) beginning operations on 30 May. The Scottish Executive is now undertaking an evaluation of the RDF looking at the economic impact on each route and the mix of traffic generated. The Scottish Executive remains supportive of the fund and it may be that funding in some other form will be considered, such as for marketing initiatives.

Northern Ireland Air Route Development Fund

7.24 CAP 754 (Case Study 13) explained that this fund was launched in September 2003 by Air Route Development (NI) Ltd, a new company set up by Invest NI, a regional development agency sponsored by the Northern Ireland Department of Enterprise, Trade and Investment (DETI). The fund cost around £3.6m over its period of operation and had similar aims to the Scottish fund, seeking to facilitate the development of new air services that could be shown to be of net economic benefit to Northern Ireland. Immediately prior to the fund, Northern Ireland had just one international air service. The fund had both invited bids and sought to identify gaps in connectivity itself to target, with a service to the US considered a priority. It supported six international and three domestic routes, the most notable being Continental's Belfast–Newark service launched in May 2005. However, all three domestic routes have since been withdrawn (see Table 7.2). Invest NI estimates that another 20 unfunded routes were also added through the RDF stimulating the market, for example by raising airline awareness of the opportunities on offer. Some routes were declined funding on the grounds that these were likely to be predominantly outbound tourism routes and were unlikely to satisfy the requirement that they be of net economic benefit to Northern Ireland.

7.25 DETI believes that the fund has successfully fulfilled its objective of encouraging new air routes to Northern Ireland, and that the market now appears to be performing better. No funding was offered after 2005, by which time the fund was committed to its maximum. Like the Scottish RDF, this fund is now closed to new applications following the new Community guidelines coming into effect, and is the subject of a formal review, beyond which further initiatives may be considered.

Welsh Route Development Fund

7.26 Following formal clearance, the Welsh Assembly Government commenced its RDF from 30 June 2006. The RDF supported five new routes from Cardiff, offering up to 50% of the cumulative airport charges and marketing costs, to Brussels (Eastern Airways, replacing Air Wales which withdrew from scheduled passenger services), Barcelona (Thomsonfly), Manchester (Air Southwest) and Paris (Flybe). Only the Barcelona and Paris services are still operated.

7.27 The Welsh RDF would have required some restructuring from June 2007 as a result of the new Commission guidelines, and is not currently open to new bids. The administrators mentioned specifically that the conditions and restrictions in the guidelines make the scheme unattractive because of the disproportionate work required for funding that can amount to only 30% of eligible costs. Alternative funding is being considered in the form of marketing initiatives relating to tourism and business investment.

English Route Development Funds

7.28 The North East (Air) Route Development Programme also commenced from 30 June 2006 following formal clearance. It is run by One NorthEast, which is the Regional Development Agency covering North-East England, comprising Northumberland, Tyne & Wear, County Durham and Tees Valley. The Programme consists of a £4m fund set up to help the region's airports (Newcastle and Durham Tees Valley), again with the intention of attracting new scheduled air routes that either contribute directly to international trade and investment or encourage inbound tourism.

7.29 The scheme has supported routes from Newcastle to Bergen, Copenhagen and Krakow, which have some significance for improving business links, such as in the oil industry, and/or the potential for generating inbound tourism. However, two Eastern Airways routes which received funding have since been withdrawn after less than a year: Durham Tees Valley–Brussels – a strategically important service for local companies, particularly in the chemicals industry, headquartered in Brussels – and Newcastle–Inverness, a service which also received funding from the Scottish RDF. The Commission guidelines have now effectively ruled out support for routes from Newcastle, which exceeds 5mppa. One NorthEast does not plan to keep its scheme open for applications beyond 2007, given that only one airport is now eligible.

7.30 The only other English Regional Development Agency to propose an RDF was the Northwest RDA (NWRDA), which covers Cheshire, Cumbria, Lancashire, Greater Manchester and Merseyside. The NWRDA announced the launch of its £6.5m Air Services Development Fund in November 2004, although like the other English and Welsh schemes it was not given formal clearance to operate until 30 June 2006. In the event, following an assessment of the Commission guidelines, which were considered to be too restrictive in terms of the region's needs, the NWRDA did not pursue the fund, and instead is reported to be considering other means of supporting the region's four main airports in order to meet regional connectivity objectives.

Future of RDFs

7.31 As well as setting out some of the background to the funds and the conditions under which they had to operate, CAP 754 also recorded the views of regional bodies and industry. These views seemed somewhat polarised: some regarded the funds as very important while others saw them as unnecessary or potentially distortive. CAP 754 also recorded the CAA's own views, which are that in certain circumstances RDFs can be justified, for example if the market is reluctant to offer a new air service because of risk aversion or the lack of awareness of potential, but that financial

support could also have a range of undesirable effects. Therefore this sort of support should continue to be used cautiously and against strict and transparent criteria.

