Economic Regulation Group

Civil Aviation Authority

CAP 754

UK Regional Air Services

A study by the Civil Aviation Authority

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Executive Summary

A study of UK regional air services

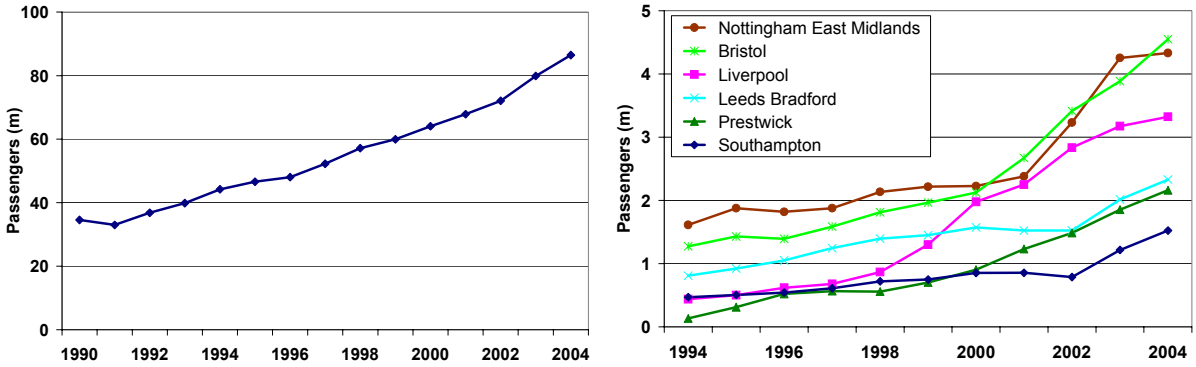
A good-news story for the UK regions

1 This study paints a broad picture of the development of UK regional air services over the last 10–20 years, examining emerging trends and drawing some conclusions. It is based on statistical data collected routinely by the CAA from UK airlines and airports, and on interviews with representatives of regional airlines, airports and regional bodies. It became apparent from these interviews that issues differed from region to region; this was particularly so for the more peripheral regions such as Northern Ireland or northern Scotland.

2 The CAA's analysis reveals UK regional air services to be in general in a good state of health, and to have enjoyed a period of substantial and sustained growth over the period examined. This is continuing, in some cases at an even faster pace than before. Figure 1a shows that the total number of passengers using UK regional airports has increased by 150% since 1990. The growth at some regional airports has been particularly strong since the late 1990s. Figure 1b shows the total number of passengers at the six fastest-growing regional airports over the last ten years.

Figure 1 Total passengers at UK regional airports

(a) All UK regional airports 1990–2004 **(b) Top six fastest-growing airports 1994–2004**



Note: *Figure 1b excludes airports with less than 1m total passengers in 2004.*

Source: *CAA Airport Statistics (2004 statistics are for the 12 months ending November).*

Reasons behind the growth in regional air services

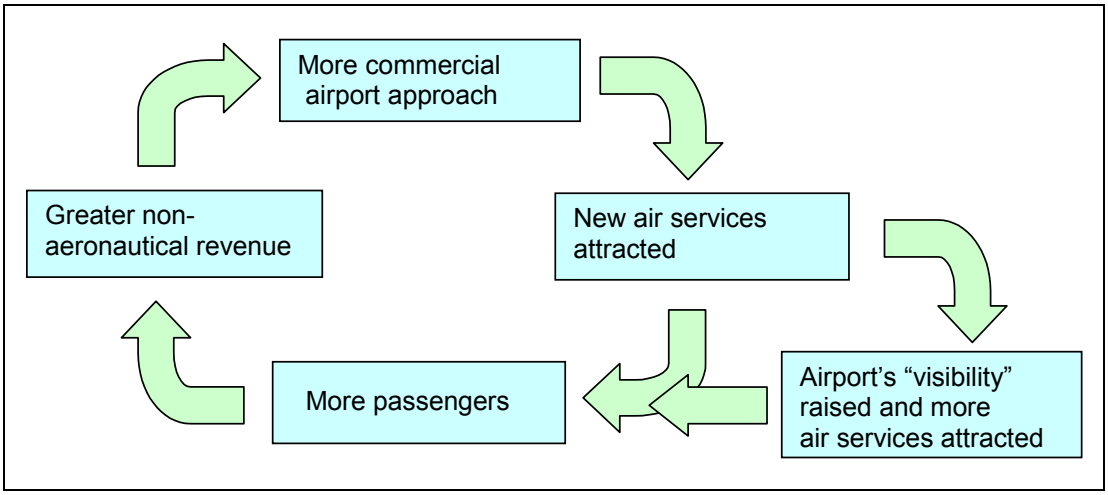
Market liberalisation leads to new entry, lower prices and more flights

3 The study attributes the widespread growth in regional air services to a range of factors:

- First, and most important, the liberalisation of European air services from 1993. This allowed new and existing airlines to exploit new opportunities, and gave rise to the rapid expansion of no-frills airlines, which have changed the nature of the short-haul airline business in Europe. Part of this change included realising the potential for direct services from UK regional airports, often at lower prices than would previously have been available, albeit at a later point in the process than was true for services from, say, Stansted airport.

- Second, these new services unlocked latent demand from passengers who were keen to travel from their local airport, rather than via London or some other connecting point. As demand began to increase, so did the realisation of the possibilities of low-cost air travel, and hence the propensity to fly; what is more, the profile of the airlines, airports and regions concerned also increased.
- Third, and simultaneously, regional airports began to change the way they viewed their operations, sometimes spurred by a move from public to private sector, but even where still in public ownership, taking a more commercial approach, pricing competitively and more actively seeking out new air services – thus creating a "virtuous circle" which facilitates continued growth, as shown in Figure 2.

Figure 2 The "virtuous circle"



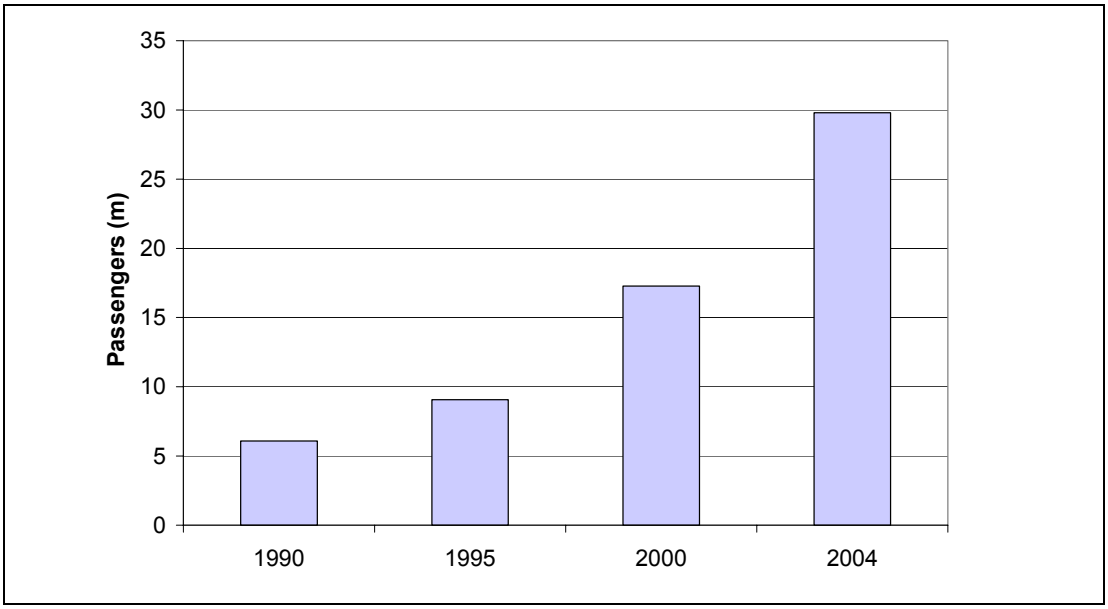
International scheduled services

Scheduled flights to EU airports show the biggest growth of all

4 The growth in regional air services is most noticeable in international scheduled flights (Figure 3), where the number of passengers has grown nearly fivefold, from 6.2m in 1990 to 29.8m in 2004.[1] In absolute terms, Manchester continues to have the most traffic by a wide margin, but in terms of percentage growth, the increase is particularly impressive at airports such as Liverpool, Bristol and Nottingham East Midlands, where the number of international scheduled passengers has risen by 1800%, 1250% and 1100% respectively between 1990 and 2004.

1. 2004 statistics are for the 12 months ending November, the latest data available.

Figure 3 International scheduled passengers at UK regional airports 1990–2004



Source: CAA Airport Statistics (2004 statistics are for the 12 months ending November)

5 The total number of international scheduled routes[2] from UK regional airports in 2004 is nearly four times that in 1990, with more routes being added during 2005. Table 1 shows the increase in the number of destinations for the ten biggest regional airports. Although a proportion of the new services is to popular leisure-oriented Mediterranean destinations, often already served by charters, there are also many new links to major business centres.

Table 1 International destinations with a frequent scheduled service from UK regional airports: 1990 and 2004

	International destinations	
Top 10 UK regional airports	**1990**	**2004**
Manchester	15	60
Birmingham	13	36
Bristol	5	21
Nottingham East Midlands	3	17
Liverpool	1	15
Newcastle	4	15
Glasgow Prestwick	0	12
Edinburgh	3	10
Glasgow	5	10
Leeds Bradford	4	10

Notes: Based on destinations with a minimum frequency broadly equating to a daily round-trip service each weekday.

Source: CAA Airport Statistics and OAG World Airways Guide December 2004.

2. Based on routes with a minimum frequency broadly equating to a daily round-trip service each weekday.

Long-haul scheduled services

Less dramatic but steady growth in long-haul flights

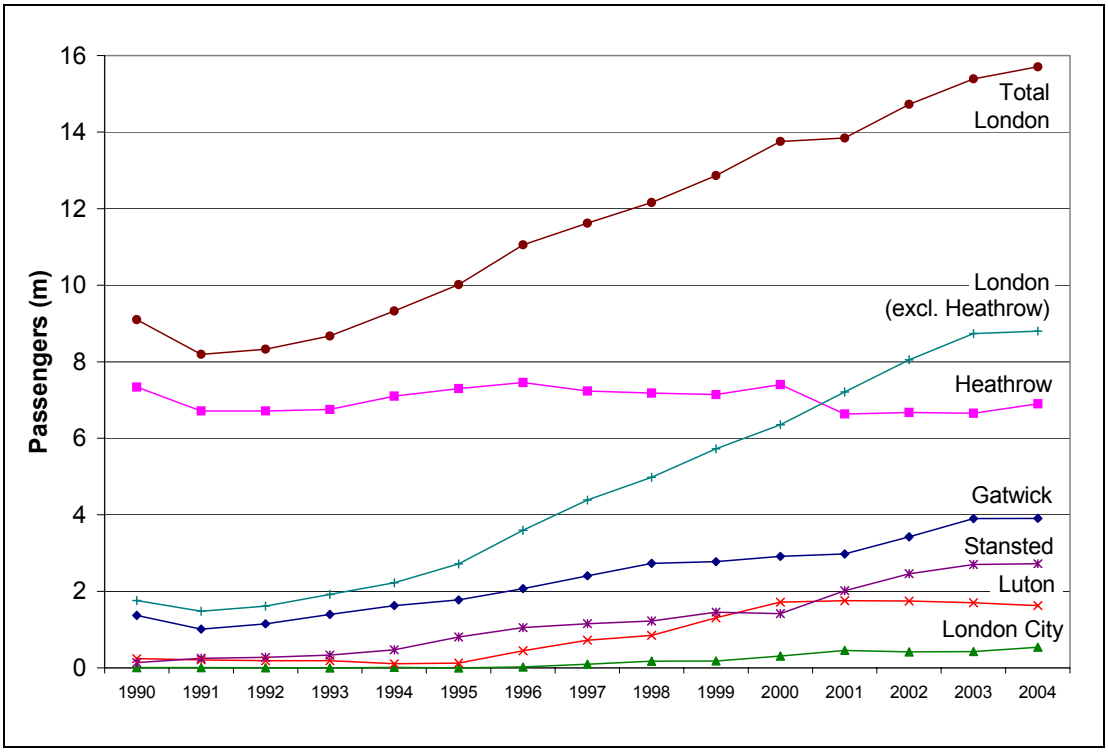
6 Developments in long-haul services from regional airports – which are predominantly operated by foreign airlines – have been less dramatic, although there has been steady growth. While Manchester has a much bigger share than any other UK regional airport, there has been some increase in the diversity of UK airports offering scheduled flights to long-haul destinations. In 1986 there was just one daily service between a UK regional airport and the US, whereas 16 are expected to be operating in summer 2005. Newark will be linked to six UK regional airports – Birmingham, Glasgow, Manchester and the new gateways of Edinburgh, Belfast and Bristol – with the majority of services operated by smaller, narrowbody aircraft. The Edinburgh and Belfast routes, and a new Glasgow–Dubai service, have been offered route development funding. Most of the long-haul routes are to hub airports, serving not just the destination itself but also points beyond. This suggests that point-to-point markets need to be relatively strong to support a frequent long-haul service, which may limit the scope for new long-haul services at regional airports with relatively small catchment areas.

Services between regional airports and London

Strong growth in services to London and a wider range of services, but scarce capacity constrains services to Heathrow

7 The number of passengers travelling between regional airports and London has increased by 73% between 1990 and 2004 (Figure 4).

Figure 4 Passengers between UK regional airports and London



Notes: Includes Isle of Man and Channel Islands routes.

Source: CAA Airport Statistics (2004 statistics are for the 12 months ending November)

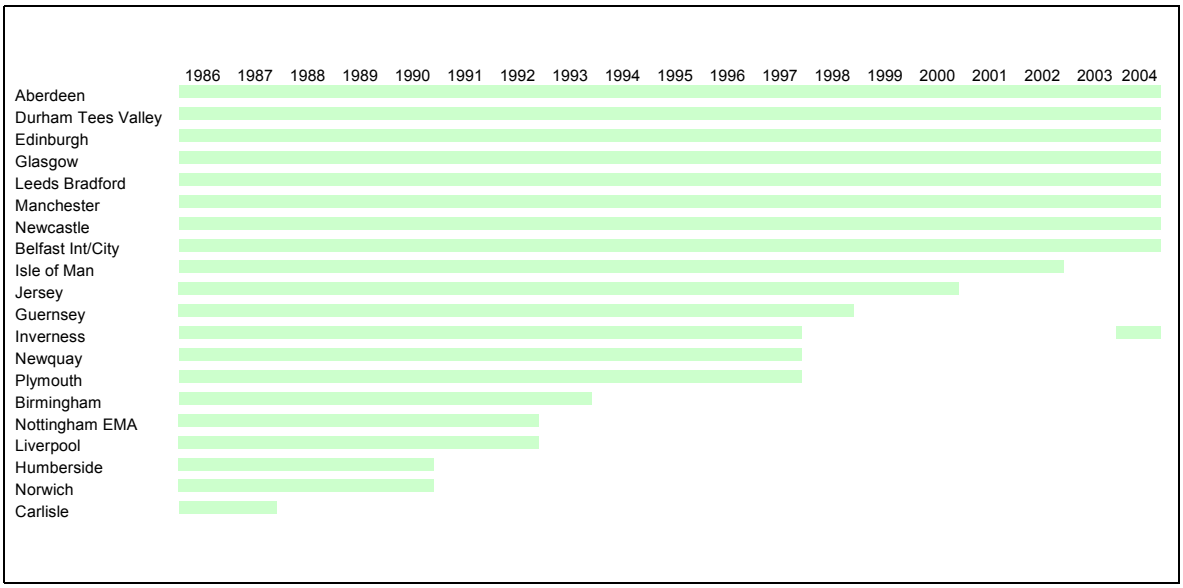
8 Total passenger numbers on services to Heathrow have remained relatively static within the 6–8m range since 1990. Heathrow remains the principal London airport for regional services in terms of passenger numbers, with 44% of the London total in 2004, but this share has fallen from 80% in 1990. Virtually all the recent growth has been at other London airports, partly because many of the airlines newly offering services to London from regional airports choose not to serve Heathrow for operational reasons, but also because the scarcity of capacity has constrained further expansion at Heathrow.

9 There is now a much wider spread of services from London airports other than Heathrow, giving rise to travel options (often at a lower price) that did not previously exist. 21 UK regional airports (including the Channel Islands and Isle of Man) were served from London airports in 2004 compared with 20 in 1990, and over the same period the average number of flights to London each day rose by 43%. This overall expansion was welcomed by many of those interviewed during research for the study. Between January 2003 and January 2005, nine new services to London have been introduced from UK regional airports, two of which were to Heathrow. In the same period a further two routes have been introduced but then suspended, while only two existing routes have been suspended.

10 Services to Heathrow, however, have declined. Between 1990 and 2004 the number of domestic destinations served from Heathrow has more than halved (Figure 5), and the total number of flights each day has reduced from an average of 118 to 84 round trips.

11 Other London airports do not offer the broad range and high frequency of Heathrow's connecting opportunities, and such connectivity can potentially bring considerable benefits to a region. The constraints on access to Heathrow are, however, mitigated to some extent by services from regional airports to other hubs offering connections, such as Amsterdam; by more direct international services from regional airports; and, for short-haul, by the connecting possibilities that the no-frills network at Stansted provides (even if no-frills airlines make no explicit provision for such connections).

Figure 5 Domestic scheduled services to Heathrow 1986–2004



Notes: The period from 1986 is shown to illustrate services operating prior to 1990.

Source: CAA Airport Statistics (2004 statistics are for the 12 months ending November)

12 Congestion has created a scarcity of suitable take-off and landing slots at Heathrow and made those slots more valuable. Airlines are able to switch slots to other services, and their motivation stems less from unprofitability of domestic services than their being potentially less profitable than an alternative use of the scarce slots.

13 There may be some natural constraints on the extent to which the remaining Heathrow-based airlines operating domestic services would wish significantly to reduce the amount of regional feed traffic they bring into an airport they use as a hub, as this would negatively impact on the viability of other services operating from that hub. While the Channel Islands and Isle of Man lost their Heathrow services between 1998 and 2002, there has been no complete loss of Heathrow services by a UK regional city since 1997, when Inverness, Newquay and Plymouth services were transferred to Gatwick (Inverness has since regained a once-daily Heathrow service). Previous losses of Heathrow services were as far back as 1992–1993 or earlier (Figure 5). The domestic services remaining at Heathrow are all operated by BA or bmi.

14 The extent to which regional access to Heathrow in particular can be protected, and the interaction with the method by which slots at congested airports such as Heathrow are allocated, is an area where there has been lively debate. The CAA believes that the introduction of a formalised secondary market in slots is the best way of dealing with the allocation of scarce capacity at Heathrow. If such trading made it easier for Heathrow airlines serving the regions to expand their portfolios, it could reduce the pressure on regional services. It might also provide opportunities for non-airline ownership of slots.

Other regional air services

Stability in region-to-region connections

15 The study found no great change in the air network between UK regional centres, although traffic volumes have grown. The densest of such routes are those serving Northern Ireland and Scotland; in 2005 Aberdeen, Edinburgh and Glasgow will each have air services to between 12 and 14 other UK regional centres; Inverness will be linked to five; and Belfast will be linked to as many as 17.

16 Charter traffic from regional airports showed strong growth in the 1990s but has now levelled off. Some charter airlines are operating an increasing number of routes on a scheduled basis and to longer-haul destinations.

Public policy initiatives

With the market delivering growth in regional air services, intervention requires a cautious approach

17 The study concludes that the regional air services market is generally working well, and developing at a healthy rate. The link with the wider regional economy is understood, and it is encouraging that development agencies and devolved administrations are vigorously engaged in considering air transport policy questions, as part of wider strategies for developing regional economies.

18 Public Service Obligations (PSOs) can play a valuable role when used to protect certain routes that are vital to the economic development of a region and that cannot otherwise sustain a commercial air service. However, any wider application of PSOs, for instance the ring-fencing of slots at Heathrow, carries a greater risk because of the potential for distortion of the normal workings of the airline market.

19 The use of public funding through Route Development Funds has proved successful in Scotland and Northern Ireland in helping to provide a limited "kick-start" to new air services and in overcoming information and perception problems to the benefit of the region's overall economic development. However, this sort of support should continue to be used cautiously and against strict and transparent criteria.

Conclusions

Regional air services are generally in good health

20 Looking forward, the challenge for policy makers is to ensure that the dynamism of the aviation industry can continue to facilitate regional economic growth by working with the grain of the commercial incentives that have driven the success of UK regional air services so far.

21 The study explores these topics in more detail, and is structured as follows:

Chapter 1 Overview of UK regional air services

Chapter 2 International services from UK regional airports

Chapter 3 Services between UK regional airports

Chapter 4 Services between UK regional airports and London

Chapter 5 Connections to the global network

Chapter 6 Developments in regional services – the airline perspective

Chapter 7 Developments in regional services – the airport perspective

Chapter 8 Public policy initiatives

Finally, the conclusions of the study are set out in Chapter 9.

Introduction

1 This study paints a broad picture of recent developments in UK regional air services as we enter 2005. It is intended 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.

2 As well as setting out relevant statistical data over the last 10–20 years, and associated factual information, the study also examines developing trends and draws some conclusions. The study 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). Rather it seeks to tease out the issues that seem to be particularly relevant or significant, and to look at these more closely. It is necessarily a snapshot in time; UK regional air services are changing fast and the aviation market generally can be highly dynamic.

3 Overall, the picture is that regional air services are in good health and that normal market forces have delivered this. Services in the regions are expanding, both in terms of destinations and frequency, particularly to European cities; regional airports have developed a more commercial view of their operations, competing for airlines and passengers; and there is a rich mix of strongly competing airlines that are seeking out market opportunities where they arise. Indeed, a "virtuous circle" can develop whereby airports' more commercial approach, competitive pricing and improved facilities stimulate traffic growth, which in turn generates revenue from non-aeronautical activities and underpins further expansion. Long-haul services from UK regional airports have developed more slowly than short-haul, but recent developments here are also encouraging, in some cases facilitated through route development funding.

4 The main difficulties facing the regions are probably those surrounding access to limited capacity at Heathrow. But there do not generally seem to be other significant physical constraints to growth at regional airports. There are some current public policy initiatives that seek to enhance the desirability of services to and from the regions, which are discussed in Chapter 8.

5 The study is based on various sources. Primarily it draws from analyses of CAA statistics relating to UK airlines and airports, and CAA origin and destination passenger surveys 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, chambers of commerce, devolved administrations and regional development agencies. The need to limit the scope of the study to manageable proportions dictated that interviews were confined to areas of the UK furthest from London where regional air services are a particularly prominent issue. Therefore not every airport or even every region was interviewed. The Channel Islands and the Isle of Man (which are outside the EU single market) have also been omitted from the main scope of the study, although the obvious importance of air services to them is recognised. What came across from the many meetings that were held was how the issues differed from region to region; this was particularly so for the more peripheral regions such as Northern Ireland and northern Scotland.

6 The statistical data in the study generally focuses on the period from 1990 onwards, mainly to show the effect of progressive liberalisation of the European market, but where appropriate, such as the overview in Chapter 1, the data goes back a little further. Over this period of time there have been changes to the coverage of and definitions used in the CAA Airport Statistics. Every attempt has been made to ensure consistency and these changes should not significantly affect comparisons between different time periods other than possibly at the most detailed level.

7 The paper does not explicitly seek to explore any environmental consequences of increases in regional air services, but the CAA remains committed to sustainable development in all aspects of aviation.

8 We express our thanks to those who gave their time to speak to us about these issues and our apologies to those we were unable to see.

Chapter 1 Overview of UK regional air services

Context

1 This study analyses UK regional air services and attempts a snapshot of what is an ever-changing picture of regional economic development generally, and regional air services in particular. The CAA naturally seeks to explore these issues from an aviation-specific perspective, but it is important to set those issues in the context of the underlying structure of the UK economy, and the respective roles played by London (as the capital city and a major international financial centre) and the different regions.

Structure of the UK economy

2 London dominates the national economy to a greater extent than is true for most other capital cities in Europe. As well as being the major population centre, London is the key business and financial centre of the UK, and indeed one of the world's leading financial centres; it is also the home of other key industries and of government. London contributes nearly 20% to the UK's total GDP, and the South East, including London, accounts for around one-third.[1] GDP per head in London is also around 30% higher than the UK average.

3 By comparison, Germany, for example, has a more even distribution of GDP and no single city plays such an important role. While the region of Nordrhein-Westfalen contributes around 20% to total German GDP, this region includes five major cities (Bonn, Cologne, Dusseldorf, Essen and Dortmund). The Bayern region (which includes Munich and Nuremberg) contributes around 17%, and Baden-Württemberg (Stuttgart, Freiburg and Karlsruhe) around 15%.[2] These and other areas also outperform the EU average in terms of GDP per head – for example in 2001 Stuttgart, Oberbayern (Munich) and Darmstadt (Frankfurt) each had between 130% and 170% of average EU GDP per head. This compared favourably with Greater Manchester at 91%, the West Midlands at 95% and South Yorkshire at 77% of average EU GDP per head.[3]

4 What this shows is that London (and the South East more generally) is a much more important element of the UK's total economy than is true for any one city or region in Germany. This is also true in comparison with many other European countries. This has implications for the structure of air services that will best match with the underlying economic drivers of demand, for both business and leisure markets. While economic growth in the UK regions may narrow the differential with the South East, it is likely that London and the South East will remain the biggest contributors to UK GDP for the foreseeable future, with consequent effects on air services.

The Regional Economic Development Agenda

5 The development of regional air transport is closely linked to the broader regional economic development agenda. Since 1997 there has generally been an increased role for devolved administrations and regional development agencies in co-ordinating regional economic development and regeneration, seeking to improve regions' productivity and growth and to address any identified market failures.

1. *Source:* "Regional Gross Domestic Product", Office of National Statistics, February 2001.
2. *Source:* "GDP by Bundesland 1991 to 2003", Statistisches Landesamt Baden-Württemberg.
3. *Source:* "Productivity in the UK – The Regional Dimension", HM Treasury, November 2001.

6 In Scotland, Northern Ireland and Wales, regional development falls primarily to the devolved administrations and to development agencies such as Scottish Enterprise and Highlands and Islands Enterprise; Invest Northern Ireland; and the Welsh Development Agency, respectively. In England it falls mainly to the nine Regional Development Agencies (RDAs). The primary role of these bodies is to act as strategic drivers of regional economic development in their region. The RDAs aim to enable the regions to improve their relative competitiveness and reduce the imbalance that exists within and between regions and to draw up economic strategies to achieve these objectives. Their work also has a direct relationship with regional transport strategies and they each have delegated budgets to achieve their various goals.

