

# CAA's response to the British Infrastructure Group's Call for Evidence on UK airports

**CAP 1413** 



Published b	y the Civil	Aviation	Authority	/, Ma	y 2016
-------------	-------------	----------	-----------	-------	--------

Civil Aviation Authority,
Aviation House,
Gatwick Airport South,
West Sussex,
RH6 0YR.

You can copy and use this text but please ensure you always use the most up to date version and use it in context so as not to be misleading, and credit the CAA.

Enquiries regarding the content of this publication should be addressed to: Pedro Lino Pinto, <a href="mailto:pedro.pinto@caa.co.uk">pedro.pinto@caa.co.uk</a>

The latest version of this document is available in electronic format at <a href="www.caa.co.uk">www.caa.co.uk</a>, where you may also register for e-mail notification of amendments.

CAP 1413 Contents

# Contents

CAA's response to British Infrastructure Group's Call for Evidence on	UK airports 2
Chapter 1	4
The UK's regional airport market	4
Recent developments in passenger numbers	4
Connectivity between regional and UK hub airports	4
Context I: the importance of competition	6
Context II: capacity constraints in the South-East	7
Chapter 2	8
Observations on possible proposals	8
Role of government/PSOs	8
Renegotiating the EU slot regime	9
Discounts on domestic routes/tailoring aspects of the hub airports	s to smaller
aircraft	10
Appendix A	11
Call for Evidence letter	11
Appendix B	12
Charts and data sources	12
Appendix C	17
Ring-fencing "new" slots for regional access – text submitted to the S	maller Airports
inquiry of the Transport Select Committee (February 2015)	17
Context	17
Allocating slots	17
Reserving slots at a London airport	18
Public Service Obligations	19
Conclusion	20

May 2016

# CAA's response to British Infrastructure Group's Call for Evidence on UK airports

# **Summary**

- The CAA welcomes the opportunity to respond to the Call for Evidence in May 2016 by the British Infrastructure Group (BIG) – a cross-party group of MPs whose goal is to promote better infrastructure in the UK.<sup>1</sup>
- The UK's regional airports and the airlines that serve them play an important part in providing air connectivity throughout the UK and contributing to the economic growth of their regions. We have made a number of submissions on this subject in recent years, including to the Airports Commission<sup>2</sup> and the Transport Select Committee<sup>3</sup>. We are pleased that this issue continues to benefit from the attention of policy makers.
- 3. The CAA oversees the economic regulation of the UK's two largest airports, Heathrow and Gatwick. We continue, however, to have a keen interest in whether the broader UK airport market works well for consumers. In relation to the BIG's two principal concerns about the number of passengers using regional airports and the number of connections between regional airports and UK hub airports, we consider the available evidence points to the following key observations.
  - Airports in the UK's regions and nations operate in a competitive environment and there is a broad diversity in their individual performance in terms of passenger growth.

May 2016 Page 2

The Call for Evidence letter is available in Appendix A.

Available at <a href="http://webarchive.nationalarchives.gov.uk/20140713054907/http://www.caa.co.uk/default.aspx?">http://webarchive.nationalarchives.gov.uk/20140713054907/http://www.caa.co.uk/default.aspx?</a> catid=589&pagetype=90&pageid=14751

See for example CAA's response to the Smaller Airports inquiry, available at <a href="http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/transport-committee/smaller-airports/written/13426.pdf">http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/transport-committee/smaller-airports/written/13426.pdf</a>.

Passenger numbers at all non-London airports have recovered following the economic downturn to be now just below their pre-2008 peak. This overall picture, however, masks some sharp differences in performance at the individual airport level. Some regional airports, especially the larger ones, have been thriving recently experiencing rapid growth in passenger numbers to record levels, whereas some of the smaller regional airports have continued to experience a fall in passenger numbers.

 There has been a reduction over the past decade in the average number of daily departures from UK regional and national airports to the London airports.

We would, however, encourage a degree of caution in interpreting this trend. The number of regional airports serving the main London airports with more than two departures a day continues to show a reasonably broad spread. Regional airports have historically grown by providing short haul and medium haul direct flights to destinations thus making a connection through London less important than it used to be for some consumers. Surface access links with London may provide suitable alternatives to a flight connection for some UK consumers. In addition, from a consumer perspective many regional airports have good connections to non-UK hubs serving long-haul destinations: for example Amsterdam is connected with 14 UK regional airports. Notwithstanding these observations, the CAA agrees with the Airports Commission that UK consumers would benefit from new runway capacity in the South East of England to help unlock a greater number of domestic and international connections and the economic benefits they bring.