7.32 Research for this updated study revealed a general acceptance that the Scottish and Northern Ireland funds at least had been successful in achieving their aims of improving the connectivity of these peripheral UK regions. This seems to be confirmed by Table 7.2, which shows that, so far, few routes that have benefited from support have been withdrawn, although it should be noted that many routes are relatively recent additions, still receiving funding, and the longer-term position is less certain.

7.33 However, some in the industry remained of the view that while in principle the aims of such funds might be genuine and justifiable, there was a general feeling of a potential for inequity between regions or airports. This might be because a particular region had decided not to set up such a fund, or where there had been instances of routes that had been supported where the case seemed relatively weak. It was also suggested that this was not helped by a lack of transparency in the funding process.

7.34 There did seem general agreement that joint marketing initiatives for the region as a whole, rather than aid given on a route-specific basis, was a more acceptable and equitable way forward. The effect of the Commission's guidelines has been to make the funds much more restricted in their operation; effectively the Commission is confirming the CAA's own views about the need for caution because of the distortions that such aid can create. In the light of the guidelines, regions appear now to be moving more in the direction of wider marketing initiatives.

Table 7.2 Services funded by Route Development Funds

Scottish Route Development Fund

Domestic routes		**Start date**	**Operator**	**Status / frequency**
Aberdeen	Bristol	November 2004	Eastern Airways	3 x daily
Aberdeen	Liverpool	October 2006	Ryanair	less than daily
Aberdeen	Southampton	March 2005	Eastern Airways	3 x daily
Aberdeen	Stornoway	January 2006	Eastern Airways	1 x daily
Dundee	Belfast City	May 2007	flyWhoosh (a)	1 x daily
Dundee	Birmingham	May 2007	flyWhoosh (a)	2 x daily
Edinburgh	Jersey	April 2004	bmi regional	withdrawn October 2005
Inverness	Birmingham	October 2003	Eastern Airways	2 x daily
Inverness	Bristol	July 2005	easyJet	1 x daily
Inverness	East Midlands	February 2007	Ryanair	less than daily
Inverness	Leeds Bradford	April 2006	Eastern Airways	1 x daily
Inverness	Liverpool	October 2006	Ryanair	less than daily
Inverness	Newcastle	June 2006	Eastern Airways	withdrawn September 2006

Short-haul international routes		**Start date**	**Operator**	**Status / frequency**
Aberdeen	Brussels	April 2007	bmi regional	1 x daily
Aberdeen	Copenhagen	November 2004	SAS/Cimber Air	2 x daily
Aberdeen	Groningen	April 2004	Eastern Airways	never operated
Aberdeen	Groningen	May 2004	bmi regional	1 x daily
Aberdeen	Kristiansand	April 2007	bmi regional	less than daily
Aberdeen	Oslo	March 2005	City Star A/l (b)	2 x daily
Edinburgh	Barcelona	March 2005	Flyglobespan	1 x daily
Edinburgh	Cologne	April 2003	Germanwings	less than daily
Edinburgh	Dortmund	May 2007	easyJet	less than daily
Edinburgh	Gdansk	March 2006	Centralwings	less than daily
Edinburgh	Geneva	November 2003	Duo	airline ceased trading May 2004
Edinburgh	Geneva	December 2005	easyJet	1 x daily (c)
Edinburgh	Katowice	March 2006	Centralwings	less than daily
Edinburgh	Krakow	April 2006	SkyEurope	withdrawn October 2006
Edinburgh	Madrid	February 2007	easyJet	1 x daily
Edinburgh	Milan (Malpensa)	November 2003	Duo	airline ceased trading May 2004
Edinburgh	Milan (Malpensa)	May 2007	easyJet	1 x daily
Edinburgh	Munich	March 2004	Duo	airline ceased trading May 2004
Edinburgh	Munich	April 2007	easyJet	1 x daily
Edinburgh	Oslo	November 2003	Duo	airline ceased trading May 2004
Edinburgh	Zurich	November 2003	Duo	airline ceased trading May 2004
Edinburgh	Zurich	March 2007	bmi regional	1 x daily
Glasgow	Barcelona	March 2005	Flyglobespan	1 x daily
Glasgow	Berlin	May 2006	easyJet	1 x daily
Glasgow	Prague	October 2004	Czech Airlines	withdrawn July 2005
Inverness	Dublin	April 2006	Aer Arann	less than daily
Inverness	Stockholm	March 2004	SAS (Snowflake)	withdrawn July 2004
Kirkwall	Bergen	June 2003	Loganair	withdrawn Sept 2003
Prestwick	Barcelona (Girona)	May 2003	Ryanair	1 x daily
Prestwick	Berlin	September 2004	Germania	never operated
Prestwick	Dusseldorf (N'rhein)	November 2004	Ryanair	less than daily
Prestwick	Gdansk	March 2006	Wizz Air	less than daily
Prestwick	Gothenburg (Save)	October 2003	Ryanair	less than daily
Prestwick	Hamburg (Lubeck)	March 2005	Ryanair	withdrawn July 2006
Prestwick	Milan (Orio)	January 2004	Ryanair	1 x daily
Prestwick	Pisa	March 2005	Ryanair	less than daily
Prestwick	Rome (Ciampino)	April 2004	Ryanair	less than daily
Prestwick	Stockholm (Skavsta)	April 2003	Ryanair	less than daily
Prestwick	Warsaw	March 2006	Wizz Air	less than daily
Prestwick	Wroclaw	August 2006	Ryanair	less than daily
Sumburgh	Faroe Islands	June 2006	Atlantic Airways	Summer only, w/drawn Oct 2006
Sumburgh	Oslo	July 2004	Wideroe	Summer only, w/drawn Aug 2005
Sumburgh	Stansted	June 2006	Atlantic Airways	Summer only, less than daily