7 Many (but not all) of these agencies will place emphasis on enhancing air services from their region. But the choice of spending any money in this area must be balanced against the large number of other competing priorities, and must be justified as representing value for taxpayers' money. All the agencies have to work within and alongside frameworks provided by central Government and local authority development plans but retain flexibility to target their resources in the way they consider most effective. The Government is now working with regional bodies to develop guidance for devolved administrations and development agencies – in the form of a protocol to which they can voluntarily adhere – regarding the operation of Route Development Funds (see Chapter 8) aimed at bringing forward new air services and overcoming information and perception problems to benefit the region.

8 Aviation is, primarily, a support service for other forms of economic activity, whether that be business or leisure. While an enhanced network of air services from a region would be likely to be conducive to economic growth, it is unlikely *alone* to be an effective tool for driving economic development. It can, however, make a particular city or region more attractive, at the margin, than another as a location for business. Development agencies therefore need to consider whether it is better to allow investment in air transport to occur solely through a private sector response to increasing demand from businesses and passengers, or to take a more proactive approach. This may include using public funds to support new services and to advance the point where demand makes them commercially viable in their own right; and to improve the perception of the viability of services from regions. Agencies also need to consider whether the use of public funds to achieve this end would represent value for money *per se*, and better value for money than alternative options for using the available budget.

Effect of liberalisation

9 In the past, regulatory restrictions may have prevented air services, at least on international routes, from properly responding to the demand for air travel that has been shown in recent years to exist in the UK regions. The removal of the limits on market access within the EU with the advent of the single EU aviation market from 1993 onwards allowed new and existing airlines to exploit these opportunities and transform air services from UK regions into the dynamic and much expanded network of services that exists today.

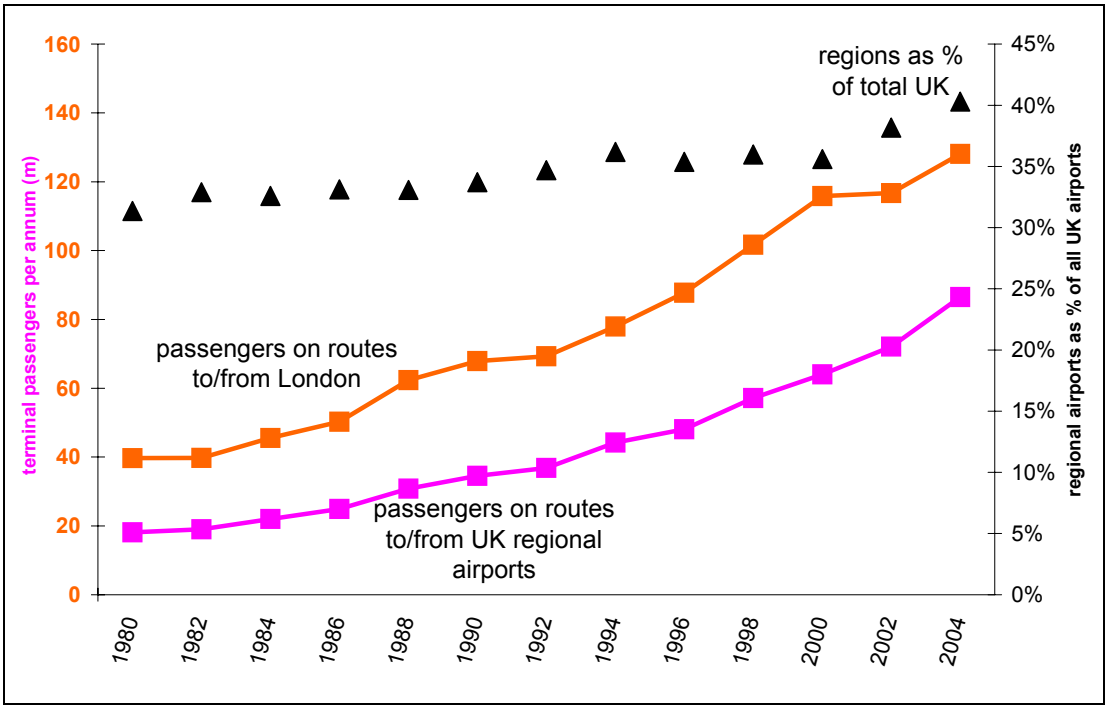
10 The impact of liberalisation was not felt immediately, for a number of reasons. First, there was the usual time lag between the removal of regulatory restrictions and the exploitation of new opportunities by airlines. New entrants or expanding airlines needed time to build their fleets and to respond to the success of the first movers. Second, liberalisation affected the denser London markets sooner than thinner regional markets. Finally, it took time for consumers to change their existing patterns of behaviour and to respond fully to the new offers available in the marketplace.

11 This change has been delivered almost entirely without the injection of public money into the sector. Rather it has been the result of commercially focused airlines and airports seeking out opportunities as and when they have become available and making investments accordingly. Aviation fortunately does not face the same problems of the rail or road sectors and, in the context of regional airports at least, has not faced capacity constraints on any major scale. This points to the possibility of continued growth in regional air services through the airline market operating effectively in an increasingly liberalised and competitive environment, aided by the sharper commercial focus within regional airports and greater innovation in attracting viable services to and from UK regions. The challenges facing peripheral regions such as Northern Ireland and northern Scotland in relation to air services are likely to be different in nature from those in more densely populated regions. It is against this backdrop that policy issues relating to regional air services (discussed in Chapter 8) need to be considered.

Traffic development at regional airports[4] since 1980

12 Between 1980 and 2004[5] the total traffic at UK airports grew from 58m to 215m passengers, an average annual growth rate of 5.6% (Figure 1.1 and Table 1.1).

Figure 1.1 Traffic at UK airports 1980–2004



Notes: 2004 statistics are for the 12 months ending November.

Source: CAA Airport Statistics at all reporting UK airports (excludes Channel Islands).

4. For the purposes of the statistics used in this study, 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 7.1 in Chapter 7 for a full list.
5. References to 2004 relate to the 12 months ending November, which is the latest statistical data available.

Table 1.1 Traffic at UK airports 1980–2004

	Passengers (m)				Average annual growth rate				
	1980	1990	2000	2004	1980–1990	1990–2000	1994–2004	2000–2004	1980–2004
London airports	39.7	67.9	115.8	128.1	5.5%	5.5%	5.1%	2.6%	5.0%
Regional airports	18.1	34.5	64.1	86.5	6.7%	6.4%	7.0%	7.9%	6.8%
Total	57.8	102.4	180.0	214.6	5.9%	5.8%	5.8%	4.6%	5.6%
Regional share of total	31%	34%	36%	40%					

Notes: 2004 statistics are for the 12 months ending November.

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

13 Bearing in mind that there will be variances from region to region, between 1980 and 2004 traffic at UK regional airports grew at a rate of 6.7% per annum, faster than traffic at London airports (5.0%). This differential has increased in more recent years; for example the growth rate at regional airports between 2000 and 2004 was nearly 8% compared with 2.6% at London airports. It is worth noting that over this period, London Heathrow became increasingly congested, capping its growth potential.

Table 1.2 Domestic traffic at UK airports 1980–2004

	Passengers (m)				Average annual growth rate				
	1980	1990	2000	2004	1980–1990	1990–2000	1994–2004	2000–2004	1980–2004
London airports	5.2	9.1	13.8	15.7	5.8%	4.3%	5.4%	3.3%	4.7%
Regional airports	9.7	15.9	23.5	32.5	5.1%	4.0%	7.0%	8.6%	5.2%
Total	15.0	25.0	37.3	48.2	5.2%	4.1%	6.5%	6.8%	5.0%
Regional share of total	65%	64%	63%	67%					

Notes: 2004 statistics are for the 12 months ending November.

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

14 Domestic traffic makes up nearly a quarter of the throughput at UK airports, and much of it is traffic between London and the regional airports. So, the growth rates of domestic traffic at regional airports will tend to be similar to that of domestic traffic at London (see Table 1.2) and the regional airports' share of domestic traffic has stayed fairly constant at two-thirds or so. Domestic passengers are counted twice, once at each end of the route, so that many of the 16m domestic passengers at London airports in 2004 also appear within the 33m regional total.[6]

6. These statistics include the Channel Islands as a domestic destination for UK regional airports but do not include the statistics for the Channel Islands 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.

Table 1.3 Total international traffic at UK airports 1980–2004

	Passengers (m)				Average annual growth rate				
	1980	1990	2000	2004	1980–1990	1990–2000	1994–2004	2000–2004	1980–2004
London airports	34.5	58.7	102.1	112.3	5.5%	5.7%	5.1%	2.5%	5.1%
Regional airports	8.4	18.6	40.6	54.0	8.3%	8.1%	7.0%	7.5%	8.1%
Total	42.8	77.4	142.7	166.3	6.1%	6.3%	5.7%	4.0%	5.8%
Regional share of total	20%	24%	28%	32%					

Notes: 2004 statistics are for the 12 months ending November.

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

15 The significantly higher growth at UK regional airports is much more noticeable for international services (see Table 1.3). Between 1980 and 2004 international traffic at UK regional airports increased by a factor of more than six, whereas international traffic at London grew by a factor of just over three. In 1980 international traffic at regional airports was only one quarter of that at London. In 1990 it was nearly one third, and by 2004 it had increased to nearly half.

Table 1.4 International charter traffic at UK airports 1980–2004

	Passengers (m)				Average annual growth rate				
	1980	1990	2000	2004	1980–1990	1990–2000	1994–2004	2000–2004	1980–2004
London airports	8.1	11.4	13.8	12.1	3.5%	1.9%	-0.2%	-3.3%	1.7%
Regional airports	7.1	12.5	23.3	24.2	5.8%	6.4%	2.4%	1.0%	5.3%
Total	15.1	23.9	37.1	36.3	4.6%	4.5%	1.5%	-0.6%	3.7%
Regional share of total	47%	52%	63%	67%					

Notes: 2004 statistics are for the 12 months ending November.

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

16 In the 1980s the growth in the regional share had been fuelled by charter airlines expanding into the regions. In 1973 70% of UK charter passengers were travelling from London airports, but by the late 1980s more were travelling from regional airports than from London. In 2004 twice as many charter passengers travelled from regional airports as from London. The number travelling from London stagnated and actually declined between 2000 and 2004 (Table 1.4).

Table 1.5 International scheduled traffic at UK airports 1980–2004

	Passengers (m)				Average annual growth rate				
	1980	1990	2000	2004	1980–1990	1990–2000	1994–2004	2000–2004	1980–2004
London airports	26.4	47.4	88.3	100.2	6.0%	6.4%	6.0%	3.3%	5.7%
Regional airports	1.3	6.2	17.3	29.8	16.9%	10.8%	13.3%	14.9%	14.0%
Total	27.7	53.5	105.6	130.0	6.8%	7.0%	7.3%	5.4%	6.7%
Regional share of total	5%	12%	16%	23%					

Notes: 2004 statistics are for the 12 months ending November.

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

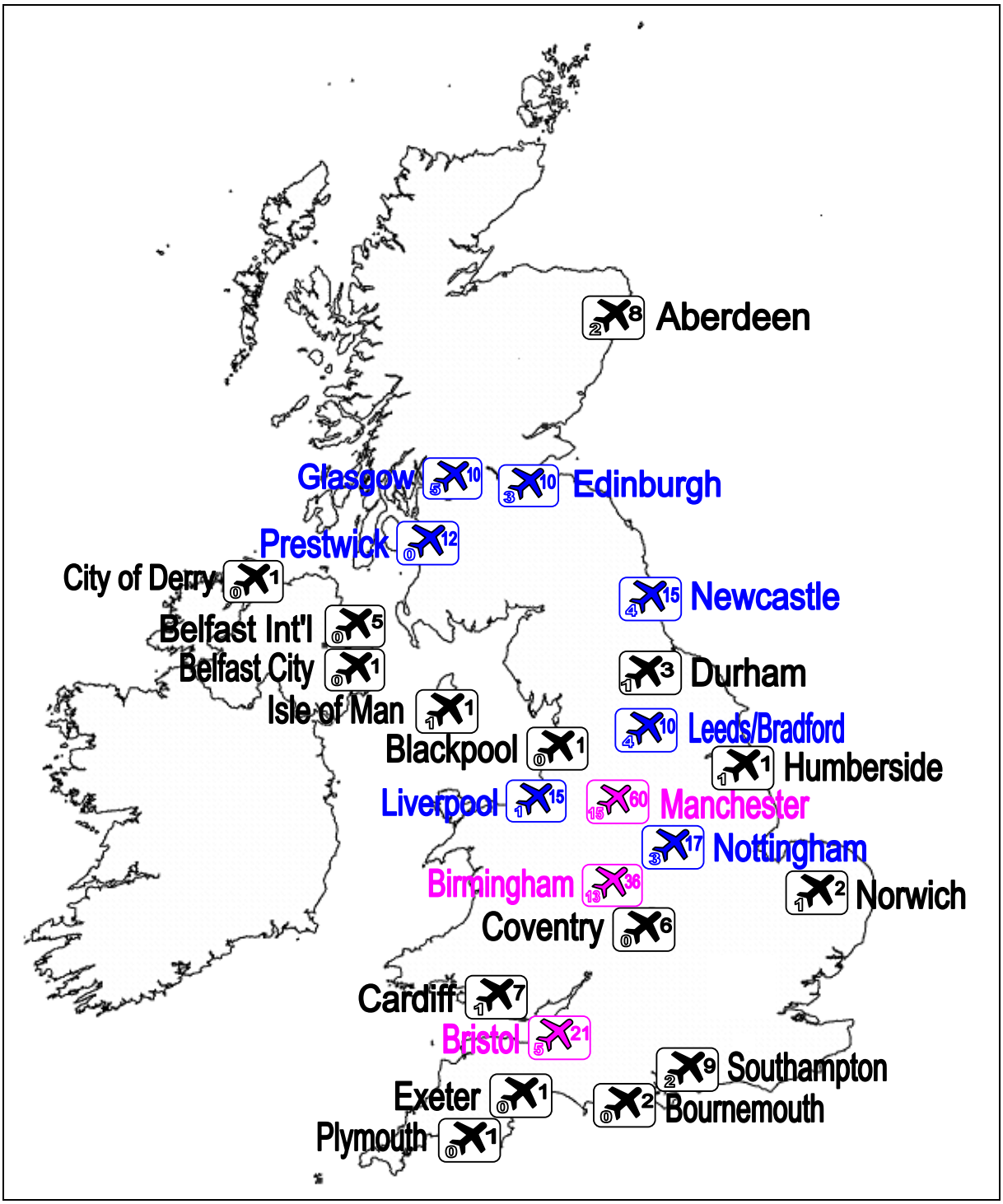
17 The growth in the share of international scheduled services at regional airports began somewhat later, in the mid 1980s, when the first steps to remove restrictions on market entry and capacity were taken as a prelude to full liberalisation of the EU market. Table 1.5 shows the remarkable changes in the volumes of international scheduled passengers between 1980 and 2004. Since 1980 the regional share of international scheduled services has more than quadrupled, from 5% to 23%, and the volume of international scheduled passengers at regional airports increased by an annual average of 14% – from just 1.3m in 1980 to 30m in 2004. Over the last four years the growth in passenger numbers has been particularly spectacular, with an additional 12.5m passengers travelling, of which 5m was added in 2004 alone.

Chapter 2 International services from UK regional airports

Growth in international services

1 As noted in Chapter 1, there has been a substantial increase in international services, particularly international scheduled services, from UK regional airports (Figure 2.1).

Figure 2.1 Number of frequently served international scheduled destinations from UK regional airports, 1990 and 2004



Notes: *Cambridge, Lydd, Manston and Southend are not shown. See also Tables 2.2 to 2.4.*

Source: *See Table 2.4.*

2 Figure 2.1 shows the increase in the number of international destinations from each airport based on frequent[1] scheduled services operating in 1990 and 2004. Airports with 10 or more international scheduled services in 2004 are shown in blue, and those with 20 or more are shown in pink.

3 It is informative to look at the growth in scheduled traffic at the airport or regional level (Table 2.1). This analysis shows that while Manchester and Birmingham continue to have the most international scheduled traffic by a wide margin, there has been remarkable growth at particular airports such as Liverpool, Bristol and Nottingham East Midlands.

Table 2.1 International scheduled traffic at top six regional airports 1990–2004

	Passengers (m)		
	1990	**2004**	**% increase**
London	47.4	100.2	112%
Regional airports	6.2	29.8	384%
Top six regional airports in 2004			
Manchester	2.7	8.5	217%
Birmingham	1.3	4.6	262%
Liverpool	0.1	2.1	1799%
Nottingham East Midlands	0.2	2.0	1096%
Bristol	0.1	2.0	1252%
Edinburgh	0.2	1.7	773%

Notes: The top six regional airports are those with the greatest number of international scheduled passengers in 2004.

2004 statistics are for the 12 months ending November.

Source: CAA Airport Statistics

4 The traffic increase has been generated not only by growth on existing routes, but also by the introduction of new scheduled services giving a much wider choice of international destinations from local airports. For example, in 1990 there were 15 international destinations with frequent[2] scheduled services from Manchester; by 2004 the total had risen to 60. The new destinations include major cities such as Stockholm, Berlin, Rome and Vienna.

5 At smaller airports, particularly where no-frills airlines have established services, the increase in the spread of destinations has been even more dramatic. In 1990 there were three international scheduled destinations served from Nottingham East Midlands (Amsterdam, Paris and Dublin) and in 1996 there were four, but by 2004 the total had risen to 17 including the addition of cities such as Brussels, Geneva and Rome. At Bristol the number of international scheduled destinations rose from five in 1990 to 21 in 2004. At Liverpool there were international scheduled flights to only one destination in 1990 (and in 1996), whereas in 2004 there were 15 with 11 more planned. Further details on Bristol and Liverpool can be found in the case studies in Chapter 7. The total number of international scheduled routes from regional airports in 2005 will be more than four times that in 1990.

1. Based on destinations with a minimum frequency broadly equating to a daily round-trip service each weekday (see Tables 2.2 to 2.4).
2. These analyses are based on destinations with a minimum frequency broadly equating to a daily round-trip service each weekday (see Tables 2.2 to 2.4).

Changes in travel patterns

6 Analysis of some of the broader changes to the nature of UK demand can help to explain some of the changes in activity at regional airports, particularly on international routes.

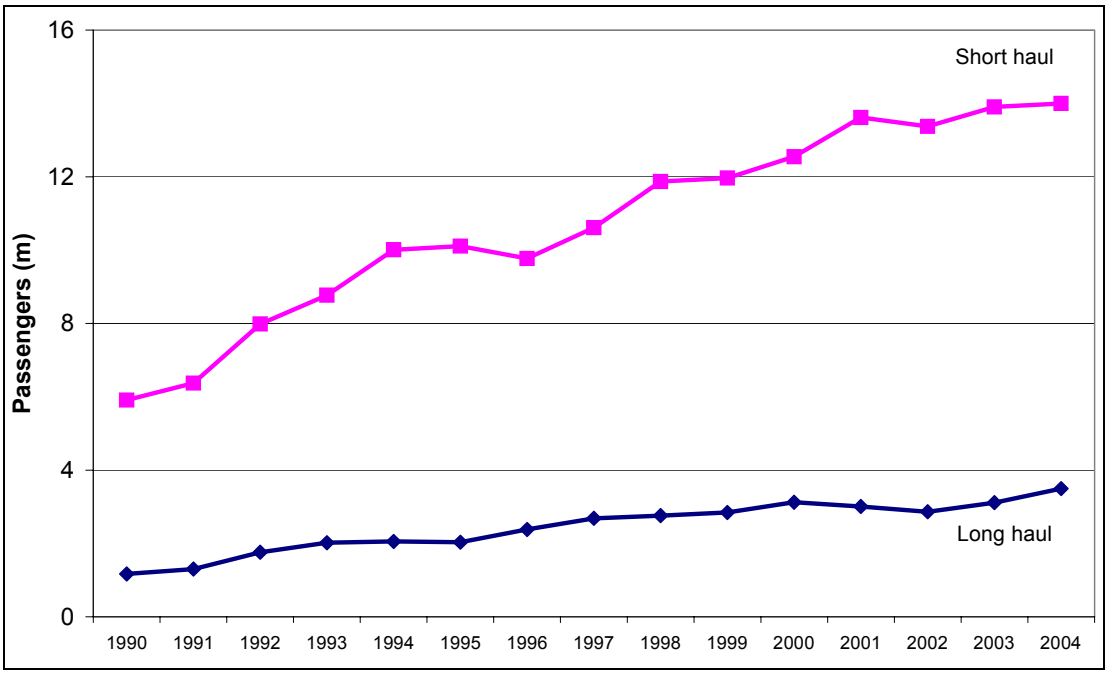
7 UK residents travelling abroad for leisure purposes have been by far the fastest growing component of international traffic at UK airports and, according to data from the International Passenger Survey (IPS), the total number of UK resident trips to international destinations grew from about 21m in 1993 to nearly 40m by 2003. As a result, UK-originating leisure passengers formed 61% of the total international traffic at UK airports in 2003, compared with 53% in 1993.

8 The survey data also suggests that, on average, passengers are tending to take shorter holidays. Trips lasting one to three nights grew at an average annual rate of nearly 10% between 1998 and 2003 whereas trips lasting 14 or more nights (i.e. including traditional fortnight packages) grew at a much slower average rate of just over 2% a year. The recent growth in UK outbound leisure passengers has been driven mainly by rapid expansion of the independent and 'VFR' (visiting friends and relatives) sectors, which now account for about 60% of total UK leisure passengers. According to Office of National Statistics data, spending on holidays abroad has been one of the fastest growing of the major categories of expenditure – second only to communications – and, during the past decade, has expanded three times as fast as overall consumer expenditure. Although price has played its part in stimulating demand, holidays abroad still account for only 4% or so of total UK consumer expenditure, suggesting that market maturity may be some way off.

Developments in international services from Manchester and Birmingham

9 Figure 2.2 illustrates the consistently strong growth in the number of passengers (both scheduled and charter) at Manchester, including a steady rise in the number of long-haul passengers.

Figure 2.2 International scheduled and charter passengers at Manchester 1990–2004



Notes: 2004 statistics are for the 12 months ending November.

Source: CAA Airport Statistics.

10 Tables 2.2 and 2.3 below show in more detail the progressive development of the international scheduled networks from Manchester and Birmingham respectively. More routes have commenced. As noted above, international scheduled destinations rose from 15 at Manchester in 1990 to 60 in 2004, which compares with 13 at Birmingham in 1990 rising to 36 in 2004. But the number of flights on each route has also tended to show a general upward trend. For example, flights to Paris and Frankfurt have broadly doubled from both airports since 1990, as have those on Manchester–Chicago. Flights on newer routes like Manchester–Prague and Manchester–Rome, not served in 1996, have broadly doubled since 2002. Jet2.com has set up a new base at Manchester, adding 10 routes. GB Airways is also setting up a base at Manchester operating five new scheduled routes.

11 Strong growth on newer Birmingham routes is less obvious, perhaps because the airport is in competition with London to a greater extent (the failure of Duo in May 2004 is also likely to have had an effect on 2004 traffic levels). But since 1990 international scheduled flights at Birmingham and at Manchester have increased by more than two and a half times.

Table 2.2 International scheduled flights from Manchester 1990–2004

	number of flights annually			
	1990	**1996**	**2002**	**2004**
Paris	3,266	6,260	7,083	7,628
Dublin	4,793	7,206	7,823	6,901
Amsterdam	4,602	6,558	8,009	6,607
Frankfurt	2,982	3,874	4,889	5,770
Dusseldorf	2,539	3,076	4,162	4,207
Copenhagen	2,062	2,124	2,559	3,941
Brussels	2,387	4,212	5,365	3,490
Zurich	1,345	1,774	3,224	2,981
Munich	721	2,491	2,559	2,464
Barcelona	634	664	720	2,013
Milan	1,627	1,223	1,234	1,827
Chicago	725	728	1,458	1,594
Madrid	----	1,021	1,151	1,562
Geneva	748	680	724	1,546
Hanover	----	694	719	1,245
Hamburg	940	609	1,154	1,222
New York (JFK)	709	721	1,157	1,163
Cork		1,617	1,881	2,015
Stockholm		1,083	2,248	1,686
Oslo		569	1,213	1,559
Basle		1,227	1,804	1,234
Billund		553	1,077	1,070
Connaught		----	----	974
Atlanta		732	729	732
Newark		731	680	730
Lyon		711	799	730
Shannon		1,096	727	725
Luxembourg		----	726	722
Islamabad		----	----	711
Vienna		622	833	709
Orlando		524		604
Rotterdam		913	1,007	

Table 2.2 International scheduled flights from Manchester 1990–2004 contd.

	number of flights annually			
	1990	**1996**	**2002**	**2004**
Alicante			797	2,100
Malaga			820	2,092
Gothenburg			2,676	2,040
Prague			809	2,025
Dubai			739	1,463
Stuttgart			652	1,159
Malta			1,071	1,083
Rome			564	988
Berlin			716	778
Philadelphia			734	729
Faro			----	717
Nice			748	699
Toronto			500	661
Washington			578	623
Warsaw			616	621
Istanbul			----	538
Oporto			----	
Palma				1,177
Cologne				821
Tenerife				798
Galway				724
Pisa				719*
Venice				688
Toulouse				685
Helsinki				637
Bergen				560*
Paphos				559
Lahore				545
Singapore				524
Niederrhein				508*
Kuala Lumpur				----
Doha				----
Total	**37,141**	**58,499**	**85,691**	**103,532**

Notes: *2004 statistics are for the 12 months ending November.*

Entries are included only where there were 500 or more one-way flights (in either direction) over the year, broadly equating to a daily weekday round-trip service. This threshold is used for any similar tables in this study. However, the total 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.

---- signifies between 400 and 500 flights.

** signifies entries for 2004 where the destination is no longer served as of December 2004.*

The column for 2004 does not show a further three routes, Florence, Lisbon and Miami, where there were fewer than 400 non-stop flights over the year but which were being served non-stop at least five times a week as of December 2004.