4. This report also offers a number of observations on the three potential policy interventions raised in the BIG's Call for Evidence: the role of government/Public Service Obligations (PSOs); renegotiating the EU slot regime; and discounts for domestic routes/incentives for smaller aircraft.

#### **CAA**, May 2016

### Chapter 1

# The UK's regional airport market

1.1 This section highlights some evidence and context relevant to the two principal concerns expressed in the BIG's Call for Evidence: the decline in passenger numbers at some regional airports; and the fall in the number of domestic connections to the UK's hub airports.

# Recent developments in passenger numbers

- 1.2 Overall passenger numbers at the UK's regional airports grew rapidly in the years leading up to 2007 by taking advantage of the growth of low-cost airlines increasing their connections to European destinations.<sup>4</sup> Airports outside London were generally more affected by the economic downturn of 2008, but since then passenger numbers have recovered so by 2015 they were just a little below their pre-2008 peak (see Figure 1 in Appendix B).
- 1.3 This overall picture, however, masks much diversity at the individual airport level (see Figure 2 in Appendix B). Some of the larger regional airports have recovered and now exceed 2007 traffic levels, such as Manchester, Luton, Edinburgh, Birmingham, Bristol, Aberdeen and Leeds. Some regional airports have seen strong recent growth but have not yet reached their pre-downturn peak, such as Stansted and Glasgow. Finally, some of the smaller regional airports saw a substantial decline between 2007 and 2010 and are yet to see any significant recovery, such as Cardiff, Prestwick, Liverpool and Belfast.

# Connectivity between regional and UK hub airports

1.4 Links with Heathrow and Gatwick are particularly important because of the connections they allow UK consumers to long-haul destinations. Direct

This growth in connectivity was described in-depth in <a href="www.caa.co.uk/CAP754">www.caa.co.uk/CAP754</a> in 2005 and in <a href="www.caa.co.uk/CAP775">www.caa.co.uk/CAP775</a> in 2007.

links between UK regional airports and long-haul destinations are still very small compared to what is available in the London area, but they are growing. UK consumers wishing to connect through London may also value that the London airports also provide substantial short and medium haul connectivity.

- 1.5 Evidence suggests that the average number of daily departures from regional airports to London airports has declined over the past decade – see Figure 3. These numbers should, however, be interpreted with some caution.
  - There number of regional airports serving the main London airports with more than 2 routes a day remains a reasonably broad spread and has declined only slightly over the same period.
  - The growth of point-to-point flights from regional airports to European destinations has meant that some indirect access to hub airports is less important than it used to be.
  - There are non-UK hubs capable of providing connectivity for UK consumers to many long-haul destinations from the UK's regional airports. For example, Amsterdam is connected to 14 UK regional airports. There has also been some growth in connections from the UK's regional airports to long-haul hubs, particularly in the US and the Middle East.
- 1.6 Heathrow and Gatwick have recently taken a number of steps<sup>5</sup> to promote connectivity for UK consumers, including by undertaking certain investments, changes to their charging structures, and providing some regional connectivity commitments.<sup>6</sup>
- 1.7 Aside from Heathrow and Gatwick, some UK airports and airlines are looking to adapt their business models to provide consumers with more connection possibilities, including to the UK regions. For example, Ryanair

May 2016 Page 5

.

Heathrow has lower airport charges for connecting passengers and recently decided to introduce discounts for domestic passengers. Gatwick has undertaken some investment to actively promote passenger connections between flights at the airport, even though those are not formally arranged by airlines.

See Heathrow's commitments available at <a href="http://your.heathrow.com/regionalcommitments/">http://your.heathrow.com/regionalcommitments/</a>.

is planning to promote connections through Stansted. MAG, the owner of Stansted, is supportive of these initiatives as it may help the airport become more attractive to long-haul airlines and consequently grow and diversify its traffic profile. In addition, new airline business models such as that being developed by Norwegian, among others, may translate into greater connectivity in the form of more direct long-haul from regional airports.