Table 7.2 Services funded by Route Development Funds (continued)

Scottish Route Development Fund (continued)

Long-haul international routes		Start date	Operator	Status / frequency
Edinburgh	Atlanta	June 2006	Delta	1 x daily, withdrawn October 2007
Edinburgh	Newark	June 2004	Continental	2 x daily
Glasgow	Boston	May 2007	Flyglobespan	1 x daily
Glasgow	Dubai	April 2004	Emirates	1 x daily
Glasgow	Toronto (Hamilton)	May 2007	Flyglobespan	less than daily

Northern Ireland Air Route Development Fund

Route		Start date	Operator	Status / frequency
Belfast City	Norwich	February 2005	Flybe	withdrawn January 2006
Belfast Int'l	Berlin	July 2005	easyJet	less than daily
Belfast Int'l	Geneva	July 2005	easyJet	withdrawn Apr 07, restarts Dec 07
Belfast Int'l	Newark	May 2005	Continental	1 x daily
Belfast Int'l	Nice	June 2004	easyJet	less than daily
Belfast Int'l	Paris (CDG)	June 2004	easyJet	1 x daily
Belfast Int'l	Rome (Ciampino)	July 2005	easyJet	withdrawn October 2007
City of Derry	Birmingham	June 2004	Aer Arann	withdrawn July 2005
City of Derry	Manchester	June 2004	Aer Arann	withdrawn July 2005

Welsh Route Development Fund

Route		Start date	Operator	Status / frequency
Cardiff	Barcelona	May 2007	Thomsonfly	less than daily
Cardiff	Brussels	February 2006	Air Wales	withdrawn April 2006
Cardiff	Brussels	June 2006	Eastern Airways	withdrawn August 2006
Cardiff	Paris (CDG)	May 2007	Flybe	2 x daily
Cardiff	Manchester	April 2006	Air Southwest	withdrawn June 2007

North East Air Route Development Programme

Route		Start date	Operator	Status / frequency
Durham T.V.	Brussels	October 2006	Eastern Airways	withdrawn September 2007
Durham T.V.	Warsaw	July 2007	Wizz Air	less than daily
Newcastle	Bergen	April 2006	Jet 2.com	less than daily
Newcastle	Copenhagen	March 2007	Cimber Air	1 x daily
Newcastle	Inverness	June 2006	Eastern Airways	withdrawn September 2006
Newcastle	Krakow	October 2006	Jet 2.com	less than daily

Notes: *Frequency shown is as at August 2007.*
Services shown as daily include those that operate only on weekdays.
(a) actual operator White Eagle Aviation
(b) actual operator Landsflug
(c) funding summer seasons only.

Source: *Scottish Government, Scottish Parliament, Department of Enterprise, Trade and Investment Northern Ireland, Welsh Assembly Government, English Regional Development Agencies, airline and airport websites, Department for Transport, OAG Flight Guide August 2007, CAA airport statistics.*

Aid of a Social Character: the Scottish Air Discount Scheme

7.35 The Air Discount Scheme (ADS) was born out of a plan within HITRANS (the Highlands and Islands Transport Partnership) for a PSO network throughout the Highlands and Islands. This network would have included services that were operating commercially, and, aside from concerns over cost, the Scottish Executive recognised that, although the European Commission would permit aid of a social character to be given to individuals in remote areas, it was not clear that it would approve a PSO network that included routes that were commercially sustainable.

7.36 The Scottish Executive therefore introduced a scheme (the ADS) whereby eligible residents could have part of their fare paid by the Executive. Notification was made to the UK Government in February 2006 and the scheme was introduced in May 2006 following clearance by the Commission[14]. The scheme does not apply to PSO routes.