Source: *CAA Airport Statistics and OAG World Airways Guide December 2004.*

Table 2.3 International scheduled flights from Birmingham 1990–2004

	number of flights annually			
	1990	**1996**	**2002**	**2004**
Cologne	840			----
Paris	3,575	6,257	7,580	6,647
Dublin	3,583	6,607	6,031	6,407
Frankfurt	2,070	2,558	4,554	5,015
Amsterdam	3,233	5,545	6,779	4,036
Dusseldorf	3,113	3,591	4,086	4,029
Brussels	2,736	2,772	6,912	2,682
Munich	711	2,144	3,739	2,224
Copenhagen	1,281	1,075	3,954	2,173
Stuttgart	610	1,050	1,673	2,107
Zurich	1,325	623	1,862	1,990
Milan	1,059	1,324	1,716	1,968
Barcelona	731	686	593	1,295
Hamburg	----		1,053	1,086
Cork		833	1,576	1,509
Lyon		718	1,208	1,218
Basle		618	1,174	1,083
Rotterdam		864	926	
Chicago		730		
New York (JFK)		665		
Billund		550		
Berlin			1,177	
Gothenburg			1,014	2,353
Stockholm			1,052	1,113
Newark			694	1,035
Prague			562	845
Dubai			734	737
Shannon			642	723
Hanover			584	723
Madrid			670	722
Vienna			636	637
Rome			562	632
Toulouse			----	628
Geneva			525	547
Malaga				1,096
Alicante				1,047
Murcia				977
Connaught				708
Salzburg				666
Palma				617
Faro				555
Ashkhabad				----
Islamabad				----
Perpignan				----
Almeria				----
Total	**27,346**	**40,683**	**68,762**	**67,352**

Notes: 2004 statistics are for the 12 months ending November.

Entries are included only where there were 500 or more one-way flights (in either direction) over the year, broadly equating to a daily weekday round-trip service. However, the total in this table includes all routes.

Only non-stop flights are shown.

---- signifies between 400 and 500 flights.

The column for 2004 does not show one further route, Tashkent, where there were fewer than 400 non-stop flights over the year but which was being served non-stop five times a week as of December 2004.

Source: CAA Airport Statistics and OAG World Airways Guide December 2004.

Developments in international scheduled services at other UK regional airports

12 Table 2.4 below shows the development of international scheduled networks at other regional airports. As with Tables 2.2 and 2.3 above, Table 2.4 omits low-frequency services or those served on a one-stop basis. The significant increase in destinations over the last three years compared with the position in 1990 and 1996 is immediately apparent. This includes Scotland and Northern Ireland, which had few or no frequent international services in 1990. Growth in services from Scotland has been stronger than from Northern Ireland where there remain few frequent international services.

Table 2.4 International scheduled destinations from UK regional airports 1990–2004

	1990	1996	2002	2003	2004
Aberdeen	Amsterdam, Stavanger	Amsterdam, Stavanger, *Bergen, Esbjerg*	Amsterdam, Stavanger, Bergen, Esbjerg, *Dublin*	Amsterdam, Stavanger, Bergen, Esbjerg, Dublin, *Paris*	Amsterdam, Stavanger, Bergen, Esbjerg, Dublin, Paris, *Copenhagen*, Groningen**
Edinburgh	Amsterdam, Dublin, Paris	Amsterdam, Dublin, Paris, *Brussels, Copenhagen*	Amsterdam, Dublin, Paris, Brussels, Copenhagen, *Frankfurt*	Amsterdam, Dublin, Paris, Brussels, Copenhagen, Frankfurt *Cork*	Amsterdam, Dublin, Paris, Brussels, Copenhagen, Frankfurt, Cork, Galway, *Prague, Newark**
Glasgow	Amsterdam, Dublin, Paris, Copenhagen, Dusseldorf	Amsterdam, Dublin, Copenhagen, Brussels, *New York, Toronto*	Amsterdam, Dublin, Copenhagen, *Newark, Cork*	Amsterdam, Dublin, Copenhagen, Newark, Cork	Amsterdam, Dublin, Copenhagen, Newark, Cork, *Malaga, Palma, Toronto, Alicante*, Dubai**
Prestwick		*Dublin*	Dublin, *Paris (Beauvais), Frankfurt (Hahn), Oslo (Torp), Brussels (Charleroi)*	Dublin, Paris (Beauvais), Frankfurt (Hahn), Oslo (Torp), Brussels (Charleroi), *Stockholm (Skavsta)*	Dublin, Paris (Beauvais), Frankfurt (Hahn), Oslo (Torp), Brussels (Charleroi), Stockholm (Skavsta), *Gerona, Gothenburg (Saeve), Shannon, Milan (Orio), Rome*, Dusseldorf**
Scotland Total	*10*	*16*	*21*	*24*	*40*
Belfast Int		*Amsterdam*	Amsterdam	Amsterdam	Amsterdam, *Alicante*, Barcelona*, Paris*, Prague**
Belfast City		*Cork*		Cork	Cork
City of Derry				*Dublin*	Dublin
Northern Ireland Total	*0*	*2*	*1*	*3*	*7*
Blackpool					*Dublin*
Liverpool	Dublin	Dublin	Dublin, *Amsterdam, Barcelona, Palma, Madrid, Geneva, Malaga, Nice, Paris*	Dublin, Amsterdam, Barcelona, Palma, Madrid, Geneva, Malaga, Nice, Paris, *Alicante Brussels (Charleroi)*	Dublin, Amsterdam, Barcelona, Palma, Madrid, Geneva, Malaga, Nice, Paris, Alicante, Gerona, *Basel*, Berlin (Schonefeld)*, Cologne*, Connaught*,*
Manchester see Table 2.2	15 destinations	29 destinations	43 destinations	49 destinations	60 destinations
North West Total	*16*	*30*	*52*	*60*	*76*
Humberside	Amsterdam	Amsterdam, *Brussels*	Amsterdam	Amsterdam	Amsterdam
Leeds/Bradford	Amsterdam, Dublin, Brussels, Paris	Amsterdam, Dublin, Brussels, Paris	Amsterdam, Dublin, Brussels, Paris	Amsterdam, Dublin, Brussels, Paris *Barcelona, Cork, Malaga*	Amsterdam, Dublin, Brussels, Paris, Barcelona, Cork, Malaga, *Alicante, Palma, Prague*
Yorks and Humber Total	*5*	*6*	*5*	*8*	*11*
Newcastle	Amsterdam, Brussels, Dublin, Stavanger	Amsterdam, Brussels, Dublin, Stavanger, *Copenhagen, Oslo, Paris*	Amsterdam, Brussels, Dublin, Stavanger, Paris, *Dusseldorf*	Amsterdam, Brussels, Dublin, Stavanger, Paris, Dusseldorf, *Alicante, Barcelona*	Amsterdam, Brussels, Dublin, Stavanger, Paris, Dusseldorf, Alicante, Barcelona, *Copenhagen, Malaga, Prague, Berlin (Schonefeld)*, Budapest*, Geneva*, Rome**
Durham Tees Valley	Amsterdam	Amsterdam	Amsterdam, *Dublin*	Amsterdam, Dublin	Amsterdam, Dublin, *Malaga**
North East Total	*5*	*8*	*8*	*10*	*18*

Table 2.4 International scheduled destinations from UK regional airports 1990–2004 contd.

	1990	1996	2002	2003	2004
Birmingham see Table 2.3	13 destinations	19 destinations	29 destinations	36 destinations	36 destinations
Coventry					*Malaga, Alicante*, Amsterdam*, Cork*, Shannon*, Valencia**
Nottingham East Midlands	Amsterdam, Dublin, Paris	Amsterdam, Dublin, Paris, *Brussels*	Amsterdam, Dublin, Paris, Brussels, *Malaga, Nice, Barcelona, Alicante, Faro, Prague, Palma*	Amsterdam, Dublin, Paris, Brussels, Malaga, Nice, Barcelona, Alicante, Faro, Prague, Palma, *Cork, Geneva, Venice, Munich, Milan (Orio)*	Amsterdam, Dublin, Paris, Brussels, Malaga, Nice, Barcelona**, Alicante, Faro, Prague, Palma, Cork, Geneva, Venice, *Murcia, Cologne*, Gerona*, Rome**
Midlands Total	*16*	*23*	*40*	*52*	*59*
Cardiff	Amsterdam	Amsterdam, *Paris, Dublin, Brussels*	Amsterdam, Paris, Brussels, Dublin, *Cork*	Amsterdam, Paris, Dublin, Cork, *Alicante, Malaga*	Amsterdam, Paris, Dublin, Cork, Alicante, Malaga, *Prague**
Wales Total	*1*	*4*	*5*	*6*	*7*
Bristol	Amsterdam, Dublin, Paris, Brussels, Dusseldorf	Amsterdam, Dublin, Paris, Brussels	Amsterdam, Dublin, Paris, Brussels, *Faro, Barcelona, Frankfurt, Prague, Alicante, Malaga, Munich, Nice, Palma*	Amsterdam, Dublin, Paris, Brussels, Faro, Barcelona, Frankfurt, Prague, Alicante, Malaga, Munich, Nice, Palma, *Venice, Cork*	Amsterdam, Dublin, Paris, Brussels, Faro, Barcelona, Frankfurt, Prague, Alicante, Malaga, Munich, Nice, Palma, Venice, *Bilbao**, Copenhagen**, Toulouse, Berlin (Schonefeld)*, Budapest*, Geneva*, Madrid*, Rome*, Valencia**
Exeter		*Dublin*	Dublin	Dublin	Dublin
Plymouth					*Cork**
South West Total	*5*	*5*	*14*	*16*	*23*
Bournemouth		*Dublin*	Dublin, *Frankfurt (Hahn)*	Dublin, Frankfurt (Hahn)	Dublin, *Gerona*
Cambridge	Amsterdam	Amsterdam			
Lydd	Paris (Beauvais), Le Touquet			*Le Touquet*	Le Touquet
Manston					*Amsterdam, Barcelona, Dublin, Madrid, Prague*
Norwich	Amsterdam	Amsterdam	Amsterdam	Amsterdam	Amsterdam, *Dublin**
Southampton	Amsterdam, Paris	Amsterdam, Paris, *Brussels*	Amsterdam, Paris, Brussels, *Dublin*	Amsterdam, Paris, Brussels, Dublin, *Cork, Geneva, Milan (Orio)*	Amsterdam, Paris, Brussels, Dublin, *Alicante, Bergerac, Malaga, Murcia, Prague**, Toulouse*
Southend	Billund, Brussels, Rotterdam				
East/South East Total	*9*	*6*	*7*	*11*	*19*

Notes: *Routes that have not appeared in the previous column are shown in italics. A destination is shown as "served" only if there were 500 or more one-way non-stop 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 an average figure and not necessarily representative of a given point in time.*

** signifies new routes in 2004 that have not reached 500 flights but are served at least five times a week as of December 2004 (excluding obvious winter-only routes).*

*** signifies entries for 2004 where the destination is no longer served as of December 2004; these are not counted in the totals.*

Some summer-only services are not served 500 times a year and do not therefore appear in the table, such as Glasgow–Chicago and Glasgow–Philadelphia.

Source: *CAA Airport Statistics, OAG database of BACK Information Services and OAG World Airways Guide December 2004, Thomsonfly and LyddAir websites. 2004 statistics are for the 12 months ending November.*

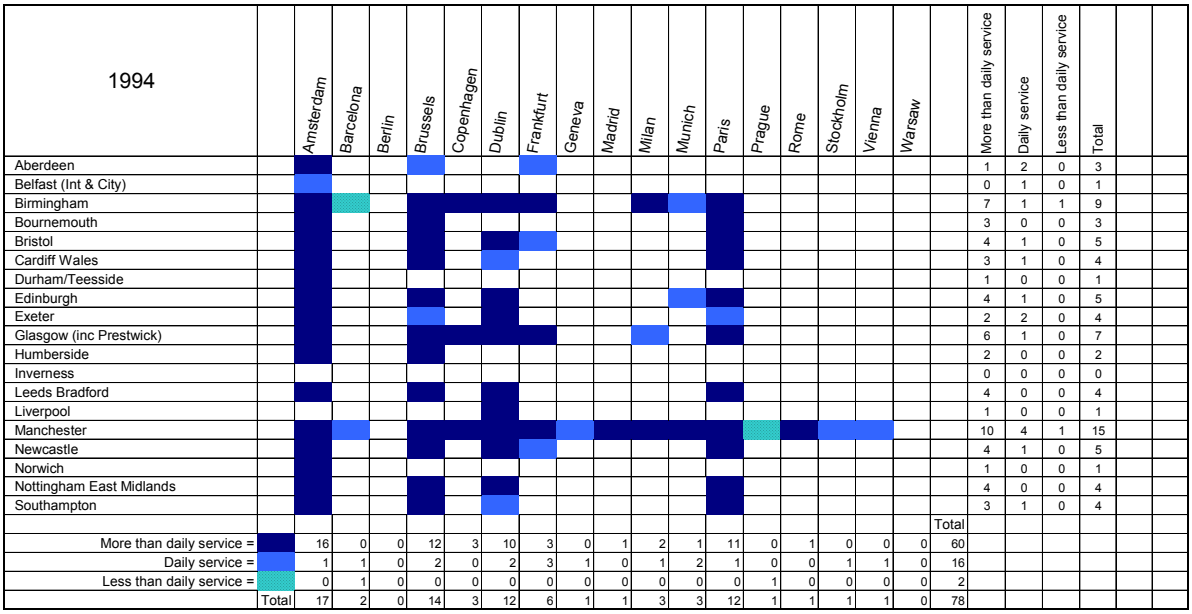
13 Table 2.4 shows that some of the new international scheduled destinations are, perhaps not surprisingly, linking regional points with leisure-oriented "sun" destinations like Alicante, Malaga or Palma (each of these points will have scheduled services from around 12–13 UK regional airports in 2005[3]). Figure 2.3 below therefore looks at the richness of the new destinations in terms of linking UK regions with major population or business centres, and makes a comparison with ten years ago, just after the EU aviation market had been liberalised. The table includes proposed services for 2005, although given the rapid expansion taking place in regional air services this can necessarily only be indicative.

14 Overall, the number of direct connections in this sample has increased by about half, with the bulk of this accounted for by new once-daily services. Manchester was already a relatively mature market in 1994 with services to 15 of the 17 points in the sample, the exceptions being Berlin and Warsaw, both of which were being served by 2004. Most of the routes (slightly more than in 1994) are now served at a greater than daily frequency. Birmingham is not far behind, with the nine destinations in 1994 increasing to 15 in 2005. The table shows a significant increase in the number of major European destinations served from Bristol, Edinburgh and Liverpool.

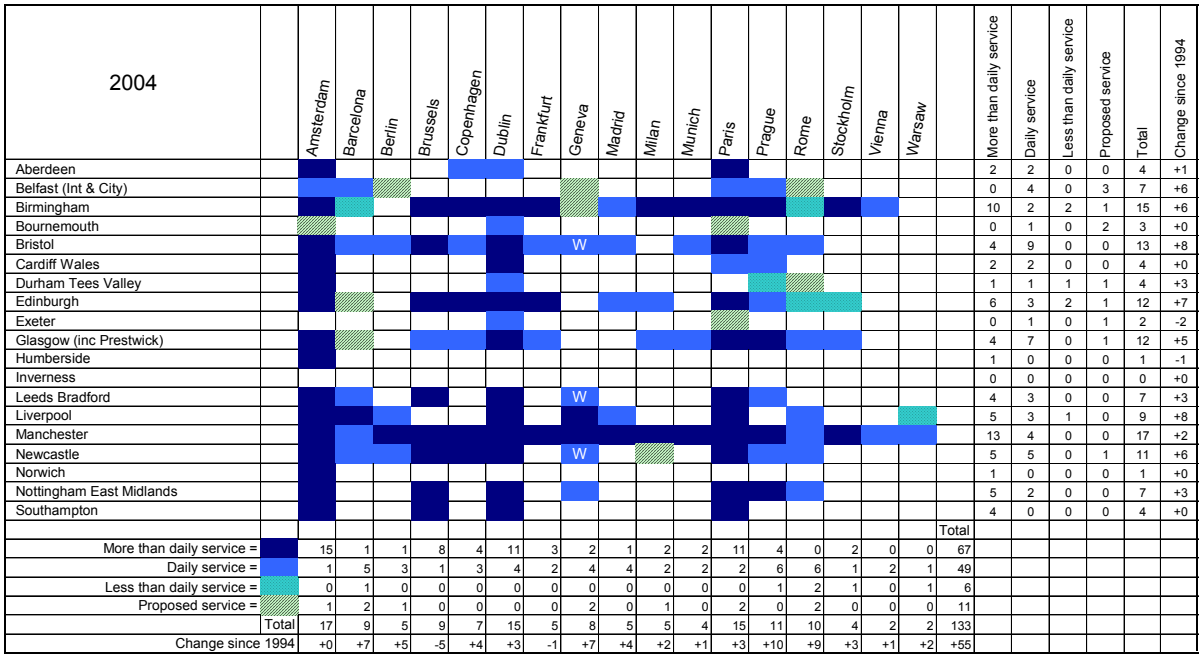
15 The most popular major European destinations served from UK regional airports are Amsterdam, Dublin and Paris. By 2005, Barcelona, Prague and Rome will be served from between seven and ten more UK regional airports compared with 1994. Brussels, on the other hand, has lost services from five UK regional airports, probably a reflection of the decline of the airport as a hub following the collapse of Sabena.

3. Not all these services appear in Table 2.4 because some are served less than daily and some do not commence until 2005.

Figure 2.3 International connections between selected UK regional centres and major European centres – 1994 and 2004



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				



2004	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	Proposed service	Total	Change since 1994
Aberdeen																			2	2	0	0	4	+1
Belfast (Int & City)																			0	4	0	3	7	+6
Birmingham																			10	2	2	1	15	+6
Bournemouth																			0	1	0	2	3	+0
Bristol								W											4	9	0	0	13	+8
Cardiff Wales																			2	2	0	0	4	+0
Durham Tees Valley																			1	1	1	1	4	+3
Edinburgh																			6	3	2	1	12	+7
Exeter																			0	1	0	1	2	-2
Glasgow (inc Prestwick)																			4	7	0	1	12	+5
Humberside																			1	0	0	0	1	-1
Inverness																			0	0	0	0	0	+0
Leeds Bradford								W											4	3	0	0	7	+3
Liverpool																			5	3	1	0	9	+8
Manchester																			13	4	0	0	17	+2
Newcastle								W											5	5	0	1	11	+6
Norwich																			1	0	0	0	1	+0
Nottingham East Midlands																			5	2	0	0	7	+3
Southampton																			4	0	0	0	4	+0
																		Total					
More than daily service =	15	1	1	8	4	11	3	2	1	2	2	11	4	0	2	0	0	67						
Daily service =	1	5	3	1	3	4	2	4	4	2	2	2	6	6	1	2	1	49						
Less than daily service =	0	1	0	0	0	0	0	0	0	0	0	0	1	2	1	0	1	6						
Proposed service =	1	2	1	0	0	0	0	2	0	1	0	2	0	2	0	0	0	11						
Total	17	9	5	9	7	15	5	8	5	5	4	15	11	10	4	2	2	133						
Change since 1994	+0	+7	+5	-5	+4	+3	-1	+7	+4	+2	+1	+3	+10	+9	+3	+1	+2	+55						

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.
Only services operating more than once a week are shown.
Services marked with a W are winter-only.

Source: *OAG World Airways Guide December 1994 and 2004; proposed services from airline press releases and websites, and Worldspan Global Distribution System.*

Developments in long-haul services

16 The main airlines operating long-haul scheduled services from UK regional airports are US airlines (which are discussed in more detail below); Pakistan International (PIA) from Birmingham and Manchester; Emirates from Birmingham, Glasgow and Manchester; Air Transat (of Canada) from Glasgow and Manchester (and low frequency from six other regional airports); and Singapore Airlines and Malaysian Airlines from Manchester.[4] In 2004, long-haul services at Manchester carried around twice the number of long-haul passengers at other UK regional airports put together. Table 2.5 shows how long-haul services from Manchester have developed since 1990.

Table 2.5 International long-haul scheduled flights at Manchester

Number of flights annually

	1990	1996	2002	2004
Chicago	725	728	1,458	1,594
Dubai			739	1,463
New York (JFK)	709	721	1,157	1,163
Atlanta		732	729	732
Newark		731	680	730
Philadelphia			734	729
Islamabad		---	---	711
Toronto			500	661
Washington			578	623
Orlando		524	---	604
Lahore				540
Singapore				524
Kuala Lumpur				---
Doha				---
Total long haul	2,355	4,540	8,532	12,075

Notes: Figures are shown only where there were 500 or more one-way flights (in either direction) over the year, broadly equating to a daily weekday round-trip service, except the total which includes all routes; --- signifies between 400 and 500 flights.

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

Source: CAA Airport Statistics. 2004 statistics are for the 12 months ending November.

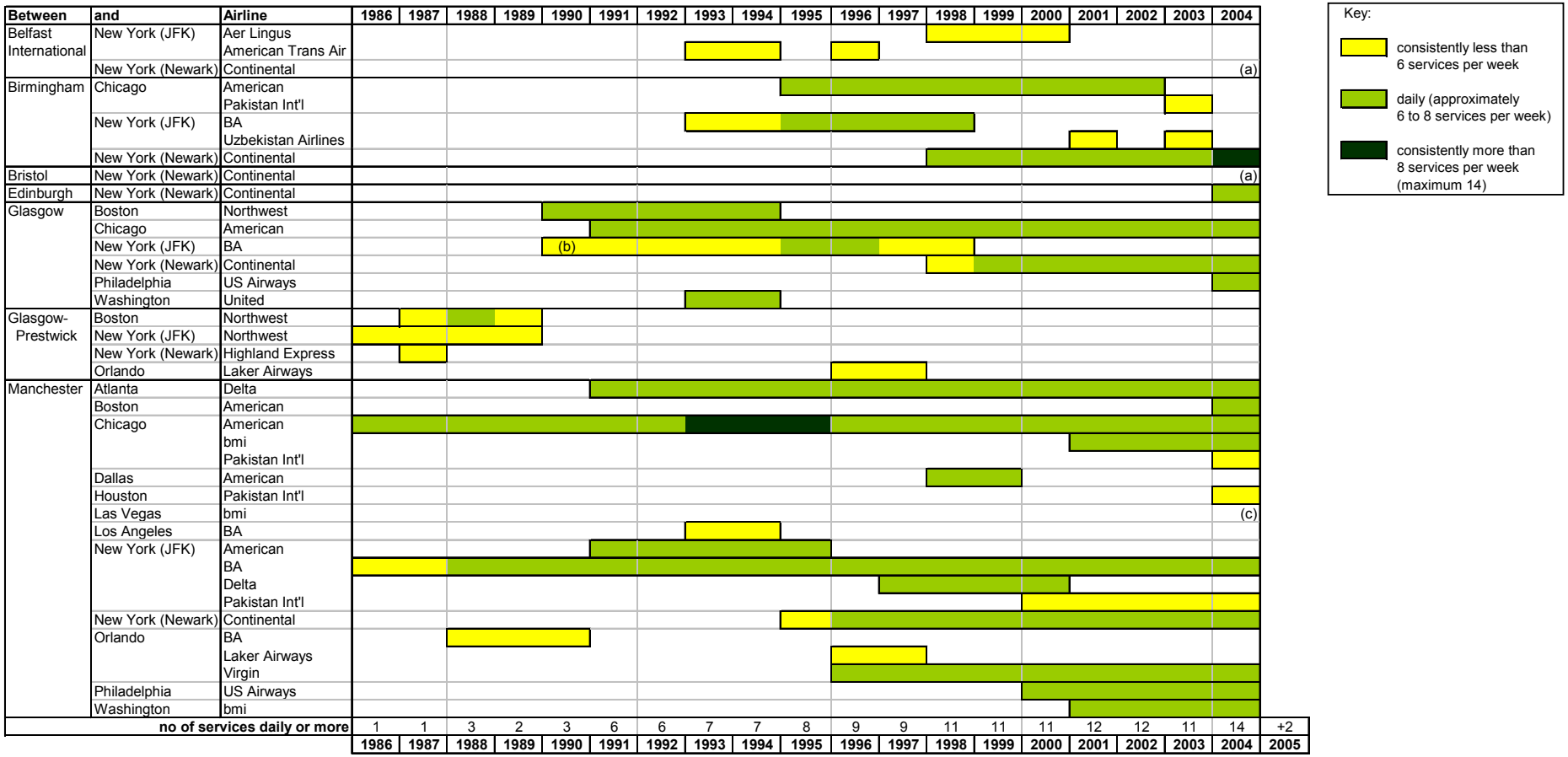
17 It is apparent that, with few exceptions, the main long-haul points served are hubs. In other words, these flights are serving not just the destination itself but also points beyond. This suggests that other routes serving predominantly point-to-point markets would need to be relatively strong (perhaps with specific business, historical or community links) to support a frequent long-haul service from a regional airport with a limited catchment area.

4. See Chapter 6, Table 6.1.

18 Emirates began serving Dubai twice a week from Manchester in 1990, alongside its Gatwick service. During the 1990s it focused on building up its Heathrow and Gatwick services (each of which is now three daily), but in 1999 the Manchester service was increased to daily and then twice daily in 2003. In 2001 Emirates started a daily Birmingham service, which became twice daily in March 2004. Its Dubai–Glasgow service, which started in April 2004, was a relatively unexpected development given the few long-haul scheduled services operated from Scotland, all of which have been transatlantic. This route is benefiting from start-up financial assistance from the Scottish Route Development Fund. Emirates' prime market is the carriage of passengers on a sixth-freedom[5] basis bound for points beyond Dubai. Its extensive and growing network of around 80 destinations from Dubai provides an alternative to London or continental hubs for long-haul passengers travelling to or from the UK regions to Africa, Asia or Australasia. CAA survey data for 2003 shows that on Emirates' services 74% of Birmingham passengers and 75% of Manchester passengers were connecting at Dubai.

5. "Sixth-freedom" means the carriage of passengers by an airline of Country A between two other countries via Country A; for example, Emirates carrying a passenger from the UK to Australia with a transfer at Dubai.

Figure 2.4 Scheduled services between UK regional airports and the US 1986–2004



Notes: *The diagram indicates the frequency in July each year. Therefore summer-only services are not differentiated. Flights operating less than once per week are omitted.*

(a) Continental Belfast–Newark and Bristol–Newark commence May 2005. (b) BA Glasgow–New York commenced August 1990. (c) bmi Manchester–Las Vegas commenced October 2004.

Source: *CAA Airport Statistics and Worldspan Global Distribution System.*

UK regional–USA services

19 Figure 2.4 shows how services have developed between UK regional points and the USA over the period 1986 to 2004. In 1986 there was just one daily service, American Airlines' Manchester service feeding its Chicago hub, alongside BA's twice-weekly Manchester–New York service and Northwest's weekly Prestwick–New York service. There was a rapid expansion in the number of routes in the early 1990s. By 1991 six routes had achieved a daily service, with Delta serving Manchester from its Atlanta hub and American starting a daily Manchester–New York service alongside that of BA. With the opening of Glasgow to transatlantic services, Prestwick services were replaced by daily services to Boston (Northwest), Chicago (American) and Washington (United), but by 1995 the Boston and Washington services had been suspended and the Chicago service became summer-only. BA started services to New York from Glasgow and Birmingham, which became daily in 1995, but these were both suspended in 1998.