# **Context I: the importance of competition**

- 1.8 Ownership of UK airports is now quite fragmented (see Figure 4). After the break-up of BAA by the Competition Commission in 2009, there were a number of divestments associated with this decision followed by other sales. UK regional airports are mostly run privately and operate in a liberalised and competitive environment: they have to compete to attract airlines and routes to their airports.
- 1.9 Airlines have considerable freedom to operate services to meet consumer demand. The single aviation market encompassing most of Europe allows a European airline to operate any route at the frequency and fares it chooses (subject to capacity constraints). Similarly, European and US airlines can operate freely between Europe and US as a result of a relaxation of traffic right restrictions since the EU-US Open Skies agreement came into force in 2008. As a result of market liberalisation UK consumers can now enjoy a wide choice of airports, airlines, products and prices.
- 1.10 Most of the UK population has reasonable access to air transport services. Figure 5 shows that more than 90% of the UK population lives within two hours of an airport serving over 5 million passengers per annum (mppa) and over half of the UK population could access such an airport within one hour. Just under 40% of the UK population lives within an hour of two or

May 2016 Page 6

•

See, for example, <a href="http://www.independent.ie/business/irish/ryanair-will-trial-transfer-traffic-from-this-summer-34624914.html">http://www.independent.ie/business/irish/ryanair-will-trial-transfer-traffic-from-this-summer-34624914.html</a>

Since this figure was produced GIP has sold London City airport.

- more airports serving at least 1 mppa and just under 20% live within an hour of three or more airports serving at least 1 mppa.
- 1.11 Some UK consumers will face a choice between a flight connection and a surface access connection, such as by rail or road. Many regional connections, especially to London, are now increasingly catered for by surface transport and to some extent this has been encouraged by successive Government's policies towards the environment.

# **Context II: capacity constraints in the South-East**

- 1.12 We agree with the Airports Commission that new runway capacity in the South-East of England is important to unlocking a greater number of both domestic and international connections and the economic benefits they bring. We would also stress the importance of airspace modernisation.
- 1.13 Airlines and airports have responded to the commercial incentives posed by the capacity constraints:
  - Airlines have continued to adapt their networks to serve the most profitable routes, with increased aircraft size and sector lengths.
  - Airlines have been able to trade slots in such a way that they end up being operated by those airlines who are willing to pay the most for such slots.
  - Airport operators have structured their charges to encourage a higher utilisation of their scarce runway capacity.
- 1.14 Although these commercial incentives may have put pressure on the viability of some domestic routes, some types of consumers have continued to benefit. For example, Figure 6 shows significant growth in passenger numbers and passenger-kilometres flown to and from Heathrow. There is a similar pattern for Gatwick.

### Chapter 2

# Observations on possible proposals

2.1 This section offers a number of observations on the three areas for possible policy proposals highlighted in the Call for Evidence.

# Role of government/PSOs

- 2.2 Public Service Obligations (PSOs) are used to support routes that are vital to the economic development of a UK region and that cannot otherwise sustain a commercial air service. The UK imposes a number of 'lifeline' PSOs on routes to, from or within the Highlands and Islands, and one within Wales, with local subsidies. More recently, Government imposed PSOs on two regional routes to London: between Newquay and Gatwick and between Dundee and Stansted. There are also additional measures in some remote regions, whereby funding is provided from local councils, to subsidise routes for residents and also to provide medical transportation.
- 2.3 The use of public money to support airports, or routes through PSOs or kick-start funding, is governed by European rules. The guidelines on State Aid to airports and airlines<sup>10</sup> were updated by the European Commission in early 2014. These allow for government investment in airport infrastructure and operating aid to regional airports, broadly where there is clear case for assistance and for a time-limited period. PSOs are governed by the EU Regulation on air services.<sup>11</sup>
- 2.4 We consider that the use of public money may sometimes be justified in order to support essential air services, or to kick-start new routes where

https://www.gov.uk/government/news/uk-government-funding-for-dundee-to-london-stansted-air-link and https://www.gov.uk/government/news/government-funding-secures-cornwall-to-london-air-link

Available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0404(01)

<sup>&</sup>lt;sup>11</sup> Reg 1008/2008

the market is reluctant to do so because of risk aversion or a lack of awareness of commercial potential. It is important, however, that such aid is given sparingly and in tightly defined circumstances against strict and transparent criteria, balancing the genuine needs of regional communities against the imperative of ensuring that competitive distortions and unintended consequences are minimised.