7.37 The scheme offers a discount on fares for eligible local residents only[15]. The discount is currently 40% on any fare type, but could be up to 50% under the scheme rules. To get the discount those eligible are required to register for the scheme by completing an application form. The scheme was approved with a maximum budget of £11.2m in each year and has proved popular, with membership running at around 87% of eligible residents. More than 130,000 discounted tickets were purchased in the scheme's first year[16].

7.38 The ADS is due for re-notification to the European Commission in March 2008 and the Scottish Executive is in the process of reviewing whether the Scheme should continue beyond March 2008. The scheme is similar in scope and application to other aids of a social character which have been approved by the Commission on the same grounds involving, among others, services involving Balearics– and Canary Islands–Spain, Madeira–Portugal and Corsica–mainland France.

14. The Commission's Communication on State aids in the air transport sector provides that, in the case of direct aid for the operation of air services and the application of Article 87(2)(a):
    - The aid must effectively be for the benefit of final consumers.
    - The aid must have a social character, that is, it must, in principle, only cover certain categories of passengers travelling on a route such as children, handicapped people, people with low incomes, etc. However, in the case where the route concerned links an underprivileged region, the aid could cover the entire population of this region.
    - The aid must be granted without discrimination as to the origin of the services.
15. Residents of the Western and Northern Isles, Islay, Jura, Caithness and North West Sutherland who are over 16 years of age.
16. Source: the Air Discount Scheme website, July 2007.

Chapter 8 Environmental Issues

Chapter Summary

This Chapter contains a commentary on the profile of environmental issues in the regional context, the legal framework within which regional airports and airlines must operate, and some issues for consideration in relation to the environmental impact of the growth in regional air services. It finds that:

- Environmental issues are increasingly high profile for the aviation industry and are high on the list of priorities for most regional airports.
- There is a clear legal framework in place in relation to environmental impacts at airports such as noise and air quality, supported by local planning processes.
- Airport operators themselves are also taking forward environmental initiatives in recognition that mitigation has to go hand in hand with infrastructure development.
- Although environmental issues are clearly not specific to regional air services, and deducing overall impacts is problematic, the relatively fast growth of regional services does have a range of environmental impacts, both positive and negative, for example:
  - o overall growth in traffic in regional services would suggest a growing environmental impact;
  - o however, CAA Passenger Survey data reveals, for example, that on a passenger journey itinerary such as Manchester to North America, where direct long-haul services from the regions have increased, a greater proportion of passengers now use direct flights, potentially reducing the environmental impact associated with surface access travel and with connecting flights.
- The analysis set out here is a high-level review of a limited number of factors in the context of the growth of regional air services, but further work would be needed to build a more sophisticated understanding of the issues and trade-offs in order comprehensively to model the environmental implications.

Background – Growing Profile of Environmental Issues

8.1 The environmental impact of aviation continues to command increasing public attention. Growing awareness of climate change and its potential impacts has further heightened interest, while environmental issues such as noise and air quality remain important for local communities, particularly in the context of potential future expansion of airport capacity and air services. As noted in Chapter 6, the Government's Air Transport White Paper Progress Report[1] recorded survey findings in October 2006 showing that public awareness of climate change and the environmental implications of air travel had increased, with 70% of adults believing that air travel had an impact on the environment, compared with 62% in 2002. In interviews the CAA carried out in connection with this updated study, the environment was high on the list of priorities for airports and airlines.

1. www.dft.gov.uk/about/strategy/whitepapers/air/aviationprogressreportsection/

8.2 The CAA recognises that environmental issues pose a challenge for the aviation industry as a whole. The Government reiterated its commitment to a balanced approach in the White Paper Progress Report, reflecting both the growing aspirations of people to travel and the needs of the economy, as well as the need to protect the environment. The Government supports the principle that aviation should pay its full environmental costs, as should all sectors of the economy, and the CAA supports this objective[2], as have both the Stern and Eddington independent reviews. Where aviation meets its full environmental costs, it should only grow where economic and social benefits outweigh related costs.

8.3 A key future policy mechanism for aviation contributing to global climate stabilisation is the entry of the sector into the EU Emissions Trading Scheme (EU ETS). Entering the EU ETS should offer a cost effective means for the sector to contribute to climate stabilisation, as allowance trading across sectors of the economy supports the delivery of targets at lowest cost to consumers. In addition, the European Commission also intends to bring forward proposals to address oxides of nitrogen (NO_X) emissions from aviation by the end of 2008. The industry itself is also taking steps to improve environmental performance, such as the renewal of fleets with more fuel-efficient aircraft. The delivery of efficiencies in other areas such as air traffic management could, for example, offer further environmental benefits in the future.