20 Between 1993 and 1994 BA also operated a five-times weekly Manchester–Los Angeles service while American's Manchester-Chicago service moved to double daily in the summer.

21 Birmingham gained a second daily transatlantic service in 1995, operated by American to its Chicago hub, but this was suspended for the Winter 2001/02 season after September 11, and has not operated since Summer 2002. Virgin started its Manchester–Orlando service in 1996 (for several years operating during the summer season only), a route that had been operated at low frequency by BA in the late 1980s. Between 1995 and 1998, Continental started new daily services feeding its Newark hub from Birmingham, Glasgow and Manchester, the latter possibly being one reason for American suspending its New York service, another perhaps being American's alliance with BA. American also served Manchester from its Dallas hub in the summers of 1998 and 1999, while Delta also operated a Manchester–New York service between 1997 and 2001. US Airways began its first UK regional route in 2000, linking Manchester with its Philadelphia hub. In 2001, bmi began Manchester services to Chicago and Washington, both hubs of its Star Alliance partner, United.

22 By 2001 there were 12 daily services from seven US gateways. Despite the effects of September 11 on the industry, it is noteworthy that none of the regional services was suspended immediately (unlike London services), although, as noted above, American did suspend Birmingham–Chicago a year later, leaving Birmingham with just its Newark service, now twice-daily, by 2004. Glasgow had only two daily services until US Airways started its summer-only Philadelphia service in 2004. Most of the expansion in recent years has been at Manchester, which had nine daily US services by 2004.

23 But new UK regional gateways have also been added. Continental Airlines continues to add new daily Boeing 757 (i.e. narrowbody) services from its Newark hub to UK regional airports, most recently Edinburgh, Belfast and Bristol (see Case Study 1). American also began a seasonal Manchester–Boston service using a Boeing 757 in 2004. This expansion of US services at regional airports using smaller, narrowbody aircraft is an interesting development. It seems to allow new, relatively thin, long-haul markets to be opened with less risk. It has also demonstrated to operators of other UK airports with sufficient runway length that a transatlantic link may be achievable.

24 These new services have increased the number of US routes served daily or more from UK regional airports to 14 in 2004 and 16 in 2005.[6]

25 With specific exceptions, such as New York (JFK), Orlando and Las Vegas, which are less dependent on US connecting traffic, the US gateways are all hub airports. For example, there are currently no services between UK regional airports and the west coast; such traffic must still travel via another hub (whether London, US, or elsewhere).

26 United and Northwest are the only US transatlantic airlines not to operate in their own right to a UK regional airport. However, United places its code on Star Alliance partner bmi's Manchester services, and on bmi's UK domestic flights feeding United's US–Heathrow services. Similarly, Northwest places its code on alliance partner KLM's extensive network of flights from UK regional airports feeding the Amsterdam hub.

27 While the first routes, American's Manchester-Chicago and BA's Manchester–New York services, have operated throughout the period 1986–2004, there has been a reasonable amount of churn in other routes. However, given the serious problems the airlines have faced in recent years it is of significance that the number of services that are daily or more should be 16 by summer 2005. This suggests that for routes to the US at least, UK regional services are more resilient than may sometimes be suggested. There seem to be reasonable future prospects for further services between US hubs and UK regional airports, although services to non-hub airports (other than very dense markets like Orlando or New York) may present a more difficult proposition.

Fifth-freedom services

28 The restrictions enshrined in bilateral air services agreements can also form a barrier to foreign airlines seeking to operate new services from regional airports on a fifth-freedom basis.[7] Loosening these restrictions could facilitate an increase in long-haul services from regional airports operated by overseas airlines. The likely impacts on the airline industry and consumers of granting such freedoms from UK regional airports are being assessed in an ongoing, separate CAA study.

6. While American began a Manchester–Miami service in November 2004, this is not scheduled to operate between May and October 2005.
7. "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.

Case study 1: Continental Airlines

By the end of 2004, Continental Airlines was serving 272 airports (119 outside the USA) with a fleet of around 350 aircraft and was carrying 54m passengers annually. The airline has been serving the UK since 1985 and operates non-stop flights from New York (Newark) to Gatwick and Birmingham (both twice daily), Manchester, Glasgow and, from June 2004, Edinburgh (all once daily; an additional daily flight shared between Glasgow and Edinburgh begins in 2005). It will commence daily services from Newark to Bristol on 20 May 2005 and Newark to Belfast on 27 May 2005.[1] Continental also serves Houston–Gatwick (twice daily) and Cleveland–Gatwick (daily, summer only) and places its code on flights operated by Virgin Atlantic between Heathrow and Gatwick and several US cities. Continental is a member of the Skyteam alliance.

Continental's current business strategy is to move from a predominantly domestic route portfolio to one more balanced between international and domestic services. In recent years it has begun re-deploying its narrowbody Boeing 757-200 aircraft from domestic routes to relatively thin long-haul markets between its Newark hub and the UK regions (and European cities such as Oslo and, in 2005, Berlin, Hamburg and Stockholm). These services have significant feed traffic to/from points served beyond Newark, particularly in the winter months when traffic to the New York area is weaker. (For example, CAA survey data for 2003 shows an average of 71% of Birmingham passengers and 50% of Manchester passengers connecting at Newark.)

Continental's 757s are configured with the full BusinessFirst product (16 seats) that the airline offers on the rest of its long-haul network, and sees the aircraft as having very competitive operating costs, which lessen the risks of starting a new service in relatively untried markets such as these. A possibility is fitting the 757 with winglets, improving the aerodynamics and fuel efficiency, and allowing longer range services like US–Germany without payload restrictions. Once a market has become established, Continental would consider moving to wide-bodied aircraft (as it did, for example, on the Glasgow and Manchester routes) or increasing frequency with the 757 (as it has, for example, on the Birmingham route).

An early failure of this strategy was Newark–Stansted, a 757 route Continental started in May 2001 in view of the slot constraints at Gatwick and the growth of blue-chip companies in Stansted's catchment area. Continental suspended the service after September 11, and, by the time traffic had recovered, Gatwick had become less slot-constrained and the market had changed such that Continental decided not to restart the service. Continental sees start-up risks on services to regional airports – and Stansted – as greater than those to major capital cities. The market is slightly different from London services, being made up of a higher proportion of UK-originating passengers. There has been strong support from the UK regions for Continental's services and the airline believes it can repeat this at Belfast and Bristol, attracting passengers that would otherwise have travelled via London (or Dublin) as well as generating new business. Both the Edinburgh and Belfast routes qualified for assistance from route development funding.

Source: websites of Continental Airlines and Aviation Partners Boeing, and CAA discussions with the airline.

1. Some regional services reduce frequency in the winter season.

Charter services

29 The focus of the discussion above has been on international scheduled services at regional airports, which have been the main generator of growth in recent years. Overall these now account for more than half the international passengers at regional airports (see Table 2.6). Previously, the most important component of regional international services was charter services. As noted in Chapter 1, charter services at regional airports had grown rapidly in the 1980s and 1990s to overtake those at London, but in recent years the volume of passengers travelling on charters from the UK appears to have reached a plateau. Nevertheless, as Table 2.6 indicates, they remain a significant component of international traffic at most regional airports.

Table 2.6 International passengers at regional airports, 2004

	International passengers (000)			Charter
Airport	**Scheduled**	**Charter**	**Total**	**share**
Manchester	8,545	9,060	17,605	51%
Birmingham	4,553	2,944	7,497	39%
Glasgow	1,604	2,296	3,900	59%
Nottingham East Midlands	1,972	1,546	3,517	44%
Bristol	1,970	1,300	3,270	40%
Newcastle	1,304	1,680	2,984	56%
Liverpool	2,128	380	2,508	15%
Edinburgh	1,720	431	2,152	20%
Leeds Bradford	1,236	535	1,771	30%
Cardiff	639	923	1,562	59%
Prestwick	1,246	148	1,394	11%
Belfast International	282	882	1,164	76%
Aberdeen	531	467	998	47%
Southampton	590	68	658	10%
Durham Tees Valley	309	270	579	47%
Humberside	132	371	503	74%
Exeter	130	290	420	69%
Bournemouth	174	181	355	51%
Coventry	352	3	355	1%
Norwich	124	220	344	64%
Blackpool	68	50	118	42%
Scatsta (a)	0	105	105	100%
City of Derry	31	24	55	44%
Manston	49	1	50	3%
Isle of Man	37	2	40	6%
Belfast City	32	4	36	10%
Inverness	3	10	13	77%
Others	5	7	12	57%
Total	**29,769**	**24,196**	**53,965**	**45%**

Note: (a) Traffic to oil rigs is classified as International Charter in CAA Airport Statistics.

Source: CAA Airport passenger-related statistics, 12 months to November 2004.

30 Tour operators and charter airlines were arguably the pioneers in bringing low-cost travel to the regions, although the product they offered was relatively inflexible. The lack of growth in the charter market in recent years appears to be the result of a number of factors: 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; 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.

31 The tour operators and charter airlines are adopting a number of strategies to respond to the new forms of demand and the increasing competition that is emerging. As noted above, the major operators have created no-frills offshoots and are developing more flexible packages, while some are focusing on specialist holiday products. As Table 2.7 indicates, Spain was still the dominant charter destination from regional airports in 2004, although its share has fallen since 2000. Turkey, Bulgaria and Croatia were among the shorter-haul destinations to have gained. The 2004 charter volumes to the US and Canada are below the 2000 level, reflecting the aftermath of September 11 and the restructuring of Canadian airlines, but Egypt, the Dominican Republic and Cuba are among a number of very strongly growing long-haul destinations.

Table 2.7 Destination of charter passengers from UK regional airports, 2000 and 2004

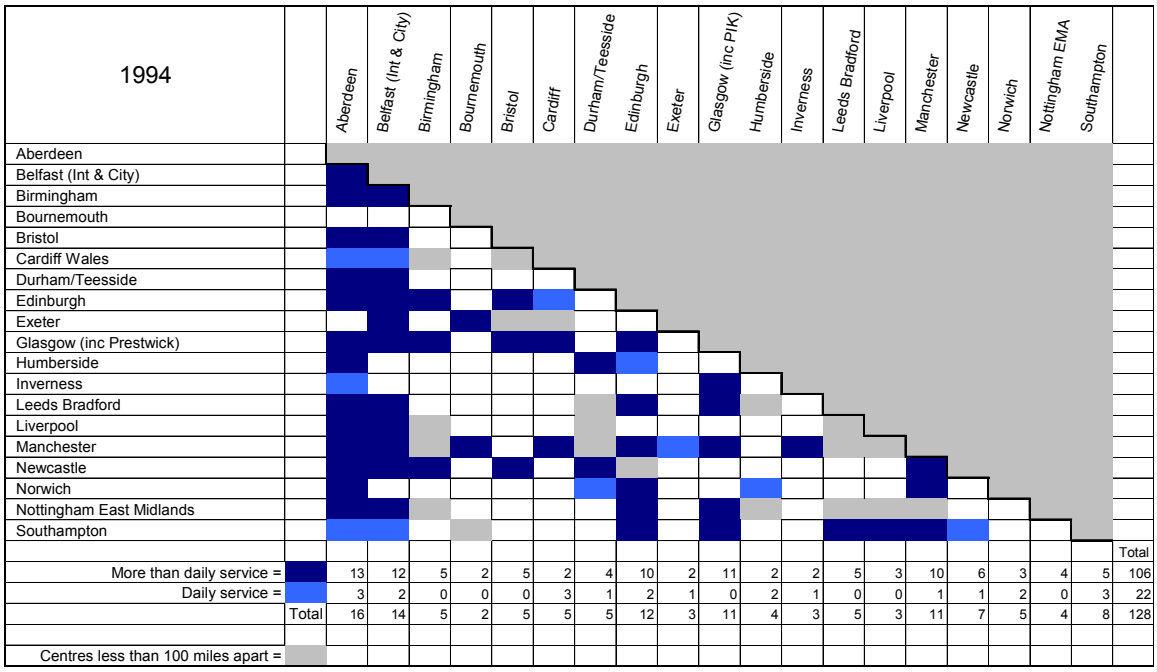
	Passengers (000)		
Destination	**2000**	**2004**	**Change**
Spain	13,350	12,862	-4%
Greece	2,762	2,957	7%
Turkey	868	1,278	47%
Portugal	1,217	1,257	3%
Cyprus	1,090	1,152	6%
USA	798	598	-25%
Italy	476	555	17%
Bulgaria	56	339	505%
Malta	358	329	-8%
Tunisia	297	323	9%
France	253	302	20%
Dominican Republic	112	229	105%
Austria	189	215	14%
Mexico	149	166	11%
Egypt	49	162	228%
Switzerland	86	111	30%
Barbados	68	104	52%
Canada	84	81	-5%
Finland	34	73	114%
Jamaica	48	69	45%
India	55	68	22%
Cuba	8	66	702%
Croatia	17	61	257%
Others	885	839	-5%
Total	**23,311**	**24,196**	**4%**

Source: CAA Airport passenger-related statistics, 2000 and 12 months to November 2004.

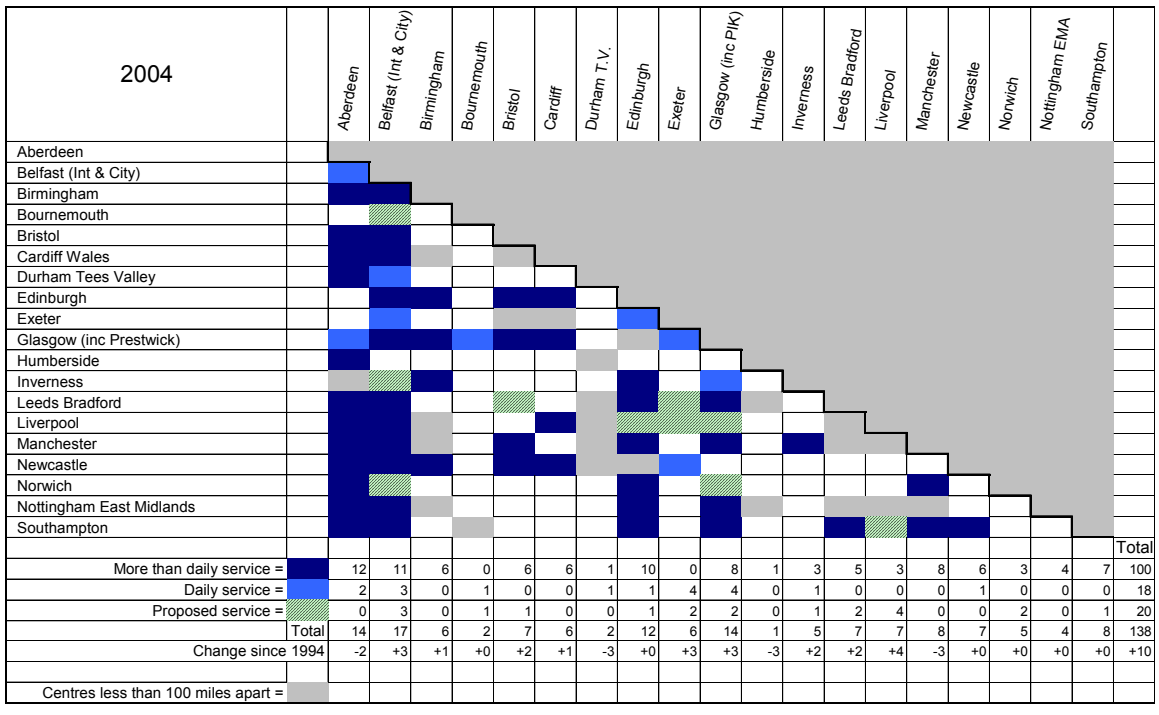
32 So, in addition to entry into the scheduled mode (and the other changes noted above and elsewhere in this study), within the charter mode there has been a move away from the traditional shorter-haul destinations such as Spain in reaction to the strength of the euro as well as competition, and a move towards medium/longer-haul destinations which can offer a different holiday experience. It is unclear as yet how these different responses will impact on regional airports, but although products may alter, it seems likely that the activity at regional airports will be most influenced by the strength of demand in the local catchment area.

Chapter 3 Services between UK regional airports

Figure 3.1 Connections between selected UK regional centres – 1994 and 2004



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	
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																					
																					Total
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 =																					



2004		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	
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																					
																					Total
More than daily service =		12	11	6	0	6	6	1	10	0	8	1	3	5	3	8	6	3	4	7	100
Daily service =		2	3	0	1	0	0	1	1	4	4	0	1	0	0	0	1	0	0	0	18
Proposed service =		0	3	0	1	1	0	0	1	2	2	0	1	2	4	0	0	2	0	1	20
	Total	14	17	6	2	7	6	2	12	6	14	1	5	7	7	8	7	5	4	8	138
Change since 1994		-2	+3	+1	+0	+2	+1	-3	+0	+3	+3	-3	+2	+2	+4	-3	+0	+0	+0	+0	+10
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.
None of the services was less than daily.
Includes throughplane services with an intermediate stop.

Source: *OAG World Airways Guide.*

1 Figure 3.1 illustrates the links between selected UK regional centres, comparing 1994 with 2004 in a similar fashion to the analysis for international routes in Chapter 2 (Figure 2.3). Some airport-pairs are too close reasonably to be expected to support an air service unless flown as part of a multi-sector routing, and so these are shown in grey.

2 Figure 3.1 shows that there has been no dramatic change in services between UK regional airports over the last 10 years. While the total number of services and passengers has increased, the number of city-pairs with scheduled services has actually fallen slightly, although that position will be reversed once new proposed services are introduced in 2005. Northern Ireland and Scotland tend to be more dependent on air links to the rest of the UK. The table shows that with the addition of new services during 2005, Aberdeen, Edinburgh and Glasgow will each be linked to between 12 and 14 other UK regional cities; Belfast will be linked to 17; while Inverness will be linked to five. At Durham Tees Valley, links with other UK regional airports have fallen from five to two and at Humberside from four to one.

3 Table 3.1 shows the 15 routes between regional airports that carried the greatest traffic in 2004.

Table 3.1 Traffic on the main inter-regional scheduled routes in 2004

		Passengers
Belfast Int	Liverpool	546,948
Birmingham	**Edinburgh**	**383,761**
Birmingham	**Glasgow**	**343,057**
Edinburgh	Nottingham EMA	328,536
Bristol	Edinburgh	323,663
Belfast Int	Edinburgh	309,911
Belfast Int	Glasgow	309,610
Bristol	Glasgow	304,476
Belfast City	**Birmingham**	**298,454**
Bristol	Newcastle	236,047
Belfast Int	Bristol	230,488
Edinburgh	**Manchester**	**222,253**
Glasgow	**Nottingham EMA**	**216,578**
Liverpool	**Isle of Man**	**200,428**
Edinburgh	Southampton	195,761

Notes: 2004 statistics are for the 12 months ending November.

On domestic routes passengers are reported by both of the UK airports involved. Where there are differences, the table shows the average of the two reports.

Source: CAA Airport Statistics.

4 The list for 1990 is very different (Table 3.2). Only six routes in 2004 were among the densest routes in 1990; these are shown in bold. Only two routes in 1990 exceeded 200,000 passengers, compared with 14 in 2004. Routes to the Channel Islands were a more prominent part of the market in 1990.

Table 3.2 Traffic on the main inter-regional scheduled routes in 1990

		Passengers
Aberdeen	Sumburgh	247,002
Southampton	Jersey	238,470
Birmingham	**Glasgow**	**154,417**
Birmingham	**Edinburgh**	**149,154**
Liverpool	**Isle of Man**	**137,048**
Belfast Int	Manchester	127,042
Belfast Int	**Birmingham**	**126,908**
Manchester	Jersey	118,247
Glasgow	Manchester	114,050
Birmingham	Jersey	106,595
Edinburgh	**Manchester**	**93,906**
Glasgow	**Nottingham EMA**	**88,569**
Belfast City	Manchester	85,541
Manchester	Isle of Man	79,817
Nottingham EMA	Jersey	78,850

Notes: 2004 statistics are for the 12 months ending November.

On domestic routes passengers are reported by both of the UK airports involved. Where there are differences, the table shows the average of the two reports.

Source: CAA Airport Statistics.

5 The densest inter-regional route is now Liverpool–Belfast, with more than ½m passengers a year. In 1990 the market between the North West and Belfast was dominated by Manchester services to the two Belfast airports, which together formed one of the densest non-London domestic city-pairs. The market now appears to have been strongly affected by competition from easyJet on the parallel Liverpool–Belfast route (see Table 3.3). In 2003 bmibaby began serving Manchester–Belfast International, which has begun to redress the balance, although only if traffic from Manchester to both Belfast airports was combined as a city-pair would they produce sufficient numbers to appear in Table 3.1.

Table 3.3 Traffic on scheduled services between Belfast and Liverpool/ Manchester 1990–2004

	Passengers		Total	Liverpool Share	Growth Total
	Liverpool	Manchester			
1990	62,719	212,583	275,301	23%	
1991	78,920	221,844	300,764	26%	9%
1992	77,045	215,228	292,273	26%	-3%
1993	71,048	228,991	300,039	24%	3%
1994	68,042	243,047	311,089	22%	4%
1995	64,614	255,794	320,408	20%	3%
1996	60,215	249,301	309,515	19%	-3%
1997	49,426	247,637	297,063	17%	-4%
1998	60,167	255,857	316,023	19%	6%
1999	160,041	229,396	389,436	41%	23%
2000	303,065	212,616	515,681	59%	32%
2001	450,635	170,299	620,934	73%	20%
2002	544,309	144,424	688,733	79%	11%
2003	562,608	255,810	818,418	69%	19%
2004	546,948	285,608	832,556	66%	2%

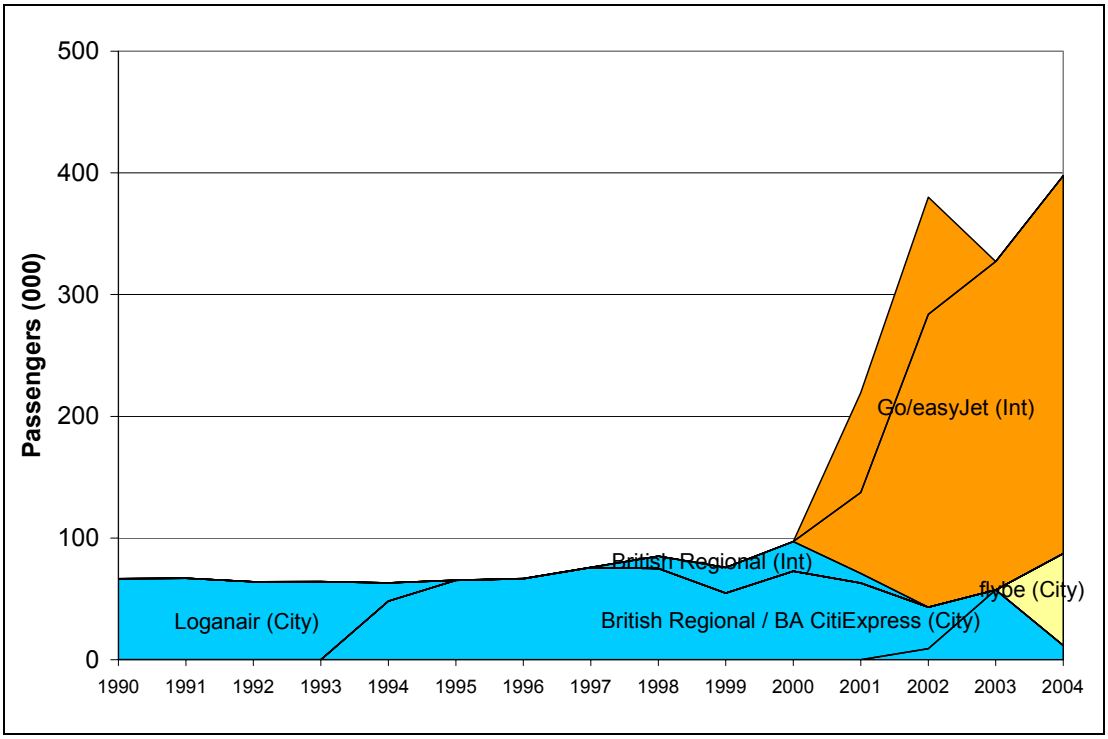
Notes: 2004 statistics are for the 12 months ending November.

Source: CAA Airport Statistics.

Impact of new entry

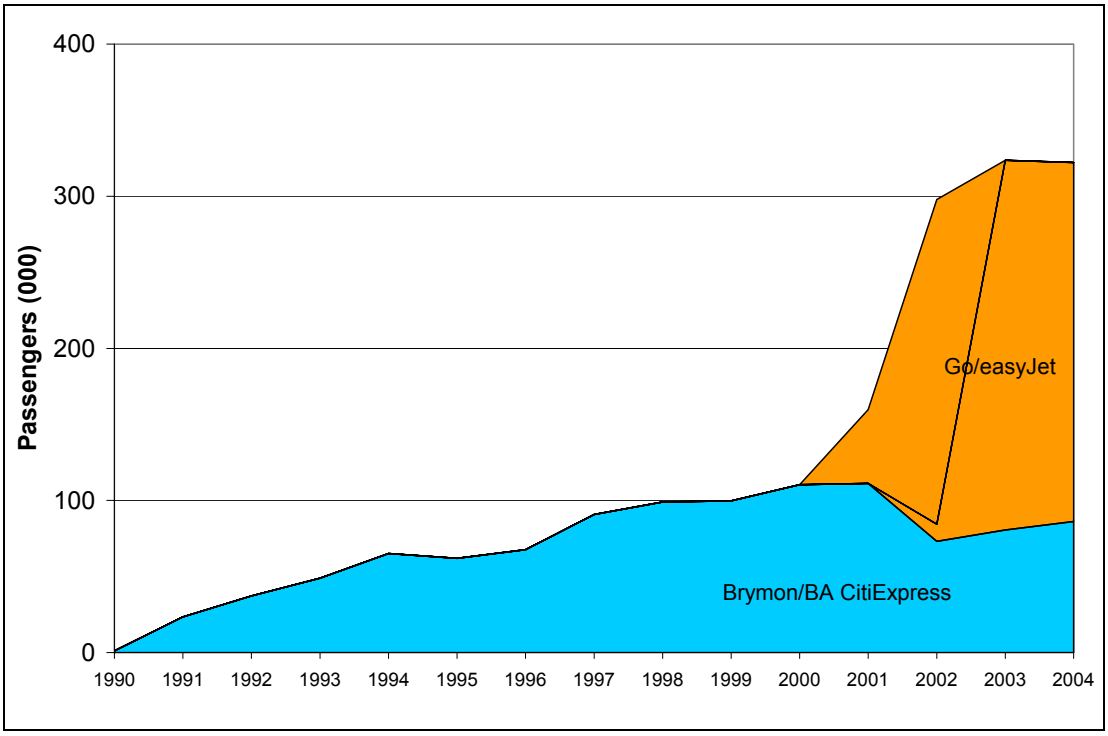
6 Figures 3.2 and 3.3 illustrate the effect of the entry of Go/easyJet on two routes between UK regional airports and the considerable stimulation of the market that has occurred. On the Belfast City–Edinburgh route BA CitiExpress has recently withdrawn and flybe has begun a service (Figure 3.2), whereas on the Bristol–Edinburgh route BA CitiExpress continues to operate (Figure 3.3). Further discussion of these routes appears in Chapter 6.