# Renegotiating the EU slot regime

- 2.5 Slot allocation is governed by an EU Regulation<sup>12</sup> and is managed by an independent slot coordinator on a national basis. Once allocated, airlines can generally switch slots at will between routes (although in some cases they have to wait for two years before doing so). The only means of reserving slots at a congested airport is where a PSO is imposed.
- 2.6 The CAA gave evidence<sup>13</sup> to the House of Commons Transport Select Committee inquiry into Smaller Airports in 2014/15. In a follow-up note at the Committee's request we explained the position with regard to the use of PSOs and the interaction with the EU Slot Regulation (reproduced at Appendix C to this document).
- 2.7 The European Commission proposed changes to the Slot Regulation in 2011.<sup>14</sup> These changes can only become law once they have been discussed and approved by the Council of the EU (i.e. Member States) and the European Parliament. Those discussions are currently in abeyance and it is not clear when they might resume.

<sup>&</sup>lt;sup>12</sup> Reg 95/1993

http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/transport-committee/smaller-airports/written/13426.pdf

See http://europa.eu/rapid/press-release\_IP-11-1484\_en.htm

# Discounts on domestic routes/tailoring aspects of the hub airports to smaller aircraft

- 2.8 In setting their charges airports have legal responsibilities under the European Airport Charges Regulations (ACRs), including not to discriminate unfairly between airline customers. The CAA is responsible for enforcing this legislation. We recently produced guidance on how we will interpret ACRs. This allows for a significant degree of flexibility in how the airport chooses to structure its charges.
- 2.9 In relation to access to Heathrow, the UK largest hub airport, it is worth noting that its airport charges incentivise the use of quieter aircraft and this may mean that some operators of smaller aircraft can qualify for cheaper landing charges.

Available at <a href="http://www.caa.co.uk/Commercial-industry/Airports/Economic-regulation/Competition-policy/Airport-charges-regulations/">http://www.caa.co.uk/Commercial-industry/Airports/Economic-regulation/Competition-policy/Airport-charges-regulations/</a>

#### Appendix A

# Call for Evidence letter

### The Rt. Hon Grant Shapps MP

Andrew Haines CEO, CAA CAA House 45-49 Kingsway London WC2B 6TE



HOUSE OF COMMONS

Telephone: 020 7219 8497 grant@shapps.com

Dear Mr Haines,

#### **UK Airports: Call for Evidence**

I am contacting you on behalf on the British Infrastructure Group (BIG). We are a cross-party group of MPs, which I lead. Our goal is to promote better infrastructure in the UK.

BIG is currently investigating the problems facing the aviation industry, particularly pressures on domestic connections. Recently the main political arguments in aviation have been trained on the merits of expanding Heathrow or Gatwick. It is right that the Government should make a swift decision on their expansion. However, BIG is concerned that the future of regional airports has been somewhat neglected during that discussion. As an island nation, our domestic and international connections should go hand-in-hand — especially as global aviation becomes ever more competitive.

Regional airports perform a vital role in joining up the UK and in opening up their areas to the global flight superhighway. They diffuse the benefits of our international connections, and in turn support passenger numbers and route networks. It is our understanding that many small and medium sized regional airports have seen their passenger numbers halt or go into reverse. We are particularly concerned by the drop in available connections through the UK hub airports, resulting in fewer transfers to and from the UK's nations and regions.

Therefore BIG is investigating the state of connectivity in the UK. In consultation with local councils, airport owners, manufacturers and domestic carriers, we want to hear how Parliament can best encourage growth of flights, both for passengers and haulage, through our regional airports.

Some proposals made at the time of the Davies Report included Government start-up funding for new domestic routes, a greater number of routes designated as Public Service Obligations (PSOs), and discounts for passengers on domestic routes. Other respondents proposed renegotiating the EU Slot Regime, tailoring aspects of the hub airports to smaller aircraft, changing slot allocations through airport coordinating committees and amending to the remit of the CAA.

We would be very grateful to hear your organisation's views on these proposals, on the state of regional commercial flights within the UK more generally, and what we in the UK Parliament can do to press for sustainable growth. Please send your response to <a href="mailto:grant@shapps.com">grant@shapps.com</a> by the 20<sup>th</sup> May, when the call for evidence will close,

Yours faithfully.