8.4 The Government announced in the Pre-Budget Report in October 2007 its intention to replace Air Passenger Duty from 1 November 2009 with a duty payable per aircraft rather than per passenger, stating that the new aviation duty will send better environmental signals and ensure aviation makes a greater contribution to covering its environmental costs[3]. The Government is expected to consult industry and stakeholders on the detail of this duty in the near future, and will consider ways to make aviation duty better correlated to distance travelled and to encourage more aircraft to fly at full capacity.

Impact of the Growth of Regional Air Services

8.5 Regional services have a range of environmental impacts. Growth of services has the potential to increase noise and local air pollution in and around the airport concerned. Greenhouse gas emissions from arrivals and departures at the airport may also be higher. The range of environmental impacts associated with traffic growth at regional airports is complex. The overall impact (such as in climate change terms) will for example depend on the extent to which such growth is a result of new (i.e. "stimulated") demand, or demand growth which would have happened anyway at other airports (for example in London). It is not possible to come to a conclusion on this issue in the context of this report, since a counterfactual position (what would have happened if growth in the regions had been similar to that in London) is difficult to assess.

8.6 The CAA was able to carry out this sort of analysis in CAP 770, its 2006 report on the impact of no-frills carriers[4]. CAP 770 concluded that no-frills growth had appeared not to affect overall rates of traffic growth significantly, i.e. that it had "substituted" for rather than "stimulated" new demand. Despite perceptions about the impact that no-frills carriers have had on travel habits, the report found that there had been little change in long-term aggregate passenger traffic growth rates on routes within the UK and from the UK to the EU – in other words, no-frills carriers had instead been "substituting" demand which, in all likelihood, would otherwise have been attracted by

2. www.caa.co.uk/docs/286/Aviation%20Environmental%20Policy.pdf
3. www.hm-treasury.gov.uk/pbr_csr/pbr_csr07_index.cfm
4. CAP 770 *No-frills carriers: evolution or revolution?*, November 2006, www.caa.co.uk/cap770.

other carriers. Although it is not possible to carry out the same analysis for growth at regional airports, it is possible that, had growth not occurred at a particular airport, it may have occurred at another – regional or London – airport. To the extent that regional air services have substituted for demand elsewhere, there may be reduced environmental impacts from the shorter surface access journeys and fewer connecting flights associated with the use of more local (i.e. regional) airports. It is not within the scope of this study to undertake the detailed work that would be necessary to bottom out these issues, although this Chapter does attempt, through the use of case studies, to undertake some initial analysis of the factors in play.

Legal Framework bearing on Regional Airports

8.7 A framework of domestic and European legislation regulates environmental factors in and around airports. This section sets out the key legislative provisions that are likely to bear on noise and on emissions affecting local air quality at regional airports.

8.8 The Civil Aviation Act 2006 updated the legislative provisions concerning airports and the environment. The Act enables the Secretary of State to take steps to mitigate the effect of aircraft noise at airports designated for these purposes – currently Heathrow, Gatwick and Stansted. The Act also empowers an authority owning or managing a licensed aerodrome to fix its charges by reference to noise or emissions. The Secretary of State may direct specified aerodrome authorities to fix their charges using these powers.

8.9 The Act also clarifies the powers of operators of *non-designated aerodromes* to regulate noise from aircraft. Aerodrome operators are given the power to impose penalties where aircraft operators fail to comply with the noise control regime in place. Payments equal to the amount of penalties received must be made by the aerodrome authority for the benefit of persons who live in the area in which the aerodrome is situated.

8.10 The Secretary of State and aerodrome operators remain subject to the Aerodromes (Noise Restrictions) (Rules and Procedures) Regulations 2003, which transposed Directive 2002/30/EC into UK law. The Regulations apply to city airports (as defined in the Regulations) and civil airports that have more than 50,000 civil air traffic movements per year, of which there are 13 in the UK. These are the five main London airports, plus Birmingham, Bristol, East Midlands, Edinburgh, Glasgow, Manchester, Aberdeen and Newcastle.

8.11 These Regulations set out the procedures airports should follow when considering noise-related operating restrictions and reflect the adoption by the EU of ICAO's "Balanced Approach to Noise" – namely that airports should not impose measures which are more restrictive than necessary to achieve noise objectives. That approach encompasses reduction of noise at source, land use planning and management, noise abatement operational procedures, and noise operating restrictions on aircraft.

8.12 Directive 2002/49/EC (the Environmental Noise Directive) was transposed in the UK by the Environmental Noise (England) Regulations 2006 which came into force in October 2006. It involves the preparation of strategic noise maps for large urban areas, major roads, railways and major airports and of action plans based on the results of the mapping exercise. 19 non-designated airports submitted these to the Department for Transport (DfT) by 31 March 2007, and the three London designated airports by 30 June 2007.