Figure 3.2 Traffic on Belfast–Edinburgh routes 1990–2004



Source: CAA Airport Statistics.

Figure 3.3 Traffic on Bristol–Edinburgh routes 1990–2004



Source: CAA Airport Statistics.

Surface transport alternatives

7 Improvements in surface transport, and in particular high-speed rail services, may have a big impact on regional air services that have no overwater sector. Aviation industry representatives suggest that on journeys of less than three hours or so, surface modes will tend to be preferred by passengers, and that the same effect has been observed in continental Europe. There must, therefore, be an expectation that surface competition will eventually play a greater role in inter-regional connections. On the other hand, road congestion is generally increasing, and many people have a poor perception of the rail network in the UK. Rail links between some regional points may also be relatively slow, perhaps requiring a change of train, compared with, say, a high-speed link to London.

8 The business model adopted by airlines such as flybe (see case study in Chapter 6) presents the opportunity to offer air services between UK regional points that are competitive with road and rail on price and which offer shorter journey times. Consequently, there is significant potential to generate new markets, particularly on any surface journey of more than a few hours. For example, depending on schedules, a weekend trip may be feasible by air but less practical by road or rail. A visit that would previously have been impractical either because of cost or because of the journey time is now a realistic possibility, and anecdotal evidence at least suggests that the entry of no-frills airlines offering low fares between regional cities may have resulted in changes in the way air travel is perceived as an alternative to surface modes.

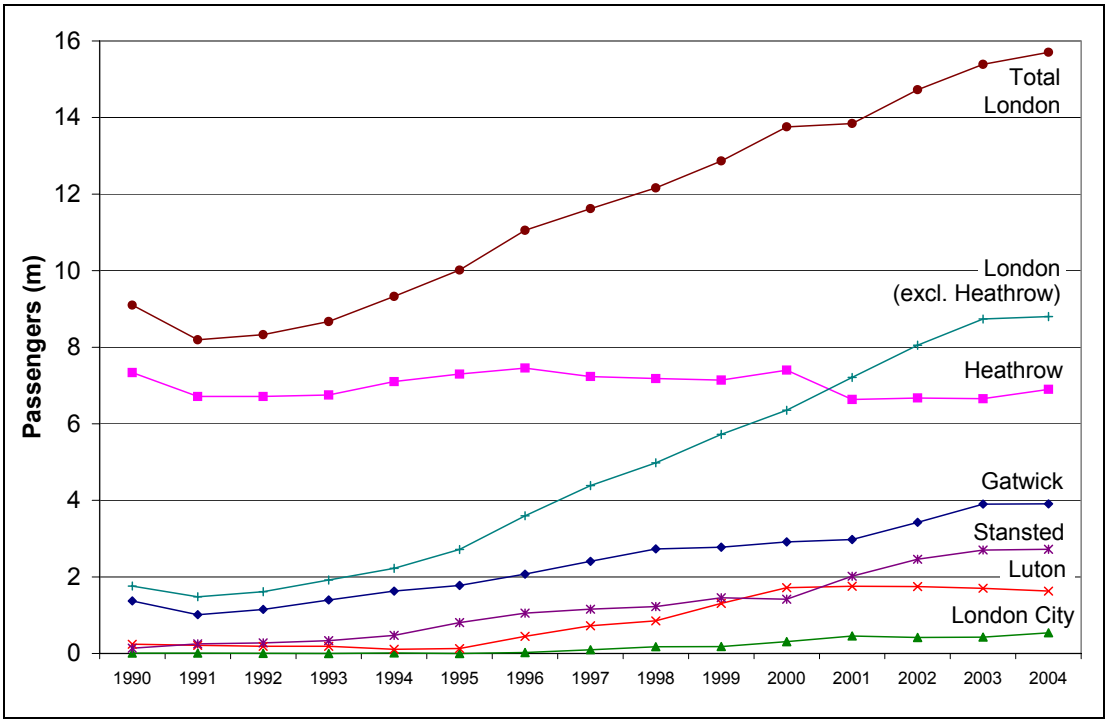
Chapter 4 Services between UK regional airports and London

1 Connections by air to London are important for any region where air travel is the only realistic option or is a feasible alternative to surface modes. They will be particularly important for regions where the surface alternative involves a journey time of several hours or more. Consequently, there is much focus on the need to maintain, expand or introduce such services. Access to Heathrow for domestic services can be particularly desirable because of the potential economic benefits from connectivity to the global air network provided by a Heathrow service. The issue of take-off and landing slots at Heathrow is discussed later in this chapter.

Developments since 1990

2 Figure 4.1 shows how traffic has developed on routes between regional airports and London since 1990. The total number of passengers has increased by 73%. Annual Heathrow domestic traffic has broadly stayed within the 6–8m band. Gatwick traffic has been gradually increasing, with strong growth between 2001 and 2003, levelling off at 3.9m passengers in 2003–2004. Stansted and Luton both grew rapidly following the entry of no-frills airlines, but domestic traffic at Luton has remained static at the 1.6–1.7m mark from 2000 onwards, while Stansted continued to grow, levelling off at 2.7m in 2003–2004. Domestic traffic at London City continues to expand and reached 0.5m in 2004. Heathrow's share of the London total exceeded the other four airports combined until 2001. In 2004 it still accounted for 44% of the London total, but this has fallen from 80% in 1990. Virtually all the recent growth has been at other London airports, partly because many of the airlines newly offering services to London from regional airports choose not to serve Heathrow for operational reasons, but also because the scarcity of capacity has constrained further expansion at Heathrow.

Figure 4.1 Traffic between UK regional airports and London



Note: Includes Isle of Man and Channel Islands routes.

Source: CAA Airport Statistics

3 Between 1990 and 2004 the number of domestic *destinations* served from Heathrow has more than halved, and the overall number of flights has declined by nearly 30% (Table 4.1). However, there is now a much wider spread of domestic services around the other four London airports, bringing travel options (often at lower prices) that did not previously exist. From those four airports, the number of flights to UK regional points has increased by about 250% since 1990.

Table 4.1 Destinations and frequency on domestic scheduled services from London: 1990 and 2004

	UK destinations served		Round trips per day	
	1990	**2004**	**1990**	**2004**
Heathrow	18	8	118	84
Gatwick	11	13	36	62
Stansted	3	12	3	36
Luton	2	6	3	20
London City	0	7	0	27
Total	**34**	**46**	**160**	**229**
Total (excluding Heathrow)	16	38	42	145
UK destinations served from London	20	21		
UK destinations served from London (excluding Heathrow)	12	19		

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

Belfast City and Belfast International, and Prestwick and Glasgow 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 an average figure and 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.

2004 statistics are for the 12 months ending November.

bmi's daily Heathrow–Inverness service, which started in March 2004, had not reached 500 flights by November. If included this will increase the number of domestic destinations served from Heathrow to nine (Aberdeen, Belfast City, Durham Tees Valley, Edinburgh, Glasgow, Inverness, Leeds Bradford, Manchester, Newcastle).

Source: *CAA Airport Statistics*

4 Overall, the number of regional destinations that are linked to London by air was slightly greater in 2004 (at 21) than in 1990 (at 20). Four destinations served in 1990 were no longer served in 2004 (Birmingham, Nottingham East Midlands, Humberside and Exeter). Five destinations gained a direct service during the same period (Blackpool, Cardiff, Dundee, City of Derry and Prestwick). The number of flights between regional airports and all five London airports increased by 43% between 1990 and 2004.

5 Table 4.2 shows in more detail which regional airports have been served from each London airport since 1990.

Table 4.2 UK regional airports served from London

	1990	1996	2002	2004
Aberdeen	Gatwick, Heathrow	Gatwick, Heathrow, Stansted, Luton	Gatwick, Heathrow, Luton	Gatwick, Heathrow, Luton
Dundee			London City	London City
Edinburgh	Gatwick, Heathrow, Stansted	Gatwick, Heathrow, Stansted, Luton, London City	Gatwick, Heathrow, Stansted, Luton, London City	Gatwick, Heathrow, Stansted, Luton, London City
Glasgow	Gatwick, Heathrow	Gatwick, Heathrow, Stansted, Luton	Gatwick, Heathrow, Stansted, Luton	Gatwick, Heathrow, Stansted, Luton
Inverness	Heathrow	Heathrow	Gatwick, Luton	Gatwick, Heathrow (a), Luton
Prestwick		Stansted	Stansted	Stansted
Belfast International	Gatwick, Heathrow, Luton	Heathrow, Stansted	Heathrow, Stansted, Luton	Gatwick, Stansted, Luton
Belfast City	Luton	Gatwick, Stansted, Luton	Gatwick, Heathrow, London City	Gatwick, Heathrow
City of Derry			Stansted	Stansted
Blackpool				Stansted
Isle of Man	Heathrow	Heathrow	Gatwick, London City, Luton	Gatwick, Stansted, Luton, London City
Liverpool	Heathrow			London City
Manchester	Gatwick, Heathrow	Gatwick, Heathrow, Stansted	Gatwick, Heathrow, Stansted, London City	Gatwick, Heathrow, Stansted, London City
Humberside	Heathrow			
Leeds Bradford	Gatwick, Heathrow	Gatwick, Heathrow	Gatwick, Heathrow	Heathrow, London City (a)
Durham Tees Valley	Heathrow	Heathrow	Heathrow	Heathrow
Newcastle	Gatwick, Heathrow	Gatwick, Heathrow, Stansted, Luton	Gatwick, Heathrow, Stansted	Gatwick, Heathrow, Stansted
Birmingham	Gatwick, Heathrow	Gatwick		
Nottingham East Midlands	Heathrow			
Cardiff				London City (b)
Exeter	Gatwick			
Newquay	Heathrow	Heathrow	Gatwick, Stansted	Gatwick, Stansted
Plymouth	Heathrow	Heathrow	Gatwick	Gatwick
Guernsey	Gatwick , Heathrow, Stansted	Gatwick, Heathrow	Gatwick, Stansted	Gatwick, Stansted
Jersey	Gatwick, Heathrow, Stansted	Gatwick, Heathrow, Stansted	Gatwick, London City	Gatwick, Stansted, London City

Notes: *Destinations are shown only if there were 500 or more one-way non-stop flights (in either direction) over the year, broadly equating to a daily weekday round-trip service. 2004 is based on the 12 months ending November. This methodology will therefore mask services that have come and gone without achieving 500 flights over the selected calendar years shown prior to 2004.*

(a) These destinations began during 2004 but will exceed 500 one-way flights based on December 2004 schedules.

(b) Suspended October 2004.

Source: *CAA Airport Statistics and December 2004 OAG World Airways Guide.*

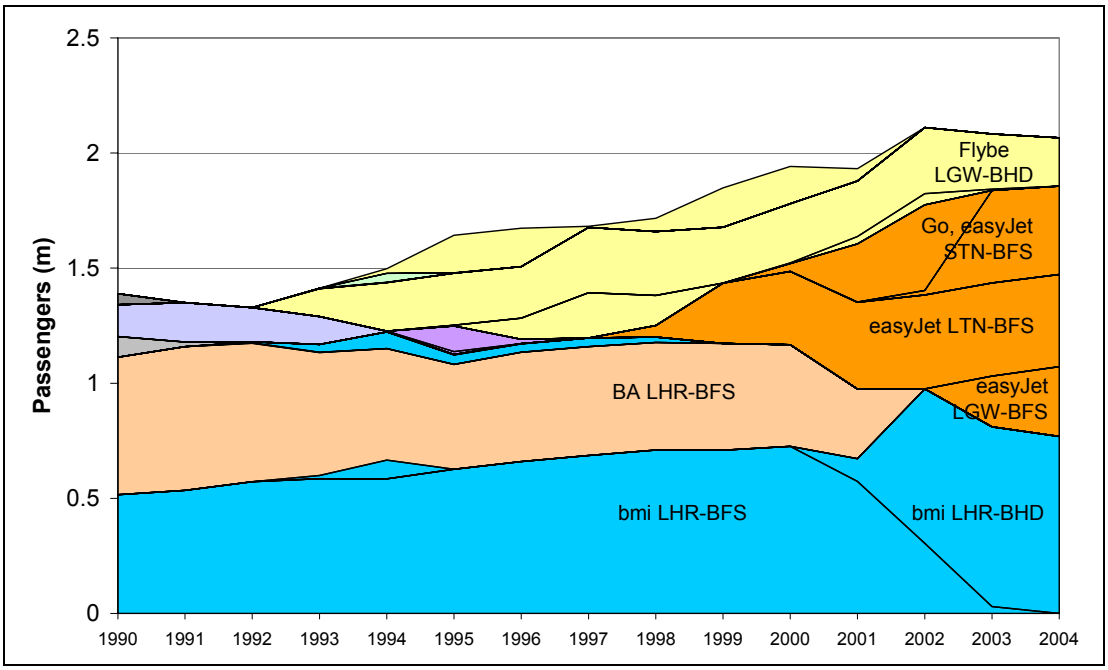
Traffic development on five regional routes to London

6 Figures 4.2 to 4.6 below show traffic development on five London routes to Belfast, Edinburgh, Glasgow, Inverness and Newcastle between 1990 and 2004. These routes have been selected because they are either the densest domestic routes or illustrate well the effect of new entry by no-frills airlines. Each coloured area represents a particular airline on a particular airport-pair, so areas of the same colour represent services by the same airline (or airline group) operated from different airports. For clarity, most of the charts label only the current operators.

7 On London–Belfast, easyJet operates from three London airports and now outcarries the other two airlines, bmi and flybe, put together. On London–Edinburgh (Figure 4.3) both BA and easyJet operate from three London airports but are in direct competition only from Gatwick; easyJet's market share in 2004 is just over a third, slightly less than BA. On London–Edinburgh and London–Glasgow (Figures 4.3 and 4.4), BA and bmi operate in head-to-head competition. There is no other head-to-head competition on London–Glasgow routes, as easyJet (with a market share of around a quarter) does not operate to Glasgow from Gatwick, but there is additional competition from Ryanair's Stansted–Prestwick service (with a market share of around one fifth). In each case the overall traffic growth is immediately apparent, even where Heathrow traffic has actually fallen (for example Belfast – Figure 4.2) or Heathrow services have been withdrawn (for example Inverness – Figure 4.5).

8 The charts show that on London–Edinburgh (Figure 4.3) and London–Glasgow (Figure 4.4) the no-frills airlines have generally stimulated traffic rather than diverted it from incumbent airlines. London–Newcastle (Figure 4.6) illustrates this quite starkly, when Go's Stansted service replaced Gill Airways' turboprop service. On London–Inverness, the entry of easyJet from Luton coincided with a decline in traffic for BA, although BA did transfer its service from Heathrow to Gatwick at the same time using a smaller aircraft. The BA service now faces direct competition from easyJet's Gatwick service as well as a new service by bmi from Heathrow. On London–Belfast, easyJet's entry had no obvious immediate effect on BA and bmi, but Heathrow traffic has declined since BA's withdrawal. The effect of the entry of no-frills airlines on fares between London and Scotland is examined later in this chapter.

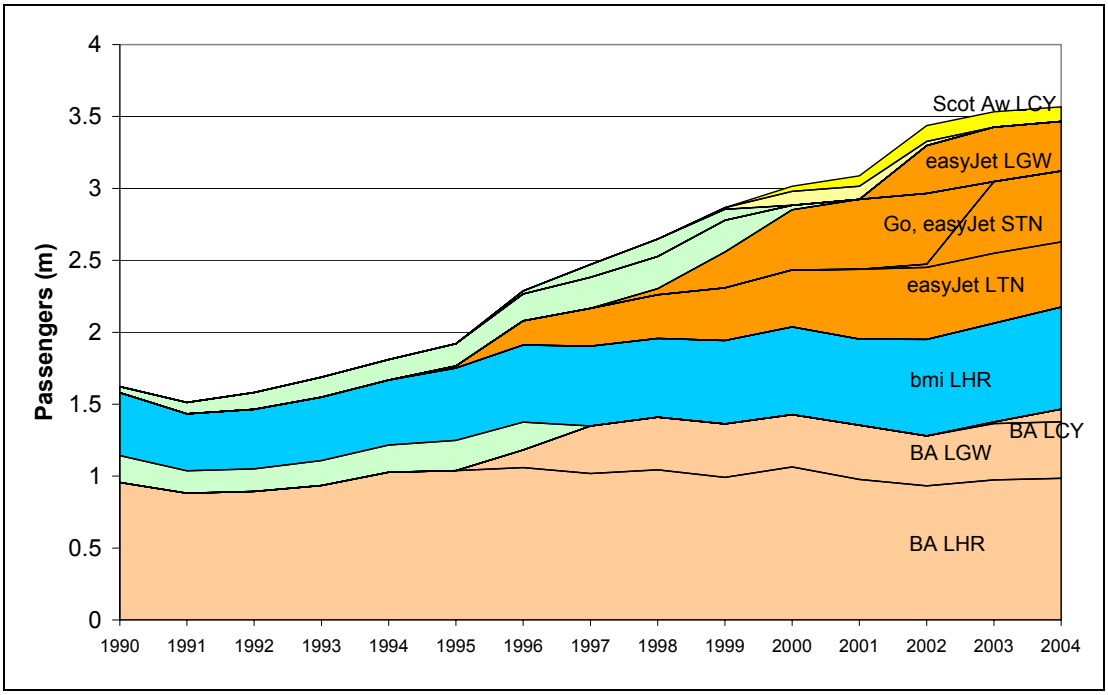
Figure 4.2 Traffic on London–Belfast routes by airport-pair 1990–2004



Notes: LHR = Heathrow LGW = Gatwick STN = Stansted LTN = Luton BFS = Belfast International BHD = Belfast City.

Source: CAA Airport Statistics (2004 statistics are for the 12 months ending November).

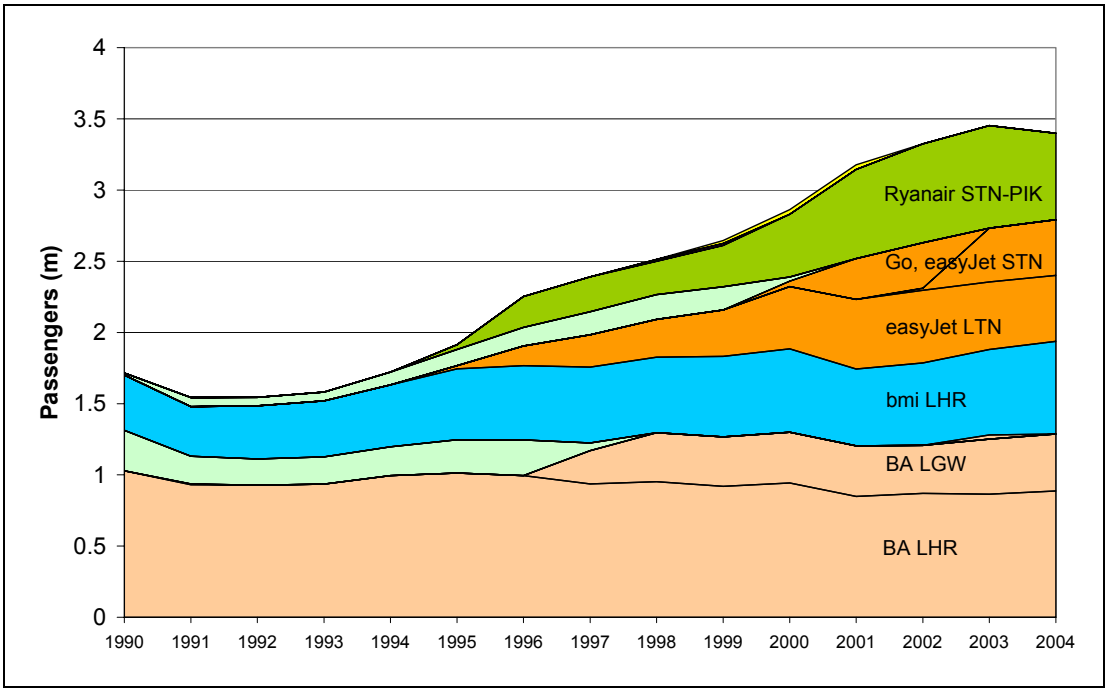
Figure 4.3 Traffic on London–Edinburgh routes by airport-pair 1990–2004



Notes: LHR = Heathrow LGW = Gatwick STN = Stansted LTN = Luton LCY = London City.

Source: CAA Airport Statistics (2004 statistics are for the 12 months ending November).

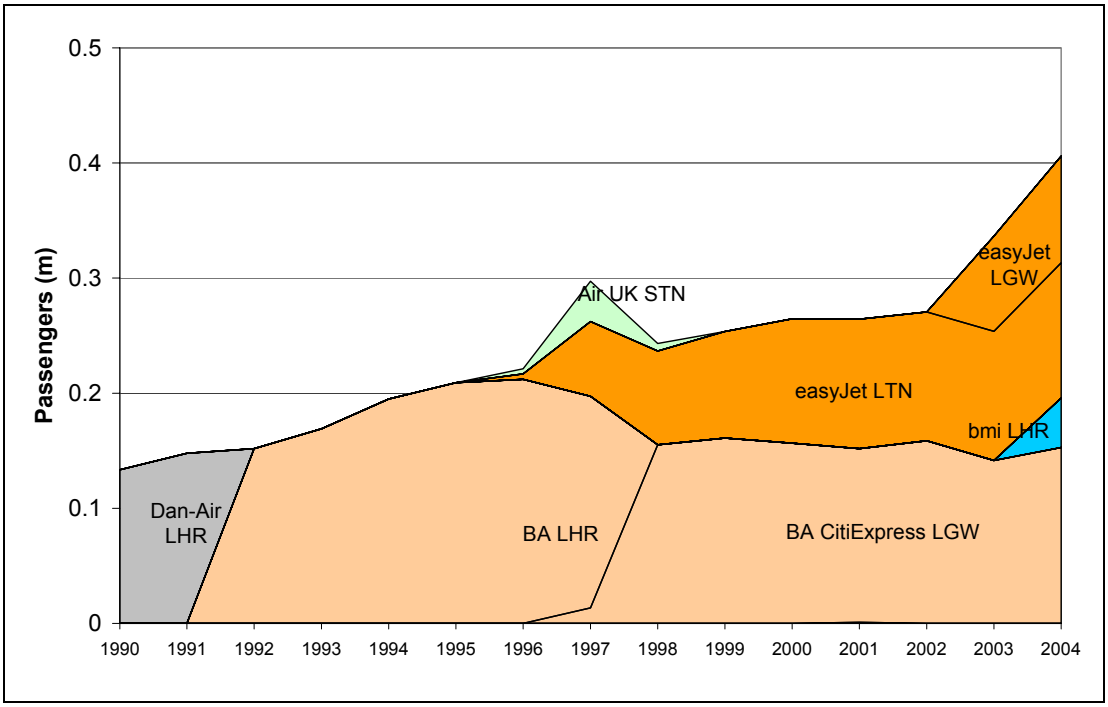
Figure 4.4 Traffic on London–Glasgow routes by airport-pair 1990–2004



Notes: LHR = Heathrow LGW = Gatwick STN = Stansted LTN = Luton PIK = Prestwick.

Source: CAA Airport Statistics (2004 statistics are for the 12 months ending November).

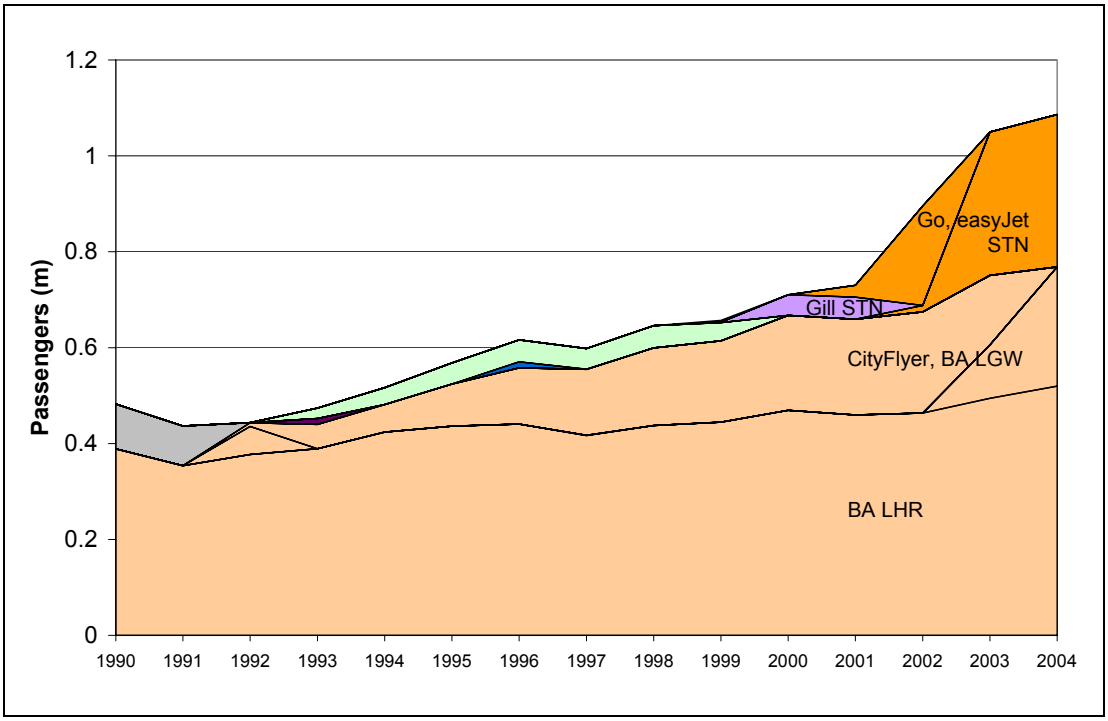
Figure 4.5 Traffic on London–Inverness routes by airport-pair 1990–2004



Notes: LHR = Heathrow LGW = Gatwick STN = Stansted LTN = Luton.

Source: CAA Airport Statistics (2004 statistics are for the 12 months ending November).

Figure 4.6 Traffic on London–Newcastle routes by airport-pair 1990–2004



Notes: LHR = Heathrow LGW = Gatwick STN = Stansted.

Source: CAA Airport Statistics (2004 statistics are for the 12 months ending November).