The Rt Hon Grant Shapps MP



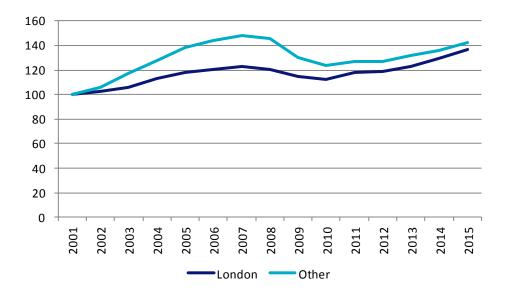
Visit www.Shapps.com

Follow @GrantShapps on Twitter

### Appendix B

# Charts and data sources

Figure 1: Index of passenger numbers at UK airports – London vs Regional (2001=100)



Source: CAA Airport Statistics

80 25 (E) 75 70 65 23 60 21 55 Heathrow ·Manchester 50 Stansted 19 45 Gatwick 40 35 17 30 25 6.0 13 12 5.5 11 Luton 5.0 -Liverpool 10 Edinburgh Newcastle 4.5 9 Birmingham East Midlands 8 4.0 Glasgow Belfast 7 3.5 -Bristol 6 3.0 5 3.0 4.5 2.5 4.0 2.0 Southampton Aberdeen 3.5 1.5 Prestwick London City 3.0 1.0 Cardiff Leeds Brad. Southend 2.5 0.5 Belfast City 2.0 2007 2008 2009 2010 2011 2012 2013 2014 2015 2012 2013 2007 2008 2009 2011

Figure 2: Passenger numbers at UK airports

Source: CAA Airport Statistics

Note: Includes airports with at least a million passengers in a year over the period

Figure 3: Non-London UK airports access to London airports and Other European Hubs – average daily departures

UK Airport	Heathrow Gatwick		Other London		Amsterdam		Paris (CDG)		Frankfurt			
	2005	2015	2005	2015	2005	2015	2005	2015	2005	2015	2005	2015
Edinburgh	19.3	14.8	9.5	7.4	23.6	23.1	5.6	6.7	4.8	4.0	3.0	1.7
Manchester	16.7	9.0	9.8		8.3	0.6	1	9.4	10.2	5.9	8.2	4.2
Glasgow	17.9	8.5	5.6	6.5	10.9	12.6	4.6	4.5	0.2	0.9		
Aberdeen	10.6	1	3.5	1.7	1.8	3.1	2.9	4.8	2.7	2.7		2.3
Birmingham			0.1				6.9	8.2	10.2	5.3	7.4	3.7
Newcastle	6.5	5.8	3.8	0.5	4.5	1.8	4.6	4.8	3.6	3.2		
Belfast Intl			3.9	4.7	9.8	7.0	1.0	1.0	1.0	0.8		
Belfast City	7.6	8.6	3.5	2.9		3.1		0.5				
Jersey			9.0	7.9	2.3	2.4				0.1		
Bristol					0.1		4.7	5.0	4.3	1.9	1.5	2.2
Leeds Brad.	3.4	2.6			0.7		4.8	3.9	3.4	0.6		
Guernsey			8.3	5.4	1.3	2.2						
Liverpool			0.7		3.8		3.6	2.5	2.0	0.8		
Isle of Man			2.7	1.6	4.4	4.4			0.1			
Inverness	1.0		3.8	2.1	1.1	1.3		0.9				
Durham T.V.	3.0		0.1				2.8	2.7	0.4			
Southampton							3.0	2.9	2.4			
Cardiff			0.1				3.3	2.8	1.5	0.4		
East Midlands						0.1	2.0	1.2	3.5	0.6	0.9	
Newquay			3.5	2.7	1.7	0.4						
Norwich							3.7	3.4				
Prestwick					4.9		0.3		0.3	0.2		
Humberside							2.9	2.8				
Exeter					0.1	1.9		1.0	1.3	1.0		
Dundee					3.2	1.5						
Other			0.1		2.8	1.5	2.8	0.3	1.3	0.3		
Total	86.1	59.2	68.0	43.3	85.2	67.3	69.3	69.2	53.1	28.6	20.9	14.0
Routes (2xDay)	8.0	7.0	12.0	8.0	1	8.0	15.0	14.0	9.0	5.0	3.0	4.0

Source: CAA Airport Statistics

Note: Green shading represents routes served with a frequency of more than 2 departures a day