8.13 European law also sets a framework on ambient air quality assessment and management[5]. The European Commission is in the process of developing a proposal for a Directive on ambient air quality, to merge five existing Directives. States will then be required to draw up plans and programmes to guarantee compliance with legally binding limit values for air pollutants over the period up to 2020[6].

Environmental Issues and Regional Air Services

8.14 In addition to the legal framework detailed above, many regional airports are also the subject of restrictions fixed through the local planning system, such as conditions applied to Planning Permissions, which can regulate issues such as operating hours, night flights, aircraft noise levels and requirements to take mitigating action such as noise-proofing local homes. Some airports are opting to go further, recognising that expansion has to be coupled with environmental impact mitigation, not just to meet local planning requirements but also to fulfil "good neighbour" and corporate social responsibility commitments. For example, Peel Airports has introduced a carbon offsetting scheme at Doncaster Sheffield, Durham Tees Valley and Liverpool that enables passengers to contribute towards planting trees in local forests. Passengers are encouraged to donate £10 and Peel will match any payment that passengers make, thus doubling the contribution.

8.15 The Government's 2006 Air Transport White Paper Progress Report also gave some examples of good practice by airports to control and mitigate noise. East Midlands Airport has introduced an innovative internet tracking system that allows people to see which aircraft have flown over their homes and helps them identify which aircraft caused the disturbance. The airport has also proposed a substantial increase in its sound insulation grant. Edinburgh and Glasgow airports also have noise tracking systems, which are used in conjunction with a dedicated noise enquiry line for noise complaints.

8.16 The Progress Report noted that a key priority of the Air Transport White Paper was to increase the choice of routes and services at airports outside the South East, to promote regional development, to relieve pressure on the more overcrowded airports, and to cut down on the need for long-distance travel to and from airports, thereby reducing surface access emissions. The Progress Report went on to say that encouraging people to fly on direct services from their local airport, rather than making a long journey to a hub airport, not only reduces emissions but can also reduce travel time for business and leisure users. It gave as an example Flybe's estimate that the 0.9m additional passengers it carried to and from Southampton airport between 2002 and 2004 saved 17m car miles per year.

8.17 Clearly, however, determining overall environmental impacts is extremely complex, with a range of factors and assumptions involved.

5. Council Directive 1999/30/EC relates to limit values for (among others) nitrogen dioxide. It is one of four daughter directives to Directive 96/62/EC.
6. The UK transposed the current directives into UK law in The Air Quality Limit Values Regulations 2003.

Case Study E: Environmental Impact at George Best Belfast City Airport

Belfast City Airport was the factory airfield of manufacturer Short Brothers, and was opened to commercial flights in 1983, originally as Belfast Harbour Airport.

The airport has a commitment to achieving a balance between the social and economic benefits of the airport's growth and the environment through a programme of sustainable development. Bearing in mind its position close to a built-up area of ½m people, the key environmental issue at Belfast City is noise. The airport has developed a noise management strategy to adhere to a planning agreement and operational noise abatement procedures. It has an action plan agreed with the airport consultative committee (BCA Forum) about air and ground noise. The Forum discusses all issues relating to the development and operation of the airport, including monitoring noise complaints. It has an independent Chairman and comprises representatives from local authorities, residents' groups, the Northern Ireland General Consumer Council, the Department for Regional Development, airlines and other groups.

In 2004 the airport applied for a review of the planning agreement that imposed a cap of 1.5m seats (in each direction) annually, causing some controversy among residents. The planning agreement also limits the scheduling of flights to between 6.30am and 9.30pm, with extensions until midnight in exceptional circumstances, such as delayed flights. Like London City, there is no question of Belfast City opening at night, but the airport does favour some more flexibility in the 9.30pm curfew, perhaps by accepting tighter restrictions on exceptions or extension hours. The airport is also considering the replacement of the cap of 45,000 annual air transport movements (ATMs) imposed by the planning agreement with one based on a quota-count system that categorises aircraft by noise levels. The quota-count system, used at London City, an airport in a comparable situation, gives more weighting to noisier aircraft, whereas the ATM cap is quite crude in its effect, as those movements could be all jet airliners or all turboprops. Following a public consultation in 2004, the Department of the Environment decided to appoint an independent panel to conduct an Examination in Public, which reported in 2006. The Panel recommended that initially the operating hours and ATM cap remain unchanged, but that the cap on annual seats be increased to 2m, with the prospect of further consultation with the BCA Forum to remove completely the cap on annual seats and to amend operating hours and the ATM cap. A decision by the Northern Ireland planning authorities to increase the seat cap is now the subject of a judicial review.