The recent picture

9 In the last two years, developments in overall London services from UK regions show a relatively favourable picture. Since January 2003, nine new services between UK regional airports and London have been introduced (Table 4.3). Two of these routes are from Heathrow. In the same period a further two routes have been introduced but then suspended, while only two existing routes have been suspended.

10 Two new Heathrow routes were started by bmi in March 2004 – Aberdeen five times daily and Inverness once daily. Inverness had lost its Heathrow service in 1997 when BA transferred it to Gatwick (see Case Study 3). The Aberdeen route is highly dependent on the oil industry and bmi's service faces competition from BA which operates 11 services daily, four from Gatwick and seven from Heathrow.

Table 4.3 Services between UK regional airports and London gained and lost since 2003

New routes since January 2003

		began	weekday frequency	notes
easyJet	Gatwick–Belfast International	Feb 03	3 x A319	
easyJet	Gatwick–Inverness	Feb 03	1 x A319	
Air Wales	London City–Cardiff(–Swansea)	Apr 03	2 x ATR42	a, b
Ryanair	Stansted–Blackpool	May 03	2 x 737	
BA CitiExpress	London City–Glasgow	May 03	4 x RJ100	c
BA CitiExpress	London City–Edinburgh	Oct 03	3 x RJ100	
VLM Airlines	London City–Liverpool	Feb 04	5 x Fokker 50	
bmi	Heathrow–Aberdeen	Mar 04	5 x A319/320	
bmi	Heathrow–Inverness	Mar 04	1 x A319	
bmi regional	London City–Leeds Bradford	Nov 04	4 x ATR42	
Jet2.com	Gatwick–Manchester	Jan 05	3 x 737	

Routes suspended since January 2003

		ended	weekday frequency	notes
bmi	Heathrow–Belfast International	Mar 03	3 x Fokker 100	d
BA CitiExpress	Gatwick–Leeds Bradford	Mar 03	3 x Jetstream 41	
BA CitiExpress	London City–Glasgow	Oct 03	4 x RJ100	
Air Wales	London City–Cardiff(–Swansea)	Oct 04	2 x ATR42	a

Notes: The table excludes Channel Islands and Isle of Man routes, and the Stansted–Manchester and Gatwick–Plymouth/Newquay services transferred from British Airways CitiExpress to Eastern Airways in April 2003 and Air Southwest in October 2003 respectively.

a) Swansea served via Cardiff, four days per week only.

b) Route suspended October 2004.

c) Route suspended October 2003.

d) bmi continues to operate Heathrow-Belfast City.

Source: CAA Airport Statistics, OAG World Airways Guides, airline websites.

11 The above analysis shows that services between regional airports and London as a whole have increased rather than declined and that services are being added rather than dropped. But it also shows that services to Heathrow have reduced. No other London airport enjoys the broad range and high frequency of Heathrow's connecting opportunities, and there may be some regional routes that are only viable with the combination of point-to-point and connecting traffic which Heathrow offers more than any other UK airport.

12 So, unsurprisingly, a strong message from airports and regional bodies is that Heathrow services remain important to them. However, while Heathrow access is often regarded as an important part of the overall "ideal package" of services, it would not in isolation be likely to meet all the demands of the market. There is a desire also for services to other London airports (providing competition for point-to-point passengers as well as some connecting possibilities particularly to short-haul destinations) and frequent services by "hub" carriers to one or more continental hubs (thus providing competition to the Heathrow service in markets for connecting passengers).

13 Industry representatives are generally of the view that improved high-speed, high-frequency rail services to London could pose a competitive threat to air services from some regions. For example, it remains to be seen what effect the recent West Coast Main Line upgrade (reducing the rail journey to 140 minutes or less) will have on a relatively short air route like Manchester, which in January 2005 had 19 services a day to Heathrow (and around 40 to all London airports). However, in the short term, poor public perceptions created by the recent troubles of the rail industry have helped rather than hindered air services. First Class rail fares may also be viewed as uncompetitive with air.

Case study 2: VLM Airlines

Created in 1992, the privately-owned Belgian airline VLM Airlines has focused on providing point-to-point connections between small airports close to major business markets. The airline commenced its first service from Antwerp to London City in May 1993. It is now the biggest operator at London City with daily services to Manchester, Liverpool, Rotterdam, Brussels, Luxembourg and Jersey, facilitated by the liberalised EU aviation market. Only one VLM Airlines service does not involve the UK (Rotterdam–Hamburg). The airline carried more than 500,000 passengers in 2004.

VLM Airlines offers ten flights a day to London City from Manchester and five a day from Liverpool using 50-seat turboprop Fokker 50 aircraft. The Manchester service competes with frequent services to Heathrow (19 a day) and Gatwick (10 a day from January 2005), and while Liverpool currently has no other London services, its catchment area overlaps with that of Manchester. Both routes also face competition from surface modes, and while recent problems with the West Coast Main Line rail service have boosted air traffic, the reduced journey times as the rail service improves may become more of a threat.

A large proportion of VLM Airlines' passengers (around 85%) travel on business. The airline does not see itself as competing directly with no-frills airlines, but has observed that passengers now have a greater expectation of low prices; previously passengers were choosing its services largely for the time-saving benefits, with less consideration of fare levels. With a greater emphasis now being placed on price, VLM Airlines has adopted a more flexible structure of eight one-way fare levels instead of the more limited choice of flexible and conditioned fares it was previously offering on its network.

Although primarily serving the point-to-point market, VLM Airlines times arrivals and departures at London City to allow connections. For example there is only one direct flight between Luxembourg and Manchester each day and VLM Airlines can offer an alternative routing over London City. Currently, less than 20% of bookings are made on-line, reflecting the fact that most bookings for business travellers are via corporate travel agents.

VLM Airlines has not experienced any particular barriers to entering new markets nor met with significant problems from being a Belgian airline operating within the UK.

Source: VLM Airlines' website and CAA discussions with the airline.

Fares comparison

14 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. Table 4.4 shows estimates of the average fare paid by passengers in 1990, 2001 and 2003 as recorded in the CAA passenger survey.

Table 4.4 Return fares on services between Scotland and London

UK Business

	Aberdeen			Glasgow			Edinburgh		
	1990	2001	2003	1990	2001	2003	1990	2001	2003
Heathrow	£177	£255	£230	£145	£221	£202	£148	£225	£194
Gatwick	£153	£240	£174	£137	£207	£163	£135	£196	£128
Stansted	--	--	--	£143	£111	£81	£140	£119	£90
Luton	--	£100	£110	--	£91	£84	--	£100	£91
London City	--	£245	--	--	£203	£231	--	£212	£210

UK Leisure

	Aberdeen			Glasgow			Edinburgh		
	1990	2001	2003	1990	2001	2003	1990	2001	2003
Heathrow	£115	£146	£104	£97	£90	£92	£107	£94	£90
Gatwick	£107	£113	£101	£90	£91	£90	£94	£103	£70
Stansted	--	--	--	£104	£55	£60	£98	£64	£64
Luton	--	£79	£76	--	£65	£61	--	£73	£59
London City	--	£91	--	--	£143	£107	--	£97	£115

Source: CAA O&D Surveys.

15 At Heathrow and Gatwick, the average fares paid by business travellers[1] rose by about 50% in nominal terms by 2001 compared with 1990, but fell back by 2003. At Stansted and Luton, fares paid by business travellers were about half the levels at Heathrow in 2003. Most leisure fares in 2003 were either at a broadly similar level in nominal terms as those in 1990, or have fallen.

16 Most of the new services on these routes are by no-frills airlines. The table shows that their entry has had a clear downward effect on fares, providing new low-fare options to both business and leisure passengers travelling between Scotland and London (or the South East). The effect is most noticeable at those airports where no-frills airlines are operating, but the impact of their entry also seems to have reduced the average fares paid at Heathrow between 2001 and 2003.

1. 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.

17 On Gatwick–Edinburgh, BA and easyJet are now competing head to head. Table 4.5 further refines the analysis in Table 4.4 to show the average fares paid by passengers on each airline. The table shows the effect of easyJet's entry, with BA's response to the additional competition being a reduction in its own fares.

Table 4.5 Air fares on services between Edinburgh and Gatwick

UK Business	2001	2003
BA average	£211	£163
easyJet average	£94	£98
Gatwick average (from Table 4.4)	£196	£128

UK Leisure	2001	2003
BA average	£111	£93
easyJet average	£67	£57
Gatwick average (from Table 4.4)	£103	£70

Source: CAA O&D Surveys.

Case study 3: Inverness (and the Highlands and Islands)

Air links are of crucial importance to the Highlands and Islands region, because the surface alternatives linking the region to other parts of the UK are generally poor. For example, the rail journey to London takes at least eight hours. The attractiveness of the area to businesses and to new and inward investment – and the creation of high-value jobs as a consequence – therefore depends on air services, particularly to London, and the access they give to major business centres for local companies. Good quality air links also make a peripheral region more attractive to a workforce being relocated there and can provide opportunities for inbound tourism.

Inverness is the air gateway to the Highlands. Ten years ago BA was the sole London–Inverness operator with a Heathrow service that it inherited from the takeover of Dan-Air. BA switched this service to Gatwick in 1997 and it is now operated by its CitiExpress subsidiary using smaller aircraft. The Gatwick service has three rotations a day, timed so that business passengers from Inverness can do a full day's work in London (the service from Gatwick is less well timed, giving around six hours in Inverness). easyJet began a daily service from Luton in late 1996 and more recently a daily service from Gatwick in 2003. From March 2004 bmi added a daily Heathrow service. All three services operate in the middle of the day.

BA's switch to Gatwick caused considerable controversy in the region, primarily because of the fewer connecting possibilities that Gatwick offers compared with Heathrow, although the BA service was still regarded as of great importance. There is concern in the region that the Gatwick service itself may be lost, and in 2001 the Scottish Executive asked the Government to impose a Public Service Obligation to protect the Gatwick service, although no such PSO has been imposed. (There are 16 PSOs currently imposed on routes within the Highlands and Islands – see Chapter 8.) Despite the loss of the Heathrow service, aggregate passenger numbers between Inverness and London have continued to grow.

Case Study 3 contd.

The region is very keen to retain the BA brand because of its global visibility, the interlining and codeshare possibilities it provides, and the associated prestige that this brings to the region. CAA survey data shows that in 2003, 41% of passengers on the BA route were connecting in London, compared with 9% and 25% on the easyJet Luton and Gatwick services respectively.

Inverness Airport believes that (having a relatively strong propensity to use air services) the relatively small population (around ¼m) could support an international service if there was sufficient inbound traffic. Air UK began an Amsterdam service in 1997 alongside a service to Stansted, but both were withdrawn a year later. Snowflake, a division of SAS, began a twice weekly Inverness–Stockholm service in March 2004 with funding from the Scottish Route Development Fund (RDF). There proved to be a market for Scandinavian tourists, but few Scots travelled to Stockholm. A Dash 8 operation had originally been planned, but because of aircraft availability much larger MD81 aircraft were used. Load factors of less than 50% indicated that these aircraft were too large for the route, at least in its early stages. The service was suspended at the end of July 2004, having carried less than 3,000 passengers, and Inverness again has no international scheduled services.

The difficulties in attracting international services to Inverness makes the link to London that much more important to the region. But, overall, access for the region to London has improved considerably. The entry of easyJet has boosted services and injected an important element of price competition that has resulted in lower fares. Traffic has nearly doubled in the last 10 years, as illustrated by Figure 4.5. The access to Heathrow provided by the new bmi service – started, like the easyJet routes, without RDF assistance – is not as good as in the past, but does provide some connecting possibilities, for example with inbound flights from the USA. As well as links to Loganair's comprehensive network within Scotland, including its Highlands and Islands network, Inverness is also served three times daily from Manchester and Birmingham by Eastern Airways using Jetstream turboprops, the latter route aided by RDF funding.

The terminal building at Inverness Airport was built under a PFI contract by a private company and is paid for by way of a levy per passenger and income from the car park and concessions. In some quarters it is felt that this deal constrains the airport's own commercial freedom.

Source: CAA discussions with Highlands and Islands Airports Ltd, airlines and regional bodies.

Access to Heathrow

18 Although the links from UK regional airports to European and other international destinations have increased over recent years and brought considerable benefits, the link to London – and especially to Heathrow – remains important for domestic and transfer passengers and for regional economies. Indeed, some regions expressed the view that guaranteed Heathrow access was an essential part of their economic development package.

19 As has been observed earlier, even where regional services from Heathrow have reduced somewhat, the links to London overall have increased. And, despite the increasingly competitive nature of short-haul markets, there has not been any *recent* loss of UK regional services to Heathrow. Indeed, in 2004 bmi began two Heathrow services to Aberdeen and Inverness, both markets where easyJet is an established

operator from Gatwick or Luton. Heathrow remains a prime UK transfer point, especially for passengers connecting to long-haul flights, even though there are now good connections from many regional airports to other European hubs. It is also of course an important airport for point-to-point traffic, particularly because of its proximity to central London, to west London business and population centres and to the M4 corridor and, to a lesser extent, the M40 corridor.

20 Loss of a Heathrow link may be a particular disbenefit for connecting passengers and thus for a region's wider economic interests. Congestion has created a scarcity of suitable take-off and landing slots at Heathrow and made those slots more valuable. Airlines are able to switch slots to other services, and their motivation stems less from unprofitability of domestic services than their being potentially less profitable than an alternative use of the scarce slots, especially when an airline with domestic services cannot expand its slot portfolio. The difficulties of access to Heathrow are therefore essentially a result of scarce capacity at Heathrow, not at regional airports where infrastructure is generally not a major constraint, at least as regards incremental development at existing locations.

21 The intrinsic value of Heathrow slots and airlines' ability to switch them to other services creates tensions. Some regions feel frustrated in their wish to see access re-established, or believe that their existing service to Heathrow is under threat. Opinions in the industry differ as to how real that threat is. BA and bmi have been the only operators of domestic services to Heathrow since 2002 (Table 4.6). Both say they are fully committed to regional services, which form an important part of their networks, in particular feeding their own and alliance partners' services at their hub. That said, no airline can give a cast-iron guarantee to continue serving a route, as commercial considerations sometimes require hard choices, for example if another airline were to add excessive capacity. Demand patterns can also change, for example if a big corporate user on a particular route shrinks its operations. The impact of the introduction of formalised slot trading on regional services from Heathrow is discussed in Chapter 8.

Table 4.6 Scheduled flights between UK regional airports and Heathrow 1992–2004

Airline	1992	1994	1996	1998	2000	2002	2004
BA	41,911	40,664	40,384	37,942	37,053	30,771	31,341
bmi	28,930	23,847	23,974	28,023	27,231	29,103	29,169
Manx	2,006	1,961	1,971	1,965	1,961	475	
KLMuk	2,729	2,724	2,764	635			
Brymon	2,307	2,335	2,652				
British Regional		1,803					
Total	**77,883**	**73,334**	**71,745**	**68,565**	**66,245**	**60,349**	**60,510**

Notes: 2004 statistics are for the 12 months to November.

Brymon became a BA subsidiary in 1993; British Regional and Manx were taken over by BA in 2001.

The total covers only the airlines shown; there were a small number of other flights reported as domestic over the period.

Source: CAA Airport Statistics.

22 There may be other pressures on Heathrow services. The development of much improved networks from regional airports as described in Chapter 2 will reduce the number of passengers that need to travel to Heathrow for connecting flights. This will tend to reduce the number of connecting passengers travelling on domestic Heathrow services, which can represent a substantial and valuable proportion of the total traffic on such routes. Heathrow is also subject to strict night noise restrictions and any tightening of those restrictions, squeezing flights in the early morning or late evening, could have knock-on effects to feed traffic.

23 bmi has a sizeable slot holding at Heathrow, but has in the past withdrawn domestic services (such as Liverpool–Heathrow in 1992) in order to mount new services elsewhere. In the last few years bmi has had aspirations for long-haul services from Heathrow, and has recently announced its first such route to Mumbai. However, bmi stated in its evidence to the CAA public hearing on UK/India routes that if it were to be granted rights (for which it would require Heathrow slots) it was not its intention to reduce frequency on any of its UK regional services to Heathrow in order to serve Mumbai.

Chapter 5 Connections to the global network

1 Even with the much wider range of destinations now served from UK regional airports, it is unlikely they could ever match the range of a major hub airport, particularly to more distant destinations. Passengers requiring connections to this global air network have the option of travelling by surface to a hub, or picking up a connecting flight to a hub from a regional airport closer to home.

2 Table 5.1 illustrates the relative importance of the different European hubs for passengers travelling from a given UK regional airport. In relation to short-haul passengers, the table suggests that Heathrow is now less important as a connecting hub for passengers. By 2001, Heathrow's share had fallen to between a quarter and a third of the total short-haul connectors from a sample of regional airports. This results from a combination of the increase in direct services from regional airports, as explained in Chapter 2, and other hub airports providing connections, as shown in the tables later in this chapter.

3 Heathrow does, however, remain a prime transfer point, especially for passengers connecting to long-haul flights and for those using regional airports without links to foreign hubs.

Table 5.1 Hub share of passengers from regional airports who connect en route

Short-haul destinations				Long-haul destinations			
		1990	**2001**			**1990**	**2001**
Edinburgh	Heathrow	73%	24%	Edinburgh	Heathrow	70%	57%
	Gatwick	8%	11%		Gatwick	23%	6%
	Other hubs	19%	65%		Other hubs	7%	37%
		100%	100%			100%	100%
Glasgow	Heathrow	56%	33%	Glasgow	Heathrow	40%	48%
	Gatwick	9%	9%		Gatwick	13%	9%
	Other hubs	35%	58%		Other hubs	47%	43%
		100%	100%			100%	100%
Aberdeen	Heathrow	58%	36%	Aberdeen	Heathrow	58%	41%
	Gatwick	11%	14%		Gatwick	29%	20%
	Other hubs	31%	50%		Other hubs	13%	39%
		100%	100%			100%	100%
		1994/95	**2001**			**1994/95**	**2001**
Newcastle	Heathrow	49%	25%	Newcastle	Heathrow	60%	55%
	Gatwick	7%	11%		Gatwick	12%	14%
	Other hubs	44%	64%		Other hubs	28%	31%
		100%	100%			100%	100%

Notes: Figures for Scottish airports include only those passengers whose surface origin is in Scotland.

Figures for Newcastle include only those passengers whose surface origin is in the Northern planning region.

In both cases this captures the majority of users at these airports.

Source: CAA O&D Surveys at regional airports.

4 Table 5.2 summarises the extent to which principal European hubs are connected to the UK regions, and compares the general position in 2003 with 1990. The specific position in May 2003 is examined in more detail by UK airport in Table 5.3.

Table 5.2 Services from UK regional airports to European hubs, 1990 and 2003

	UK destinations served		Average round trips per day	
	1990	2003	1990	2003
Amsterdam	15	16	35	71
Paris CDG	9	11	19	46
Frankfurt	2	4	7	18
Brussels	6	8	12	22
London Heathrow	18	8	118	79

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.

The links to Brussels have since declined following the collapse of Sabena.

Source: CAA Airport Statistics.

Table 5.3 Services from UK regional airports to European hubs, 2003

	Round trips per day							
	Heathrow	Amsterdam	Paris	Brussels	Frankfurt	Copen-hagen	Milan	Rome
Aberdeen	6.3	3.0	2.5	–	–	–	–	–
Belfast Int.	–	1.0	–	–	–	–	–	–
Belfast City	7.5	–	–	–	–	–	–	–
Birmingham	–	7.4	9.9	4.1	7.0	4.0	2.4	1.0
Bristol	–	3.5	5.5	1.9	0.8	–	–	–
Cardiff	–	3.8	1.5	–	–	–	–	–
Durham Tees V.	2.5	3.0	–	–	–	–	–	–
Edinburgh	18.0	7.8	5.2	2.4	3.0	1.7	–	–
Glasgow	17.7	5.0	–	–	–	1.0	–	–
Humberside	–	3.7	–	–	–	–	–	–
Leeds Bradford	4.0	5.7	2.4	2.1	–	–	–	–
Liverpool	–	4.6	3.0	–	–	–	–	–
Manchester	17.0	9.5	10.0	5.0	7.5	2.8	1.7	1.7
Newcastle	5.4	4.8	2.5	2.6	–	–	–	–
Norwich	–	3.8	–	–	–	–	–	–
Nottingham EMA	–	1.7	1.8	1.7	–	–	–	–
Southampton	–	2.8	2.2	1.4	–	–	–	–
Total	78.3	71.2	46.6	21.1	18.3	9.5	4.1	2.7
Airports served	8	16	11	8	4	4	2	2

Source: OAG database of BACK Information Services, May 2003.

5 The European hubs can offer attractive options for passengers to connect to global networks. Table 5.4 shows the numbers and proportions of passengers who connect at hub airports on a sample of routes from UK regional airports.

Table 5.4 Connecting traffic on routes to major European hubs

		Heathrow	Amsterdam	Paris	Frankfurt	Brussels
Birmingham	Connecting Passengers (000s)	Not served	126	68	75	29
	% of total passengers on route		47%	22%	39%	24%
Bristol	Connecting Passengers (000s)	Not served	48	22	None recorded	6
	% of total passengers on route		40%	22%		17%
Cardiff	Connecting Passengers (000s)	Not served	74	1	Not served	Not served
	% of total passengers on route		68%	1%		
Edinburgh	Connecting Passengers (000s)	561	184	56	80	81
	% of total passengers on route	36%	43%	38%	79%	55%
Manchester	Connecting Passengers (000s)	789	230	198	161	15
	% of total passengers on route	57%	48%	37%	47%	8%
Newcastle	Connecting Passengers (000s)	243	135	52	Not served	58
	% of total passengers on route	55%	62%	53%		56%

Notes: The survey data for Birmingham, Bristol and Cardiff covers only the period from April to December 2003.

Source: CAA O&D Survey 2003 (2001 for Edinburgh and Newcastle).

6 Table 5.4 indicates that where a service exists, Heathrow remains the most popular connecting point for passengers travelling from the UK regions. Although Birmingham, Bristol and Cardiff have no Heathrow service, the relatively small number and proportion of connecting passengers on some services from those airports to European hubs might suggest that a significant number of passengers are travelling by surface to Heathrow to connect to long-haul services, rather than travelling via Europe.

7 The proportion of connecting passengers on the routes to foreign hubs depends largely on the airline involved. For example, Cardiff–Paris was operated by BA CitiExpress, whereas Cardiff–Amsterdam and Edinburgh–Frankfurt were operated by (or under the code of) the hubbing carriers, KLM and Lufthansa.[1]

8 Table 5.5 extends the analysis in Table 5.4 and examines at the airline level what proportion of passengers on a route to a hub airport are connecting at that airport. Although survey data can involve sampling errors at this level of detail, the results are

1. BA also operated on Manchester–Amsterdam, Manchester–Frankfurt and Manchester–Brussels, while easyJet operated on Edinburgh–Amsterdam, bmi regional on Edinburgh–Brussels and flybe had a relatively small service on both Edinburgh–Brussels and Newcastle–Brussels.

nevertheless quite revealing. Airlines best placed to provide the connectivity are those that are based at the hub airports concerned. While other full-service airlines will participate in the IATA multilateral interline system[2] that gives the same access to the global network, they are carrying relatively small amounts of such traffic. Airlines compete aggressively for connecting passengers, particularly those travelling to long-haul destinations. As a general principle, airlines will offer lower fares where travel on both connecting flights is on their services (or those of alliance partners) than they will where part of the journey (and therefore part of the revenue[3]) is lost to another airline (i.e. when a passenger is travelling on an interline ticket using the IATA system).

Table 5.5 Proportion of connecting passengers on services to European hubs – comparison of hub airlines with other airlines

% of passengers connecting at Amsterdam

Route	Hub airline		Other airlines	
Birmingham	KLM	52%	MyTravel Lite	---
Bristol	KLM	41%	easyJet	---
Manchester	KLM	58%	BA	5%
Heathrow	KLM	43%	BA 1%,	bmi 3%
London City	KLM	38%	n/a	
Cardiff	KLM	68%	n/a	
Liverpool	n/a		easyJet	1%
Nottingham EMA	n/a		bmibaby	10%
Gatwick	n/a		BA 4%,	easyJet 0%

% of passengers connecting at Brussels

Route	Hub airline		Other airlines	
Birmingham	SN Brussels	25%	flybe	---
Manchester	SN Brussels	9%	BA	8%
Bristol	SN Brussels	17%	n/a	
Gatwick	SN Brussels	---	BA	3%
Nottingham EMA	n/a		bmi 4%,	bmibaby 0%
Heathrow	n/a		BA and bmi	both 2%
London City	n/a		VLM	2%

2. This system involves a commitment between airlines regarding the carriage of passengers on journeys involving more than one airline. It includes travel on a single ticket, purchased in one transaction, with the ability to book flights through travel agents anywhere in the world through Global Distribution Systems (GDSs); the through checking of baggage; the charging of "through fares", and the shifting of fare revenue to and from interline partners by way of a clearing house and agreements on how to divide the revenue (proration).

3. Possibly a disproportionate amount, depending on the prorate agreement that divides the revenue on an interline ticket between the airlines.

Table 5.5 Proportion of connecting passengers on services to European hubs – comparison of hub airlines with other airlines (contd.)

% of passengers connecting at Frankfurt

Route	Hub airline		Other airlines	
Birmingham	Lufthansa	53%	BA	9%
Manchester	Lufthansa	58%	BA	16%
Heathrow	Lufthansa	52%	BA	5%
London City	Lufthansa	26%	BA	2%
Bristol	n/a		BA	0%

% of passengers connecting at Paris

Route	Hub airline		Other airlines	
Birmingham	Air France	35%	BA	2%
Bristol	Air France	33%	BA	10%
Cardiff	n/a		bmibaby	1%
Manchester	Air France	51%	BA	6%
Heathrow	Air France	36%	BA 3%,	bmi 1%
London City	Air France	33%	BA	1%
Nottingham EMA	n/a		bmibaby	1%
Gatwick	n/a		BA	5%

Notes: The survey data for Birmingham, Bristol, Cardiff, Liverpool and Nottingham East Midlands covers only the period from April to December 2003.

Source: CAA O&D Survey 2003.