UK airports ownership in 2015

BAA - Designated 
BAA - Non-Designated 
CIP - Licensed 
CIP - Licensed 
CIP - Unicensed 
ACS - Unicens

Figure 4: Overview UK airport ownership and regulation (2015)

Source: CAA Note: GIP has recently sold London City Airport

100% 90% 80% 70% 60% 50% 40% ■ >5mppa 30% >1mmpa 20% 10% 0% Brit <1.5h <1h <2h <1.5h <1h <2h <1.5h <1h Pop\* three or more at least an airport two or more airports airports

Figure 5: Population surface access to UK airports

Source: ONS (Population), DfT (surface access times) Note: \* Brit Pop excludes Northern Ireland, and Isles (which represent 3% of UK pop)

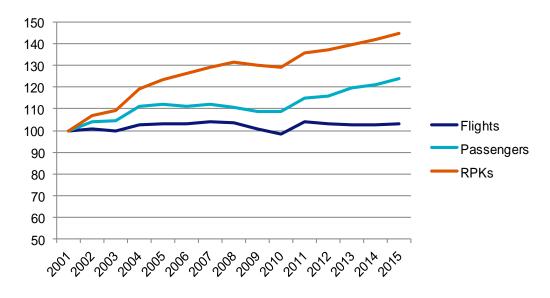


Figure 6: Indices of volumes supported by Heathrow's slots (2001=100)

Source: CAA Airport Statistics

Note: RPKs were calculated by multiplying the number of passengers by the sector distance of their flights.

Appendix C

# Ring-fencing "new" slots for regional access – text submitted to the Smaller Airports inquiry of the Transport Select Committee (February 2015)

### Context

The Airports Commission is currently considering three shortlisted proposals for additional runway capacity in the south east. Regional authorities, airports and others have proposed the idea that a proportion of slots associated with expanded capacity be 'ring-fenced' for access to London from smaller or regional airports. This note explores the legal and regulatory issues concerning such a policy.

In the EU, slot allocation is governed by the 1993 Slot Regulation (Regulation 95/93/EEC), as amended by Regulation 894/2002/EC and 793/2004/EC. The Regulation to a large extent applies the global framework administered by IATA, while making it consistent with EU rules on competition and the single market. The rules set out in the Slot Regulation apply directly in the UK without the need for further legislation 16. In the UK, slot allocation is managed by Airport Coordination Limited, a private company jointly owned by the UK's airlines. The CAA has no direct involvement with the slot allocation process.

# **Allocating slots**

The EU slot regime provides for both the 'grandfathering' of existing rights to slots while also allowing new entrants into the EU market. The Slot Regulation sets out the mechanism for slot allocation. Its main principles are:

• to give historical precedence (or 'grandfather rights') over slots – where an airline has used a slot in the same (summer or winter) season the

The technical details for the application of the Slot Regulation were implemented in the UK by the Airport Slot Allocation Regulations 1993 (SI 1993/1067). This covers only technical issues such as the appointment of the coordinating body and enforcement issues, rather than dealing with the principles on which slots may be allocated.

previous year, it is entitled to keep the slot in the next equivalent (summer or winter) period, subject to a 'use it or lose it' rule – if an airline has not used an allocated slot series at least 80% of the time, it must be returned to the slot pool for reallocation;

- 50% of slots from the slot pool (i.e. the pool of all available slots other than those covered by the grandfather rights) must first be offered to new entrants<sup>17</sup> if they seek them; and,
- priority will be given to commercial services and, in particular to scheduled
  or programmed non-scheduled air services: if there is competing demand,
  a slot will be allocated to the service that plans to use it year round.

Other secondary criteria can also be applied, including type of service, and local guidelines or rules. The latter are airport-specific rules agreed by the airport, operators and air traffic services that aim to improve the efficient use of airport capacity, but they must be compatible with EU law and the coordinator's independent status. They cannot deal with other matters.

Once slots have been allocated on this basis, airlines are able to exchange or sell them via a process of secondary trading, or change the use of their own slots (for instance from a domestic service to an international one).

# Reserving slots at a London airport

To reserve slots created by new capacity at an airport for a particular type of service, it is therefore necessary to ensure not only that the slot is allocated to an airline for that purpose, but also that, once in possession of the slot, the airline does not change its use to a different service.