To demonstrate improvements in the noise climate to the community, the airport imposed a ban on aircraft not meeting Chapter 3 standards[i] in 1997, some time before the EU-wide ban took effect in 2002. The airport subsequently imposed a ban on aircraft that only just met Chapter 3 standards[ii]. In 2005 a survey of aircraft movements found that 95% of them met Chapter 4 standards, and a voluntary agreement limiting operations to Chapter 4 aircraft might therefore be a future step.

i. That is, certificated as meeting the noise standards specified in Part II of Chapter 3, Volume 1 of Annex 16 to the Convention on International Civil Aviation.

ii. Operating restrictions imposed on marginally compliant Chapter 3 aircraft are governed by EC Operating Restrictions Directive 2002/30/EC, and Belfast City is one of four city airports for which the Directive makes specific provision.

In addition, Belfast City lies within the Belfast agglomeration and is therefore involved in the preparation of Environmental Noise Maps in compliance with the EU Environmental Noise Directive. The outcome of this mapping process may lead to the development of a further noise action plan.

Other initiatives to mitigate the airport's environmental impact include equipping all 10 aircraft stands with fixed ground power. The airport aims to move to an arrangement whereby auxiliary power units or engines could be used only immediately prior to departure, lessening noise and emissions. Tractors for baggage trolleys have been converted from diesel to electric, and in drawing up plans for an extension to the terminal, the airport has sought to identify potential sources of low carbon or renewable energy that could be integrated into the design.

The airport has been involved in a project named "Vantage" with radar and software providers, aiming to design a management tool that would optimise an airport's decisions both operationally and environmentally by overlaying information from airline, airport and air traffic control systems with environmental input.

Audits by the Carbon Trust have shown the airport to have reduced carbon emissions through improved airport energy use by 6% between 2003 and 2006 despite a 15% increase in air transport movements. The airport is working its way through the recommendations from the 2006 audit. The airport has also signed up to the UK industry's Sustainable Aviation strategy.

Source: Belfast City Airport website and CAA discussions with the airport.

Impact of Growth in Regional Air Services on Passenger Journey Patterns

8.18 The growth of regional air services has the potential to have a range of environmental impacts, in regard to noise, local air pollution and climate change, and potentially other areas such as biodiversity or tranquillity. On the other hand, the availability and take-up of more local services may displace long-distance surface trips from the regions to larger airports (for example in London), reducing congestion, travel time, and, depending on the specific circumstances, potentially reducing overall carbon emissions. Growth in direct flights from the regions, rather than journeys which involve interlining (for example at London airports or other hubs like Amsterdam) may also reduce carbon emissions, as the take-off and landing phases of flight can create a significant proportion of overall emissions.

8.19 In terms of emissions, a conclusion on the effect of regional services would involve more complex analysis than is within scope of this study, including of the extent to which a new regional service has stimulated demand from passengers who would not otherwise have flown; has attracted them from flights to other destinations (and whether these flights are longer or shorter than the new service); or simply shifted demand for the same, or similar, destination away from a more distant airport (for example in London) or from a more complex routeing (for example via a short-haul hub from a regional airport).

8.20 In addition, flights from larger hubs may use larger aircraft, with lower emissions per passenger, than a direct regional service. In contrast, it may be that a new regional service would use a newer aircraft with lower emissions than an older aircraft of similar size. Irrespective of the efficiency of the aircraft used, emissions per passenger will depend heavily on the load factors achieved on the route. Finally, depending on the geographic position of the final destination, flying direct as opposed to travelling by surface to a nearer airport may actually increase emissions[7].

7. For instance flying from Manchester to Cape Town, all other things being equal, will probably cause slightly higher emissions, than travelling by surface from Manchester to London and flying to Cape Town from there.

8.21 Therefore, no attempt has been made in this study to translate, either qualitatively or quantitatively, any observed changes in air services between regional airports and larger hubs in terms of greenhouse gas emissions or other environmental impacts. However, the following examples attempt some preliminary analysis of the effects of regional services on the air and surface miles travelled by passengers from the regions and, where there are changes in the use of connecting flights, the number of take-offs and landings per passenger[8]. Each is based on CAA Passenger Survey data weighted to 2000 and 2005 levels[9], and considers passenger journeys between a particular UK region and world area.

Example 1: Journeys between North-West England and North America

8.22 For passengers travelling between points in North-West England and airports in North America, the period between 2000 and 2005 saw a notable increase in the proportion of passengers using direct flights, which rose from 57% to 79% (Table 8.1). The proportion of passengers travelling by other means thus fell to around one fifth, and the number of those passengers also fell in absolute terms, despite a 20% increase in the total number of journeys. These other means include passengers travelling by air to a London airport (down from 25% to 13%) or another hub (down from 9% to 4%) and passengers travelling by surface to take a flight from a London airport (down from 8% to 4%).