9 A no-frills airline such as Ryanair tends not to serve hub airports at all, thus keeping costs lower and confining most operations to secondary airports that can ensure lower charges and a fast turnround for aircraft. Even where no-frills airlines do serve continental hub airports with connecting possibilities, Table 5.5 suggests that in most cases their passengers are not connecting there. No-frills airlines' schedules are generally designed to maximise point-to-point traffic and to make best use of the aircraft, rather than to ensure convenient connections onto other flights.[4] Also, a no-frills airline will generally not participate in the IATA multilateral interline system.[5]

"Self-interlining"

10 Because no-frills business models generally exclude participation in the interline system, passengers wishing to connect from or to a no-frills airline must reclaim baggage and check in again at the airport where they are making the connection. For long-haul connections, where hold baggage is more likely to be needed, this process is likely to require several hours (and realistically, more would need to be allowed for

4. A notice to passengers on Ryanair's website states "You should…not book onward flights with Ryanair or indeed with any other air or surface carrier."
5. There are exceptions. For example, flybe interlines with other airlines and its flights are bookable through the GDS; while bmibaby's flights and fares are visible and bookable in the Galileo GDS but it does not interline.

in case the first flight was delayed), instead of the typical 45–75 minutes minimum connecting time for an interline journey where passengers and baggage are checked through at the point of origin. For short-haul connections it is more likely that the passenger will have only carry-on baggage and, particularly at an airport such as Stansted, which offers quite high frequencies to European destinations, the process may be quicker and easier and so more feasible. Even so, "self-interlining" passengers will be travelling on tickets purchased separately for each sector, which means that if the first flight is delayed and the connection missed, the first airline will take no responsibility, and a non-refundable ticket on the second sector may be unusable.

11 The increased use of the internet to plan journeys and make bookings, and the general awareness of the potential for low fares using no-frills airlines, means that passengers are generally more alive to constructing their own itinerary and the possibilities of buying two separate tickets if they need to.

12 Data on such interlining is difficult for the industry to obtain, because the separate transactions for each sector on an itinerary constructed by the passenger can only be detected by origin/destinations surveys, whereas a multi-sector journey booked through a GDS will generate an automated record. Anecdotal evidence from airlines and airports – and survey data – indicates that some "self-interlining" or "self-intralining" is taking place, at least at Luton or Stansted, where passengers are seeking out low fares and there is a relatively wide choice of destinations. Indeed, CAA survey data for 2003 shows that around 14% of passengers using Stansted connected to another flight there – a total of 2.5m passengers. Table 5.6 uses survey data to analyse the proportion of passengers on regional routes to London that are using London as a connecting point.

Table 5.6 Connecting traffic at London airports from UK regional airports, 2003

			% of passengers on the route connecting at London airport				% of passengers on the route connecting at London airport
Aberdeen	Gatwick	BA	43%	Belfast Int	Gatwick	easyJet	13%
	Heathrow	BA	44%		Heathrow	bmi	28%
	Luton	easyJet	11%		Luton	easyJet	11%
					Stansted	easyJet	12%
Edinburgh	Gatwick	BA	33%				
	Gatwick	easyJet	22%	Belfast City	Gatwick	flybe	25%
	Heathrow	BA	46%		Heathrow	bmi	37%
	Heathrow	bmi	33%				
	Luton	easyJet	11%				
	Stansted	easyJet	22%	Manchester	Gatwick	BA	41%
	London City	ScotAirways	15%		Heathrow	BA	66%
					Heathrow	bmi	50%
Glasgow	Gatwick	BA	35%		London City	VLM	33%
	Heathrow	BA	50%				
	Heathrow	bmi	39%	Durham	Heathrow	bmi	48%
	Luton	easyJet	11%				
	Stansted	easyJet	18%	Newcastle	Gatwick	BA	50%
					Heathrow	BA	54%
Inverness	Gatwick	BA	41%		Stansted	easyJet	26%
	Gatwick	easyJet	25%				
	Luton	easyJet	9%				
Prestwick	Stansted	Ryanair	19%				

Source: CAA O&D Survey 2003.

13 Table 5.6 shows a fairly consistent pattern – there is a higher proportion of connecting passengers on full-service airlines that participate in the multilateral interline system. This proportion is typically between one third and one half of passengers, and is at its highest on shorter routes – that is, those where point-to-point passengers are more likely to use surface alternatives and thus make up a smaller proportion of the traffic mix. But what is of interest is that no-frills airlines easyJet and Ryanair are carrying a significant proportion of passengers connecting at London airports, between 9% and 26%. There are noticeably higher proportions on Gatwick and Stansted routes than the 9%–11% on Luton routes.

14 However, for inbound, particularly long-haul, passengers, the ability to through-ticket and interline may be more important. A passenger in a different part of the world, perhaps where no-frills airlines are not common, is more likely to be reliant on buying a ticket from a traditional travel agency or the national carrier. Although self-interlining is certainly a possibility, it would require some prior knowledge to establish the existence of a no-frills airline, and then to know how to buy a separate ticket for the final sector of the journey to a UK regional airport.

Connections via airports other than Heathrow

15 The issue of connections with the global air network also gives rise to some interesting observations by the industry on the visibility and perceptions of connecting airports. Regional bodies and regional airports have expressed their desire for frequent air links to Heathrow by a full-service airline with a worldwide brand that allows connections to the extensive network there. Gatwick seems to be regarded by some as a poor substitute for Heathrow and comparable in terms of connectivity with Stansted or Luton. There does not seem to be much support for regarding another large continental hub like Amsterdam or Paris as a complete substitute for Heathrow, only as a complementary hub to provide competition for long-haul destinations. This seems to be backed up by CAA survey data that shows relatively little traffic travelling via continental hubs in preference to Heathrow (see Table 5.4). Yet the analysis below shows that connecting times via these hubs can be highly favourable, at least when comparing best connections for flights to major long-haul points. This may point to a perception or familiarity issue as much as a need for an improvement in services.

16 Table 5.7 shows, for a given day in September 2004, the difference in minutes between the shortest journey times for outbound connecting travel from three UK regional airports to five major long-haul destinations via Amsterdam relative to a connection via Heathrow. In each case travel is on-line; that is, on the services of the same airline (or alliance). The information is taken from Worldspan, one of the four main GDSs used by travel agents worldwide.

Table 5.7 Shortest elapsed journey times from UK regional points to long-haul destinations – on-line connections via Amsterdam relative to Heathrow

To:	From: Edinburgh via Amsterdam	From: Aberdeen via Amsterdam	From: Newcastle via Amsterdam
Los Angeles	+115 mins	+65 mins	+120 mins
New York	+15 mins	-15 mins	+35 mins
Singapore	+45 mins	-30 mins	-35 mins
Tokyo	+10 mins	-90 mins	-70 mins
Johannesburg	+0 mins	-20 mins	-30 mins

Source: Worldspan Global Distribution System, September 2004.

17 The table shows that, for this sample, all the connections from Edinburgh are faster or as fast via Heathrow than via Amsterdam. The same is true if a similar exercise is carried out for travel from Glasgow, although this is not shown in the table. This is perhaps not surprising given the high frequency of services from Edinburgh and Glasgow to Heathrow. But in respect of Aberdeen and Newcastle, the fastest connections are via Amsterdam – except to US points where geography dictates some backtracking – in some cases saving more than an hour compared with Heathrow. It should be recognised that this analysis takes no account of the greater number of schedule options that Heathrow may offer on journeys where there is a greater density of long-haul flights at Heathrow.

18 Analysis of similar data for connections over Frankfurt and Paris shows that in certain cases these hubs can also offer journey times comparable with Heathrow, as can connections over Manchester (for example Newark/New York JFK, Singapore) and

Birmingham (Newark). A detailed analysis of journey times from Edinburgh for a given day in April 2004 showed that to Singapore the quickest journey was via Frankfurt, 50 minutes quicker than via Heathrow, while a journey via Manchester was only 25 minutes longer than the quickest connection via Heathrow. Repeating the analysis for Los Angeles, Tokyo and Johannesburg, a connection via Frankfurt took 20–30 minutes more than the quickest connection via Heathrow, and a connection via Paris took just over an hour more.

Summary

19 The growing role for regional airports, the increased density of services and greater variety of available destinations should mean that the proportion of regionally originating traffic relying on connections via London will reduce. Coupled with this, many regional airports, even those with no link to London, have retained services to an alternative hub such as Amsterdam. Therefore even where a direct service is not offered, competitive connecting times to many destinations are possible without the need to travel via London. These effects should go some way towards reducing (although not eliminating) the importance of Heathrow specifically, and London generally, as a connecting point.

Chapter 6 Developments in regional services – the airline perspective

1 Earlier chapters have set out how regional services have expanded faster than London services, not just in terms of the volume of passengers, but, importantly for the regions, also in terms of destinations served. Chapters 2 to 4 explained how these changes have impacted on services from regional airports to Europe and long-haul points, between regional airports, and from regional airports to London. The most dramatic changes have occurred where no-frills airlines have entered the market on short-haul scheduled routes, offering low fares with relatively few travel restrictions. This chapter discusses these developments in the short-haul market in more detail, from the airline perspective.

The changing structure of the regional airline market

2 Until the second half of the 1990s, the type of airlines offering services from UK regional airports conformed to a relatively stable pattern, which for the various types of regional air services can broadly be summarised as:

- *domestic scheduled services to London* – operated by larger network airlines like BA and bmi as well as smaller regional airlines, primarily to Heathrow and Gatwick, serving the point-to-point market and also providing onward connections to the extensive networks from those airports;
- *domestic scheduled services between UK regional airports* – usually operated either by regional subsidiaries or franchises of the network airlines, or by independent regional airlines, linking major UK population or business centres, or points with strong industry connections, or peripheral areas to the mainland via overwater routes;
- d*irect international scheduled services* – operated by larger network airlines or their subsidiaries, these included some short-haul routes to prime business destinations from the bigger regional airports, airlines feeding traffic to continental hubs such as Amsterdam for onward connecting flights, and some limited long-haul services;
- *charter airlines contracted by tour operators* for flights to popular, mainly short-haul, holiday destinations.

3 Since then, the pattern has changed as no-frills scheduled airlines, in particular easyJet, Ryanair and flybe, have entered these short-haul markets – including some previously served by charter airlines – to such an extent that in terms of regional air services they have, in less than a decade, become major players comparable in size with established airlines such as BA and bmi (albeit that the no-frills airlines do not serve Heathrow).

4 This change is illustrated in Table 6.1, which shows the relative sizes and networks of airlines operating scheduled services from UK regional airports for the 12 months ending August 2004.

5 The table is arranged in order of total scheduled passengers by airline or airline group, and by airport.[1] It shows that the biggest operator at regional airports is easyJet with 13.1m passengers arriving or departing at nine UK regional airports over the year. BA and BA CitiExpress together account for 10.9m and bmi, bmibaby and bmi regional collectively account for 8.5m. The next biggest are Ryanair (4.8m) and flybe (4.4m). These are followed by KLM and KLM Cityhopper (2.7m), which is by far the biggest operator at UK regional airports without a significant UK base, serving 12 airports from its Amsterdam hub compared with five served by Aer Lingus, four by Air France and three by Lufthansa.

1. The table covers UK and Isle of Man airports reporting statistics, and therefore omits Channel Islands airports.

Table 6.1 Principal scheduled airlines serving UK regional airports

	Scheduled Passengers(000s)												
	All regional airports	Manchester	Edinburgh	Birmingham	Glasgow	Belfast Int.	Bristol	Liverpool	Newcastle	Nottingham	Prestwick	Aberdeen	Belfast City
All airlines	59,889	11,839	7,265	6,286	5,686	3,325	3,122	2,851	2,845	2,689	2,009	1,986	1,886
(i) UK airlines (or those with significant UK base)													
easyJet (a)	13,143	---	2,141		1,576	2,745	2,012	2,235	1,249	813		158	
British Airways	*5,623*	*1,428*	*1,398*	---	*1,292*				*769*			*726*	
British Airways CitiExpress	*5,299*	*1,813*	*506*	*1,114*	*390*		*346*	*63*	*5*			*158*	*68*
British Airways (total)	10,922	3,241	1,904	1,114	1,682		346	63	775			884	68
bmi (c)	*5,481*	*1,178*	*898*		*742*	*205*	---			*815*	*42*	*95*	*759*
bmibaby (c)	*2,039*	*475*	*164*		*67*	*201*				*758*	*22*		
bmi regional	*993*	*248*	*230*		*118*					*16*		*108*	
bmi (total)	8,513	1,901	1,291		927	407				1,588	64	204	759
Ryanair	4,833	301	267	390			203	346	137	126	1,908	73	
Flybe	4,412		364	1,257	73		165		96	---			1,019
MyTravel A/w / MyTravelLite	1,242	31		1,150		59				---			
Channel Express/Jet2 (b)	1,013		104		84	89					27		
Monarch Airlines	819	819											
Loganair	794	6	70		128							69	
Eastern Airways	712	51	20	47		4	6		108	19		158	
Britannia/Thomsonfly	255												
Virgin Atlantic Airways	222	219		---									
Other UK	1,926	339	219	207	293		76	166	23	49			12
Total (i)	**48,805**	**6,910**	**6,381**	**4,168**	**4,763**	**3,305**	**2,808**	**2,811**	**2,388**	**2,598**	**1,999**	**1,546**	**1,858**
(ii) Top 10 other EU airlines													
KLM Cityhopper	*2,271*	*251*	*299*	*333*	*242*		*161*		*263*			*34*	
KLM	*398*	*195*										*190*	
KLM total	2,669	445	299	333	242		161		263			224	
Aer Lingus	836	317	94	236	167		21						
Air France	533	364					50		64			55	
Lufthansa	*465*	*253*	*32*	*180*									
Lufthansa Cityline	*439*	*239*	*125*	*75*									
Lufthansa total	904	492	157	255									
SN Brussels Airlines	391	112		153			60		67				
SAS/Snowflake	321	203	17	98									
Aer Arran	241	38	41	68			21	3			8		19
Czech Airlines	232	106	67	59									
(iii) Top 5 non-EU airlines													
Pakistan International Airlines	702	549		153									
Emirates	559	332		178	49								
Continental Airlines	455	163	26	134	132								
American Airlines	223	169			53								
Air Transat	217	76	10	20	60	20			10		---		
(iv) Other non-UK airlines	2,801	1,563	172	432	221			38	54	91	---	161	9
Total (ii), (iii) and (iv)	**11,083**	**4,929**	**884**	**2,118**	**924**	**20**	**314**	**40**	**456**	**91**	**10**	**440**	**27**
All airlines	**59,889**	**11,839**	**7,265**	**6,286**	**5,686**	**3,325**	**3,122**	**2,851**	**2,845**	**2,689**	**2,009**	**1,986**	**1,886**

Table 6.1 Principal scheduled airlines serving UK regional airports (continued)

	Scheduled Passengers(000s)												
	All regional airports	Leeds Brad.	So'hampton	Cardiff	Inverness	Durham	Bournem'th	Exeter	Coventry	Norwich	Other Scotland	Other UK (exc Scot.)	Isle of Man
All airlines	59,889	1,681	1,394	951	542	457	298	256	255	226	493	773	776
(i) UK airlines (or those with significant UK base)													
easyJet (a)	13,143			4	208		---	---					
British Airways	*5,623*			*5*			---					---	
British Airways CitiExpress	*5,299*		*263*		*150*						*53*		*368*
British Airways (total)	10,922		263	5	150						53		368
bmi (c)	*5,481*	*183*		*376*	*27*	*158*							
bmibaby (c)	*2,039*			*268*		*84*							
bmi regional	*993*	*220*								*36*	*17*		
bmi (total)	8,513	403		644	27	243				36	17		
Ryanair	4,833	233		72		70	267					437	
Flybe	4,412	117	923				---	236				4	155
MyTravel A/w / MyTravelLite	1,242												
Channel Express/Jet2 (b)	1,013	708				---							
Monarch Airlines	819												
Loganair	794				127						343	51	
Eastern Airways	712	51	65		24	20				68	6	27	36
Britannia/Thomsonfly	255								255				
Virgin Atlantic Airways	222			---									
Other UK airlines	1,926		69	56	3		27	6			72	112	197
Total (i)	**48,805**	**1,513**	**1,320**	**783**	**539**	**334**	**298**	**244**	**255**	**104**	**492**	**632**	**757**
(ii) Top 10 other EU airlines													
KLM Cityhopper	*2,271*	*168*		*157*		*123*				*123*		*132*	
KLM	*398*												
KLM total	2,669	168		157		123				123		132	
Aer Lingus	836												
Air France	533												
Lufthansa	*465*												
Lufthansa Cityline	*439*												
Lufthansa total	904												
SN Brussels Airlines	391												
SAS/Snowflake	321				3								
Aer Arran	241		16									8	19
Czech Airlines	232												
(iii) Top 5 non-EU airlines													
Pakistan International Airlines	702												
Emirates	559												
Continental Airlines	455												
American Airlines	223												
Air Transat	217			10				12					
(iv) Other non-UK airlines	2,801		59								---		
Total (ii), (iii) and (iv)	**11,083**	**168**	**74**	**168**	**3**	**123**		**12**		**123**		**140**	**19**
All airlines	**59,889**	**1,681**	**1,394**	**951**	**542**	**457**	**298**	**256**	**255**	**226**	**493**	**773**	**776**

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) Excludes easyJet Switzerland. (b) Edinburgh/Glasgow flights were on behalf of FlyGlobespan. (c) bmi figures include bmibaby flights prior to it gaining its own Air Operator's Certificate.

Source: CAA Airport Statistics for passengers on scheduled flights at UK reporting airports for the 12 months to August 2004.

The advent of no-frills airlines

6 Liberalisation of the European market led directly to the emergence and development of no-frills airlines in the EU.[2] In particular, easyJet and Ryanair began to develop networks at Luton and Stansted in the mid to late 1990s. Of significance to this study of regional air services is that easyJet's first routes were between Luton and Edinburgh, Glasgow (1995) and Aberdeen (1996), while Ryanair began a Stansted–Prestwick service in 1995.[3] Over time both have increased their services from UK regional airports.

7 Although business models vary between different no-frills airlines, the typical model includes a focus on minimising costs wherever possible. Standard characteristics often include:

- a fleet comprising a single aircraft type of Boeing 737 or A319/A320 size (i.e. in the range of 130–189 seats);
- high aircraft utilisation, including fast turnrounds; use of secondary airports at one or both ends (in particular Ryanair, although easyJet developed its network initially from Luton and later Stansted before moving on to Gatwick);
- aircraft configured for maximum seating capacity with no premium class;
- high seat factors;
- high staff productivity;
- no explicit provision for passengers to connect between flights or interline with other airlines;
- low distribution costs through direct sales via the internet (or telesales) without tickets, bookings through Global Distribution Systems, or travel agents;
- removing complex or restrictive fare rules, in particular the Saturday-night minimum stay, with only one price per flight for sale at any given time;
- charging for snacks and drinks; and
- no bellyhold cargo.

8 There are variations; for example, flybe brands itself as a low-fares airline while using a mixed fleet of smaller aircraft (including Dash 8 turboprops), interlining with full-service airlines, and allowing bookings through the GDSs by travel agents.

9 In 1998 BA launched a response to these developments in the shape of a no-frills Stansted-based subsidiary, Go, which was eventually purchased in 2002 by easyJet. The rapid change in the competitiveness of the market also led KLMuk and British European to change their business models to a no-frills approach and re-brand as buzz[4] (in 2000), and flybe (in 2002) respectively.

10 The rapid spread of new routes and increased frequencies from London airports, including domestic routes, soon led to a further significant development. The focus for new routes shifted from the London market to include services from regional airports across the UK.[5] As far back as 1997 easyJet had started an Amsterdam service from Liverpool, which became a formal second base in 1999. Go's second

2. A more detailed history of developments in the liberalised market, including the entry of no-frills airlines, appears in "The Single European Aviation Market: The First Five Years" (CAP685), CAA, June 1998. See www.caa.co.uk/default.aspx?categoryid=5&pagetype=90&pageid=2748#cap685 for further information.
3. Ryanair was the first no-frills airline to appear in Europe, when it restructured its existing operations in 1991. Its main focus was Ireland–UK routes, including many regional routes, but in 1995 it began its first UK domestic route from Stansted to Prestwick and moved on to routes from the UK to continental Europe.
4. buzz was purchased by Ryanair in 2003.
5. In the case of easyJet and Ryanair, this included developing services from European bases outside the UK.

base was Bristol, in 2001, followed by Nottingham East Midlands in 2002, both still maintained by easyJet. In addition, easyJet now has aircraft based at Belfast, Edinburgh, Glasgow and Newcastle. In 2002 bmi set up a no-frills subsidiary, bmibaby, based at Nottingham East Midlands; it added a second base later that year at Cardiff, and further bases at Manchester and Durham Tees Valley in 2003. Jet2.com began operations from Leeds Bradford in 2003 and Manchester in 2004; Flyglobespan started a series of routes from Edinburgh and Glasgow in 2003; and EUJet began services from Kent International (Manston) in 2004. Details of flybe's expansion at various regional airports appear in Case study 5.

11 In addition, there has been a gradual shift by charter airlines such as MyTravel, Thomson and Monarch into scheduled services in response to the entry of no-frills airlines. MyTravel set up MyTravelLite as a scheduled operation at Birmingham. Thomson now has a scheduled subsidiary Thomsonfly which began operations from Coventry in 2004, and in 2005 will inaugurate flights from Bournemouth and Doncaster Sheffield. Half of Monarch's business is now scheduled, which grew by 30% in 2004. It plans similar growth in 2005 adding to its existing seven scheduled routes from Manchester to Spain, Portugal and the Canaries, including a Manchester–Madrid service and a new base at Birmingham. Monarch is now the sole scheduled operator on Manchester–Barcelona following the withdrawal of Iberia and bmibaby.[6] Finally, there are various EU airlines not based in the UK that have begun no-frills services to UK regional airports, although on a relatively small scale so far.

Case study 4: Jet2.com

Jet2.com is a trading name of Channel Express (Air Services) Ltd, which has been a substantial air freight operator for more than 25 years. Channel Express began passenger charters in 2001, primarily in the corporate and specialist market. It is a wholly owned subsidiary of Dart Group plc, an aviation services and distribution group.

Jet2.com commenced operations from Leeds Bradford in February 2003 with a daily Amsterdam scheduled service. During 2003 it operated scheduled flights using Boeing 737-300 aircraft to seven European business, city break and sun destinations, carrying more than 360,000 passengers. In 2004/05 it is serving 14 destinations from Leeds Bradford using nine aircraft: Alicante, Amsterdam, Barcelona, Belfast, Faro, Geneva, Ibiza, Malaga, Murcia, Nice, Palma, Paris, Prague and Venice. In 2005 it will also be operating services from Belfast International to Barcelona, Bournemouth, Cork and Prague as well as Leeds Bradford. The airline has now carried more than 1m passengers. In September 2004 Jet2.com announced a second base at Manchester. Daily flights to Alicante, Amsterdam, Budapest, Faro, Geneva, Pisa, Malaga, Murcia, Nice, Venice and Valencia are being added progressively between December 2004 and May 2005. Additionally, two domestic routes from Manchester to Edinburgh and Gatwick (both three daily) begin in early 2005. 98% of seats are currently booked on-line.

Source: Jet2.com website

6. Monarch press release, 15 December 2004. See also Figure 7.1 in Chapter 7.

Case study 5: flybe

By the end of 2004, flybe had aircraft based at Belfast City (serving around 13 destinations), Birmingham (9), Bristol (3), Exeter (9), Southampton (13) and the Channel Islands (13), with new bases announced at Leeds Bradford (3 destinations), Liverpool (6) and Norwich (4), and 31 new routes planned for 2005. In total, flybe serves around 25 international destinations (mostly France, Spain and Ireland plus ski routes) and 17 domestic.

In 2003 flybe ordered 17 Dash 8-Q400 turboprops and followed this in January 2005 with an order for a further 20. These aircraft will be introduced to the fleet progressively until 2009, making flybe the largest operator of the type (with 41). These aircraft have 78 seats. Despite the cost issues associated with a multi-type fleet, it also operates larger BAe146 jets, which will be replaced in time, and the airline has recently started this process with plans to use Boeing 737-300 aircraft for summer 2005 on its longer routes out of Birmingham. Flybe operated 29 aircraft at the end of 2004 and expects to carry 4.5m passengers in 2004/05.

The Q400 climbs quickly, and on short sectors of less than 90 minutes this negates its slower cruising speed giving a block time similar to that of a 737, and with a seat cost only slightly higher. The aircraft can nevertheless also be used economically on relatively long sectors, such as to the South of France. flybe sees the smaller capacity as an advantage, allowing it to offer more frequent services, which translates to a better business/leisure traffic mix and a consequent yield benefit.

Originally Jersey European Airways, and then British European, the airline renamed itself flybe in mid-2002 as it sought to compete with no-frills airlines on routes like Gatwick–Belfast. In the last five years flybe has therefore seen significant change, mostly driven by a focus on reducing costs. flybe has sought to rationalise its aircraft fleet, moving away from smaller 30-seat turboprops, driving the unit cost downwards, and also to optimise its network by quickly shifting capacity away from under-performing routes to those with better prospects. Catering costs are now offset by charging passengers for in-flight catering. It changed its ticketing and pricing to mirror other no-frills airlines, including a no-refund policy and a massive shift to on-line sales (from 6% to 80% in 18 months) with a consequent reduction in distribution costs. The customer still has a choice of how and where to buy a ticket, as flybe continues to use travel agents, although it has reduced commission rates to 1% and the agent now levies a service charge.

flybe continues to participate in the IATA multilateral interline and proration agreements with other airlines, despite these elements usually being excluded from the typical no-frills business model. Its services and fares are fully bookable through Global Distribution Systems (GDSs), which means that they will be visible to any travel agent worldwide requesting an itinerary involving a regional airport served by flybe. As a long-standing regional airline before its restructuring in 2002, flybe already had all the systems capability to handle the added complexity, and it believes that the additional running cost incurred is covered by the incremental revenue provided by interline bookings. The charges levied for each booking by the GDS, which have been much criticised by airlines in the past, have now been restructured, and to some extent the costs can now be shared between the airline, agents and passengers.

Source: flybe website and CAA discussions with the airline

12 The new entry that has occurred is providing a significant injection of competition to the short-haul market generally, requiring existing airlines to compete on fare levels and hence in turn reduce their own costs where they can, even when they are not facing head-to-head competition on a particular route. Since the early 1990s there has been a step-change in the level of fares in the market, as new entrants have introduced innovative pricing without the same conditions that previously existed, and other airlines have responded. For example, in 1990 BA's cheapest published fare for a midweek overnight trip between Manchester and Amsterdam in March was £228 return. Lower fares were available but all required a Saturday-night stay. In 2005, the same trip could be booked[7] for a total cost of £58 return (excluding Air Passenger Duty) on the Jet 2.com.website. The lowest available fare on BA's website for a trip on the same days was £63 (excluding Air Passenger Duty).