Several potential mechanisms have been suggested in order to reserve slots in relation to additional capacity following runway expansion. As European law has precedence over domestic law, no valid mechanism can be introduced which contravenes the stipulations set out in the Slot Regulation (and, in any case, as

May 2016 Page 18

An airline is considered a new entrant at an airport on a particular day if, upon allocation, it would (a) hold fewer than five slots in total on that day, or (b) for an intra-EU route with fewer than three competitors, or for an unserved regional route, hold fewer than five slots for that route on that day.

noted, the Regulation applies the global approach to local conditions, so radical departures could create difficulties with other administrations). For instance, planning conditions imposed on an airport cannot mandate they undertake actions which would contravene EU law; the application of local rules must come after consideration of other factors, and again, cannot contravene the Slot Regulation; and as the rules are set in a Regulation (as opposed to a Directive), the UK does not have the ability to vary them within its implementing rules.

### This has two consequences:

- local rules appearing to prioritise domestic services over services to other Member States in the EU would seem to be unlawful as contrary to the principles of EU free movement law; and
- even though new slots may become available for new entrants, there appears to be no way of ring fencing them for regional services.

However, it is legally permissible to ring-fence slots at a slot-coordinated airport for a Public Service Obligation (PSO) route under the Slot Regulation, although this has never been done in the UK. To do this the route would have to qualify under the strict rules defining a PSO set out below.

# **Public Service Obligations**

Provision for Public Service Obligation status to be imposed on a route by a Member State is laid out in Regulation 1008/2008 <sup>18</sup>.

PSOs can be used to protect routes that are vital to the economic development of a region and that could not otherwise sustain an adequate commercial air service. These routes are considered as between cities or regions (and, specifically, not between particular airports)<sup>19</sup>. It is not permissible to impose a PSO on a route between two cities or regions on which adequate services are already being operated commercially<sup>20</sup>.

See Articles16-18

<sup>&</sup>lt;sup>19</sup> European Commission Decision 94/291/EC

Regulation 1008/2008 does not envisage reserving capacity at an airport but rather supporting a non-commercially viable route, the obligation being upon the airline to provide the service

Application of a PSO is governed by strict rules set out in the Regulation. In particular, the route:

- must be between an EU airport and one in UK serving a peripheral or development region, or be a 'thin route'; and
- be vital for the economic and social development of the region; and
- be where no airline is prepared to offer the desired services commercially.

Finally, a route is unlikely to be considered for a PSO where there is an alternative mode available that offers travel within three hours.

In 2014 the government imposed the first ever PSOs for regional links to London – for Newquay and Dundee<sup>21</sup>. Previously all PSOs have been for 'life line' type flights providing links to isolated areas and funded by either Devolved Administrations or regional bodies (for instance the Scottish Government operates three PSOs (to Barra, Campbeltown and Tiree from Glasgow Airport). Argyll and Bute, Orkney, Shetland and the Western Isles Councils also support sixteen PSOs operating within their own boundaries.

### **Conclusion**

It is possible to ring fence any new capacity at an expanded airport for regional flights providing a PSO has been imposed on the route in question. Without a PSO, even if a regional flight were to be allocated a slot in preference to airline bids for other services, the airline is subsequently free to change the slot's use or sell it (either immediately or after a certain period, depending on the circumstances).

rather than the airport to provide the slot. As such it does not provide the power to reserve slots.

In 2013 the government announced the creation of a Regional Air Connectivity Fund to provide aid to maintain regional air access to London through a PSO where there was the probability that an existing air service would be lost, and subsequently published guidance on how this would be managed:

<a href="https://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/uploads/system/uploads/attachment\_data/file/266383/pso-thtps://www.gov.uk/government/uploads/system/upload

<sup>&</sup>lt;u>policy-guidance.pdf</u>. The Dundee-Stansted PSO route was the first to be supported via the fund, effective from July 2014. The fund has since been extended to include start-up funding for new routes from airports serving fewer than 5 million passengers per annum, that are expected to be commercially viable within three years.

However, it is not possible to impose a PSO on a route to London if there is already an adequate service being operated to one of the London airports (Heathrow, Gatwick, Stansted, Luton, London City and Southend). Nor is it possible to impose a PSO on a route to a specific London airport.

It therefore appears any attempt to depart from this approach (whatever legal mechanism was tried in order to implement it) would be likely to be void and unenforceable.