Table 8.1 Passenger journeys from North-West England to North America by journey type

	2000		2005		
	Journeys (000)	**%**	**Journeys (000)**	**%**	**% change**
Surface to NW airport then direct flight	560	57%	927	79%	+66%
Surface to London then flight	80	8%	44	4%	-45%
Surface to other airport then flight	10	1%	2	0%	-80%
Air connection over London	246	25%	156	13%	-37%
Air connection over other hub	87	9%	50	4%	-43%
Total journeys	**984**	**100%**	**1,179**	**100%**	**+20%**

Source: CAA Passenger Survey.

8.23 The absolute growth in the number of journeys is around 20%, implying a potential increase in overall environmental impact. However, the shift towards flying direct from the local regional airport rather than travelling by air or surface to London or another hub may have delivered emissions savings, compared with a counterfactual of the same percentage growth in travel but with the 2000 mode of travel split (for example with only 57% of passengers taking a direct flight from the North West to North America). The "savings" (applying the same caveats as above) in distance travelled can be estimated as around 154m passenger km of air travel and 14m passenger km of surface travel[10].

8. A connecting flight (say Manchester–Heathrow–New York) has four take-offs and landings (depart Manchester, arrive Heathrow, depart Heathrow and arrive New York), whereas a direct flight has only two (depart Manchester and arrive New York). Take off and landing are known to be the most fuel, and therefore emissions, intensive parts of air travel.
9. Since not all UK airports were surveyed in 2000, a snapshot of UK demand was created from the survey data from 1999, 2000 and 2001, with the results weighted to the traffic levels in 2000. A similar process was used on survey data from 2003 and 2005 to create the 2005 snapshot.
10. These figures have been calculated by applying standard distance values to different journey legs, for instance "Surface to London then flight" is based on 300 km distance between Manchester and London and 7,000 km great circle distance between Heathrow and the US. A comparison is then made between the surface and air distances covered as reported in the 2005 data, and the distances that would have been covered if the passengers had used the travel options in the same proportions as shown in the 2000 data.

Example 2: Domestic Journeys to or from South-West England

8.24 A similar analysis of air journeys between South-West England and other UK destinations, typically Northern England and Scotland, showed similar changes between 2000 and 2005. The total number of journeys has increased very significantly from around 0.8m to 1.8m, with a strong shift evident towards using local airports such as Bristol and Exeter rather than London airports. Bristol was the departure airport in 46% of such journeys in 2000, but this had risen to 68% in 2005. Use of Heathrow was down from 21% in 2000 to 4% in 2005, with similar scales of reduction in the use of other London airports[11].

8.25 Analysed in the same way as Example 1 above, the "savings" in terms of surface travel in 2005 compared with the 2000 mode of travel split are 62m passenger km. There was a reduction in the proportion of passengers making connections from more than 5% in 2000 to less than 1% in 2005.

Example 3: International Journeys to or from Scotland

8.26 An analysis of journeys by passengers between Scotland and international destinations shows a similar pattern. Between 2000 and 2005, the proportion of Scotland–North America journeys where the transatlantic leg used a Scottish airport (as opposed to for example London or another EU hub like Amsterdam) increased from 22% to 29%, while the proportion of journeys to short-haul international destinations on direct flights from Scotland increased from 74% to 83%. The reduction in the number of passenger take-offs and landings, compared with replicating the 2000 mode of travel split by those travelling in 2005, was 1.8m, and the savings in air distance travelled can be estimated as around 224m km.

8.27 This would suggest environmental benefits compared with the counterfactual of the continuation of the journey patterns of 2000, but again this picture has to be seen in the context of an overall increase in the number of international passengers travelling to or from Scotland, which rose by 52% from 7.6m in 2000 to 11.6m in 2006, as well as other factors mentioned above which make any conclusions on this difficult to reach.

Future Steps

8.28 As consumer awareness of the environmental impacts of aviation grows, there will be an increased focus on these issues, and increasing demands for more information. The measurement of carbon impacts and corporate and individual carbon "footprinting" is increasingly influential and likely to become more so in future. Both airports and airlines have been undertaking environmental initiatives and this would be expected to continue.

8.29 As noted above, the analysis set out here is a high-level review of a limited number of factors in the context of the growth of regional air services. The survey data from these three examples shows that the growth in regional air services has typically been accompanied by a reduction in the proportion of journeys via London or other hubs, whether accessed by surface or air. However, any analysis of the net environmental impacts of these trends is complex and depends on a wide range of factors. More comprehensive analysis than is within scope of this study would be needed to build a more sophisticated understanding of the issues and trade-offs in order fully to model the environmental implications.

11. Gatwick usage fell from 2.6% to 1.0%, Luton from 3.7% to 0.5%, and Stansted from 2.3% to 0.3%.