13 In the past, airlines providing regional services tended to rely on the much higher yields they could generate from business passengers. Business passengers now have an expectation of lower fares as well as demanding reliability and punctuality. No-frills airlines have created this expectation and have removed the perception that business air travel, or indeed travel on regional routes, or even scheduled flights generally, has to be expensive. It seems to be generally accepted by the industry that business passengers have become more price sensitive and are content to accept a lack of frills on flights of short duration where they know that this translates to a significant fare saving. The more competitive market, and the changing behaviour patterns of business passengers, are making it more difficult for full-service airlines to maintain the significant fare premia that would once have been achievable.

14 Any initial perception, therefore, of no-frills airlines being almost exclusively leisure-oriented is no longer valid. These airlines compete strongly for business passengers and where they can will offer an appropriate frequency and schedule. Table 6.2 is based on 2003 survey data and illustrates how they have penetrated the business market on regional routes to some key European destinations. Table 6.3 shows a similar picture on a sample of domestic routes to London.

15 The distinction between no-frills and the existing full-service airlines has now become more blurred, resulting in a rich mix of airlines with a range of different offerings in the UK regional market.

7. This example is for a booking made about five weeks ahead of travel; the price tends to be lower the further ahead the booking is made.

Table 6.2 Business/leisure mix on a selection of routes to European business destinations, 2003

		% passengers travelling on business			Total passengers
Route	**Airline**	**Foreign**	**UK**	**Total**	**(000)**
Manchester–Amsterdam	BA	18%	20%	39%	67
Manchester–Amsterdam	KLM	15%	29%	44%	396
Liverpool–Amsterdam	easyJet	14%	20%	34%	400
Manchester–Paris	Air France	22%	20%	42%	367
Manchester–Paris	BA	16%	26%	42%	157
Liverpool–Paris	easyJet	10%	8%	18%	311
Birmingham–Amsterdam	KLM	22%	26%	47%	243
Nottingham EMA–Amsterdam	bmibaby	17%	14%	31%	88
Birmingham–Brussels	SN Brussels	25%	44%	69%	114
Nottingham EMA–Brussels	bmibaby	26%	26%	52%	44
Birmingham–Paris	BA	9%	30%	39%	128
Birmingham–Paris	Air France	17%	33%	49%	179
Nottingham EMA–Paris	bmibaby	4%	21%	25%	96

Notes: The survey data for Birmingham, Liverpool and Nottingham East Midlands covers only the period from April to December 2003.

Source: CAA O&D Survey 2003

Table 6.3 Business/leisure mix on a selection of domestic routes from London, 2003

Route	**Airline**	**% passengers travelling on business**	**Total passengers (000)**
Gatwick–Edinburgh	BA	44%	388
	easyJet	39%	371
Heathrow–Edinburgh	BA	54%	943
	bmi	48%	687
Luton–Edinburgh	easyJet	45%	485
Stansted–Edinburgh	easyJet/Go	38%	477
London City–Edinburgh	Scot Airways	69%	104
Gatwick–Belfast International	easyJet	20%	210
Heathrow–Belfast International	bmi	34%	59
Luton–Belfast International	easyJet	33%	398
Stansted–Belfast International	easyJet/Go	28%	403
Gatwick–Belfast City	flybe	35%	225
Heathrow–Belfast City	bmi	42%	747
Gatwick–Newcastle	BA	52%	261
Heathrow–Newcastle	BA	44%	490
Stansted–Newcastle	easyJet/Go	30%	304

Source: CAA O&D Survey 2003.

Case study 6: BA's "Future Size and Shape" restructuring

In February 2002 BA announced its "Future Size and Shape" proposals. This was a major exercise for BA, covering many elements of its business, but of most relevance to this study was the restructuring of its short-haul services designed to reverse the airline's decline in profitability and to provide a competitive response to the no-frills airlines. The plans included increasing capacity and services on key business routes; simplifying the fleet and reducing the number of aircraft types based at regional airports; better aircraft utilization and better matching of aircraft size to local markets; the withdrawal of loss-making services; and simplifying both the pricing structure and internet booking.

BA CitiExpress was formed on 31 March 2002 as a wholly owned subsidiary of BA, consolidating the regional operations by British Airways Regional (based in Birmingham and Manchester), Brymon Airways (Bristol) and former franchisees British Regional Airlines Group and Manx Airlines. Its primary focus is on carrying point-to-point passengers in business markets, and it operates only two routes to London, from Inverness and Isle of Man, apart from its London City services, which commenced in 2003.

As it restructured, BA CitiExpress rationalized its network, suspending services on more than 30 routes between May 2002 and March 2003, and withdrawing completely from Cardiff and Leeds Bradford; it now serves 13 UK airports. Meanwhile, it has expanded its services to Europe, and now operates 63 routes, mainly from Manchester, Birmingham, Bristol and Edinburgh. It has reduced its fleet by a third to around 60 aircraft, and the number of regional aircraft types it operates from nine to four (mostly Embraer 145s and Avro RJ100s, plus Dash 8 turboprops). 12 Jetstream 41 aircraft were sub-leased to Eastern Airways, which took over seven ex-BA routes, including three from Leeds Bradford. BA CitiExpress claims the integration and restructuring has brought unit costs down by 30%.

Source: BA News, BA press releases, BA website, Air Transport World September 2004 and CAA discussions with BA CitiExpress.

Impact of no-frills airlines on growth at UK regional airports

16 The following paragraphs examine how no-frills airlines (taking advantage of EU liberalisation) seem to have become the main driver behind the very strong recent growth in regional services. This is not the sole factor behind this phenomenon: there have simultaneously been changes in the nature of regional airports themselves, which have developed a more commercial outlook and sought to increase their route portfolio, thereby enabling airlines to play one airport off against another in order to secure the best deal to place new capacity. This is analysed in more detail in the next chapter. However, it is undeniable that the advent of no-frills has changed the face of UK regional air services.

17 The specific focus on low fares and low costs that no-frills airlines have brought into the short-haul market has had a very important effect on regional air services. It means that a relatively "thin" route that was previously unviable may now be viable. For example, a low-frequency service may have been relatively expensive to market, but advertised and sold via the internet, and therefore free of the sales and distribution costs that would once have been a necessity, might now be viable.

18 By stimulating demand and eliminating unnecessary complexity and cost wherever possible, no-frills airlines have managed to sustain services on a range of routes that had never been contemplated in the past. Therefore, alongside new routes to Europe such as Leeds Bradford–Prague, there are also routes to London (such as Blackpool–Stansted) and between regional points (such as Exeter–Newcastle). The potential traffic on such new routes would be unlikely to have been revealed in any past air passenger survey data.

19 The new services have brought a range of destinations, for example from UK regional airports to other UK destinations; to European capital cities; to holiday destinations; and to other EU regions (perhaps mostly in France) for second-home owners. The fast, direct connections created draw existing traffic from roads and ferries, encourage people to invest in second homes abroad, and allow them to travel more frequently than they might have done previously. Low-fare services from a local airport seem to be changing consumers' perceptions about flying generally and consequently are having an effect on travel patterns. As well as second homes, these services may encourage people to apply for jobs abroad, or may facilitate working far from home; and they may be used for more frequent visits to friends and relatives, for more affordable and frequent weekend breaks, by students returning home at weekends; and so on.

20 No-frills airlines tend not to fly very long sectors. Outside a certain radius, the greater stage lengths mean that the aircraft is unable to perform as many daily rotations. In consequence, if the yield does not rise in line with distance because there is a limit to what the more price-sensitive leisure passenger is prepared to pay, then the revenue that aircraft can earn will fall, and it becomes less commercially attractive to use the aircraft on longer routes. UK no-frills airlines offer two routes to Greece, both from London, and none to Turkey. Charter airlines, recognising these constraints, and under pressure from no-frills airlines on traditional southern Europe routes, are adapting their operations so as to remain more competitive with the changes in the scheduled market, or are moving into medium-haul (Eastern Mediterranean) or long-haul markets. For example, the proportion of First Choice Holidays' business that was short-haul has changed from 60% in 2000 to 40% in 2004, with 25% estimated for 2008.[8] No-frills airlines have tended to stick to routes within the European Economic Area, where traffic rights are not subject to government-imposed restrictions on nationality, market entry, frequency, capacity or prices. These restrictions can impact significantly outside the EEA, which means that EU enlargement, and therefore an expanded single aviation market, may begin to open up new opportunities to countries such as the Czech Republic and Poland.

Regional jets

21 In the second half of the 1990s there has been a trend towards the use of regional jets by full-service airlines in place of turboprops on thinner business routes (see Case Study 7). This is a technological development that would probably have occurred anyway irrespective of the change in competitive circumstances, but which may have changed the viability of some services.

8. *Source:* First Choice Holidays website, October 2004. See also Table 2.7 in Chapter 2.

Case study 7: Regional jets

Unlike no-frills airlines, which have tended to standardise their fleet on one aircraft type, traditional full-service airlines use a variety of aircraft types depending on their network. On thinner regional routes that require a frequency attractive to the business market, and which would not sustain aircraft with the capacity of a Boeing 737 or A319, such airlines may use relatively small aircraft, which are sometimes operated by a regional subsidiary or by an independent airline under a franchise agreement. One trend during the second half of the 1990s has been for such airlines to switch some routes from turboprops to small regional jets with around 50 seats. Previously the smallest jets were 70 seats or more. The 49-seat Embraer 145 is operated by both BA CitiExpress and bmi regional, the latter also operating the smaller Embraer 135 regional jet. The 50 to 90-seat Bombardier/Canadair RJ series, no longer operated by UK airlines, is used by other European airlines feeding their hubs from UK regional points. Regional jets have brought greater range, speed and comfort, allowing thinner business-oriented routes to be operated over longer distances and giving airlines the ability to widen their coverage of services to secondary cities. Despite their size these aircraft are equipped with complete galley facilities allowing a full catering service with hot meals.

The first generation of regional jets give around a 2½ hour flying time capability – at the limit of their range they can operate a route such as Manchester–Warsaw. The second generation Embraer 170 and 190 regional jets now being delivered have a capacity of around 70-100 seats with an even longer range. This greater capability is likely to take the concept of the regional jet even further and should improve the links between regional cities across Europe.

flybe and Air Southwest in the UK have adapted the no-frills model to smaller regional aircraft, including turboprops (see separate case studies), and in the USA JetBlue has departed from the no-frills single-type model with an order for 100-seat Embraer 190s (to be delivered from 2005) to operate on "mid-sized" routes alongside its 156-seat Airbus A320s.

Source: airline and manufacturer websites and CAA discussions with UK airlines

Airline competition

22 There are some routes where regional airlines such as BA CitiExpress and bmi regional, or hub-feeding airlines such as Air France/KLM, are competing head-to-head with no-frills airlines like easyJet or Jet2.com. Table 6.4 shows some examples, with the relative frequency and aircraft types used.[9] These are slightly different markets to, say, Edinburgh–London. The traditional full-service airlines are more likely to offer a frequency that gives business passengers as a minimum morning and evening timings that allow a full day's business at the destination without the need for an overnight stop – or a schedule that provides good connections to a continental hub. They may be more prepared to station an aircraft overnight away from base, incurring additional costs, in order to allow an early morning departure convenient for the business market. The table shows that, on some routes, no-frills airlines' schedules are less convenient for business passengers and less frequent. Most flights are with aircraft of 150 seats or more, which may be too big to use more than once a day on a single route. On other routes the no-frills airlines appear to be seeking to capture some of the business market with a morning and evening departure. The challenge for the full-service airline in dedicating a smaller aircraft to a more frequent service is how to use the aircraft in the off-peak period during the day or at weekends – whether to operate additional frequencies on the same route, which may have poor loads or yields, or to use the aircraft to a different, more leisure-oriented, destination.

9. See also Figure 3.3 in Chapter 3 in respect of Bristol–Edinburgh.

Table 6.4 Examples of regional routes with direct competition (1)

Route	Daily frequency		Departure times			
	full service	no frills	full service	no frills	full service	no frills
Bristol–Amsterdam	KLM Cityhopper	easyJet	Bristol to Amsterdam		Amsterdam to Bristol	
	3 x Fokker 70 &	1 x 737-700	06:20		09:40	
	1 x Fokker 100		10:35		14:00	
			15:00	13:10	15:55	16:00
			16:55		20:10	
Bristol–Edinburgh	BA CitiExpress	easyJet	Bristol to Edinburgh		Edinburgh to Bristol	
	5 x ERJ145	3 x 737-700	07:10	07:00	06:45	08:40
			12:20		09:05	
			14:15	14:20	14:10	
			18:00		16:05	16:00
			19:50	19:10	19:45	20:50
Bristol–Glasgow	BA CitiExpress	easyJet	Bristol to Glasgow		Glasgow to Bristol	
	5 x ERJ145	3 x 737-700	07:00	07:10	07:00	08:50
			08:55		08:55	
			13:30	13:30	11:35	
			16:50		15:25	15:10
			20:25	18:55	18:40	20:35
Leeds Bradford–Paris	bmi regional	Jet2.com	Leeds to Paris		Paris to Leeds	
	2 x Fokker 100 &	1 x 737-300	07:15		10:20	
	1 x ERJ145		13:35	11:00	16:40	14:20
			17:35		20:40	
Leeds Bradford–Amsterdam	KLM Cityhopper	Jet2.com	Leeds to Amsterdam		Amsterdam to Leeds	
	3 x Fokker 100	2 x 737-300	06:05	07:00	09:20	09:45
			10:20		13:55	
			15:30	18:00	19:55	20:45
Newcastle–Paris	Air France	easyJet	Newcastle to Paris		Paris to Newcastle	
	3 x ERJ145	1 x 737-700	06:35		10:20	
			11:50	14:15	15:30	17:30
			16:55		21:20	
Gatwick–Inverness	BA CitiExpress	easyJet	Gatwick to Inverness		Inverness to Gatwick	
	3 x BAe146	1 x A319	09:40		07:00	
			14:50	13:25	12:10	15:20
			19:50		17:20	

Notes: *Departure times are local for a Monday in early December 2004.*

Source: *OAG World Airways Guide December 2004.*

23 Further examples of head-to-head competition are shown in Table 6.5. In these examples, BA CitiExpress uses mostly jets in competition with turboprops flown by flybe and ScotAirways. On the Birmingham routes, BA generally operates larger aircraft (110-seat RJ100s) than flybe (78-seat Dash 8s), while from Southampton it operates smaller aircraft (50-seat Embraer 145s); both airlines operate broadly similar frequencies.

Table 6.5 Examples of regional routes with direct competition (2)

Route	Daily frequency		Departure times			
	jet	turboprop	jet	turboprop	jet	turboprop
Birmingham–Edinburgh	BA CitiExpress	flybe	Birmingham to Edinburgh		Edinburgh to Birmingham	
	5 x Avro RJ100	6 x Dash 8 Q400	06:45	07:00	06:35	07:10
	& 1 x ERJ145		08:30	08:55	08:35	09:05
	(a)		12:00	12:50	10:15	11:00
			15:40	15:10	13:50	16:50
			17:30	18:40	17:30	18:40
			20:30	20:20	19:20	20:20
Birmingham–Glasgow	BA CitiExpress	flybe	Birmingham to Glasgow		Glasgow to Birmingham	
	4 x Avro RJ100	6 x Dash 8 Q400	06:40	07:05	06:45	06:30
	& 1 x ERJ145		08:50	08:50	08:30	08:45
				12:55	11:20	11:05
			15:40	16:40		15:00
			17:30	18:35	17:30	18:20
			19:30	20:15	19:20	20:20
Edinburgh–London City	BA CitiExpress	ScotAirways	Edinburgh to London City		London City to Edinburgh	
	3 x Avro RJ100	9 x Dornier 328	06:35	06:50	08:10	07:20
				07:50		08:50
				09:05		10:00
				10:40		12:30
			12:00	12:30	14:00	14:15
				14:15		16:00
			16:00	16:15		17:15
				17:50	18:00	18:15
				19:05		19:45
Southampton–Edinburgh	BA CitiExpress	flybe	So'ton to Edinburgh		Edinburgh to So'ton	
	4 x ERJ145	3 x Dash 8 Q400	07:00	07:00	08:55	08:55
	& 1 x Dash 8 (b)		10:30		12:20	
			12:10		14:30	14:40
			14:25	16:30	16:15	
			17:50	20:25	19:40	18:35
Southampton–Glasgow	BA CitiExpress	flybe	So'ton to Glasgow		Glasgow to So'ton	
	4 x ERJ145	3 x Dash 8 Q400	06:45	08:50	08:40	07:00
			10:45		12:35	14:25
			14:10	16:15	16:00	
			18:05	20:05	19:50	18:15

Notes: *Departure times are for a Monday in early December 2004.*
(a) bmibaby starts twice daily Boeing 737 services from January 2005 (b) turboprop service.

Source: *OAG World Airways Guide December 2004.*

24 Table 6.5 also shows how ScotAirways competes on frequency on Edinburgh–London City using 31-seat Dornier 328 turboprops. Services from London City and Belfast City airports have a particular niche role that allows them to co-exist with other airlines, including no-frills airlines, serving the same destinations from other London airports or from Belfast International. 90 minutes flying time has generally been regarded as the threshold for the effective use of turboprops. The success of VLM Airlines' Fokker 50 turboprop services from London City to both Manchester (currently ten per day, with a half-hourly frequency in the morning peak) and Liverpool (currently five per day) has in turn attracted bmi to start a new Leeds–London City route using an ATR42 turboprop (its Embraer 145 regional jets are not cleared to operate into London City).

25 flybe and easyJet compete on parallel Belfast routes to Bristol, Edinburgh, Glasgow and Newcastle – flybe with the Dash 8 turboprop from Belfast City and easyJet from Belfast International.[10] A further example is BA CitiExpress' Dash 8 service from Belfast City to Manchester in competition with bmibaby's no-frills service from Belfast International (and easyJet's frequent service to Liverpool – see Table 3.3 in Chapter 3). These examples seem to illustrate that a turboprop aircraft can be competitive where there are frequent, short sectors to/from a city centre airport, perhaps seeking to make the product particularly attractive to the business market.

26 As noted in the next chapter, in terms of the richness of the network from each airport, there is still a potentially important role for the more traditional full-service airlines in meeting particular market needs. For example, a full-service airline feeding its own hub may be catering for a different market from no-frills airlines because of its reliance on transfer traffic as typified by the Bristol–Amsterdam example in Table 6.4. In other words, hub feeding services operated by full-service airlines are marketing and providing connections to the global network in a way that no-frills airlines do not – or at least this is how passengers perceive it.

27 In some markets no-frills airlines may find it difficult to operate at all because of the limits to stimulation of the market. For example, bmi found that the East Midlands–Brussels and Paris routes are better suited to operation by its regional subsidiary with 50-seat aircraft than by the no-frills subsidiary bmibaby with a Boeing 737 (see case study).

10. See also Figure 3.2 in Chapter 3 in respect of Belfast–Edinburgh.

Case study 8: bmi regional and bmibaby

Shortly after BA's no-frills subsidiary Go announced that it was setting up a base at Nottingham East Midlands (NEMA) in 2001, bmi set up its own no-frills subsidiary, bmibaby, at NEMA, using Boeing 737s transferred from the parent company. The bmi group's short-haul business is therefore in three divisions: mainline, which covers all Heathrow routes, including domestic routes; regional, with a fleet of Embraer 135/145 regional jets; and bmibaby. The mainline and regional divisions are full-service airlines. bmibaby and bmi regional therefore co-exist, but to a large extent operate independently; bmibaby has its own Air Operator's Certificate, flight designator, management team and accounts.

bmi regional's operations are based at Aberdeen. It operates a network of around 18 routes from Aberdeen, Edinburgh, Glasgow, Leeds Bradford and Manchester, linking these cities with each other as well as offering some services to Brussels, Paris and Copenhagen.

At NEMA bmibaby took over all bmi's existing routes, which gave rise to some interesting changes. The much larger aircraft size has resulted in some reductions in frequency – the five daily frequencies to Edinburgh and Glasgow have been reduced to three, and the four-daily Paris service was reduced to two. Similarly, the Brussels route went from three to two daily, but the market could not support the extra capacity of the bmibaby 737s, and this route has now reverted to three daily bmi regional Embraer 145s. By the end of 2004 this was the only bmi full-service route from NEMA, alongside more than 15 served by bmibaby. However, from March 2005 two more bmibaby routes from NEMA are being transferred to bmi regional, Paris, which increases to three daily, and the twice-weekly service to Nice.

Source: bmi website and CAA discussions with the airline

Emerging trends

28 Growth in domestic and short haul services looks set to continue as people become increasingly accustomed to direct services from a local airport rather than having to connect or travel by surface to a distant hub. But there is a finite number of city-pairs where there will be a sufficient level of pre-existing demand to make them obvious markets to exploit. This leaves routes where the market (and in these cases it is more likely to be a leisure market) can be "created" through demand stimulation. That requires an airline to make a judgement as to whether such potential routes will ever grow to a viable size and whether it is worth the risk.

29 Although it seems likely that there will be further consolidation (or possibly exit) among the no-frills airlines, particularly if they continue to expand at the present rate and begin to compete head to head, the distinction between full-service and no-frills airlines will also continue to be gradually eroded. In some respects, the full-service airline may be able to differentiate its product through offering elements such as good connectivity to the global network (or simply access to congested hubs), and, primarily in longer-haul markets, business class frills like in-flight service/comfort, airport lounges, easier check-in etc. Meanwhile the no-frills airlines may now be losing some of their early cost advantages, such as distribution costs, and start-up deals on airport charges.

30 It is also likely that some thin niche markets will continue to be served by airlines such as Eastern Airways and Loganair using relatively small aircraft, mostly of 30 seats or less.

Case study 9: Air Southwest

Air Southwest completed its first year of operations in October 2004. It is a subsidiary of Sutton Harbour Holdings Plc, the owners of its home base, Plymouth Airport. The airline was formed from scratch to take over the Plymouth/Newquay–Gatwick service from BA CitiExpress, and in particular the Gatwick slots (which would otherwise have been re-allocated to other destinations). The potential loss of the London service had been of great concern locally and, as a result, passenger awareness of the new airline had been high from the beginning. Air Southwest currently employs around 75 staff. In its first year it carried 170,000 passengers with 98% reliability. Traffic on the four times daily Gatwick service has risen by 22% compared with the BA service.

Air Southwest added a twice-daily Plymouth–Bristol–Manchester service from March 2004. The aircraft continues on to Jersey from Plymouth in the middle of the day (giving a one-stop Bristol–Jersey service) and does a third rotation Manchester–Bristol in the late afternoon. From April 2005 a third aircraft will operate Newquay–Bristol–Leeds Bradford twice daily, continuing on from Newquay to Dublin in the early afternoon (giving a one-stop Bristol-Dublin service). This service will also link Newquay with Manchester, and Plymouth with Leeds Bradford, via a change of plane at Bristol; with these combinations included this will take the network to 15 routes.

From the beginning Air Southwest adopted a no-frills strategy, including high aircraft utilisation. Turnaround times are typically 15–20 minutes (30 minutes at Gatwick). The airline offers point-to-point tickets only and does not interline or allow booking through Global Distribution Systems, despite the connecting possibilities from serving Gatwick. 90% of bookings are made on-line. Removing this complexity and cost allows it to offer a simple fares structure with only one price per flight for sale at any given time. Prices start at £34 one way to London including taxes and charges, and £19 and £29 to Bristol and Manchester respectively. Air Southwest believes that these lower fares have attracted passengers who previously would not have considered flying; for example, the large local student population, or people visiting them. The airline also believes that relatively poor road and rail connections to the far south west of England have been to its advantage.

Despite the lack of through ticketing and baggage checking, a significant proportion of passengers (perhaps as many as 40% on some services) are thought to be connecting with other flights at Gatwick. Air Southwest has also sought to improve customer awareness of the possibilities of connecting with Continental Airlines' new Newark–Bristol service, and shares a website with Isles of Scilly Skybus promoting links between Manchester or Gatwick and the Isles of Scilly via a change of aircraft at Newquay.

Source: Air Southwest website and CAA discussions with the airline

Charter services

31 As noted earlier in this study, the number of passengers on charter services from regional airports had exceeded those travelling from London airports by the late 1980s and is now approximately twice as great. However, the charter market is changing from being almost wholly "inclusive tour" to include both flight-only sales to passengers that already have their own accommodation, and self-packaging by passengers that have booked a hotel themselves and are now in search of a flight. Tour operators, like incumbent scheduled airlines, have had to react to the entry of no-frills airlines into traditional charter markets. Last-minute bookings with a tour

operator would historically have meant a bargain, which is in complete contrast to the pricing model used by no-frills scheduled airlines where early bookings are sold at the lowest prices. While charter airlines have necessarily always had a "low cost" strategy because of the nature of the market they serve, there has, as noted earlier in this chapter, been a gradual shift by charter airlines onto scheduled routes in response to the entry of no-frills airlines.

32 Airports clearly still regard charters as an important part of their business. The case studies in Chapter 7 suggest that some have been striving to manage the entry of no-frills airlines so as to protect an existing charter programme (presumably to mitigate the risk that the tour operators would withdraw completely) or employing a strategy of attracting charter flights that for historical reasons were operating from neighbouring airports. But, overall, charter traffic from UK regional airports has remained relatively static over the last few years.

Inbound traffic

33 There is evidence that some routes that begin as primarily outbound leisure, say Barcelona, may have considerable potential for attracting inbound traffic, be it leisure or business. This will depend on the attractiveness of the UK region and how well it is marketed as a destination.

34 This inbound element of the traffic mix is likely to be extremely important to the local region. In less densely populated areas, like Inverness or Belfast, the local catchment area may not generate enough outbound passengers to support the service, making these inbound passengers essential. It could also be a crucial element in any decision about the use of route development funding (as discussed in more detail in Chapter 8), as it may affect the long-term viability of a particular route. The investment these inbound passengers generate should create economic growth, bringing jobs and greater prosperity to the region. Business passengers potentially bring a significant benefit, for example through improving business links with UK companies, setting up a UK subsidiary, or attending events or conferences. Tourists will bring money into the region, balancing the loss from outbound tourists using the new service to spend money abroad. The balance has to be seen in terms of net value rather than passenger numbers, as some of these tourists may be relatively high spenders. Passengers visiting friends or relatives will bring less spillover financial benefit, but may still help to boost traffic levels and keep a route viable.

Barriers to new regional services

35 In general, the view expressed by airlines during research for this study was that there were few barriers to new services between two EU regional airports. The main consideration was whether the airline had a suitable aircraft to operate the service. Even if it has spare capacity, an airline with a single-type fleet may still judge its aircraft to be too big for the route. In the case of smaller airports there may be operational limitations on the aircraft that can be used. The difficulty of judging the size of the potential market was mentioned by a number of airlines and airports. Because regional services tend to be relatively thin, airlines were said to be more reluctant to enter a new market without properly assessing the market size. The CAA publishes data collected from UK airports, and survey data showing existing origin and destination flows, but it is still difficult to estimate the likely degree of stimulation of a market. Data may also be available from other sources, for example showing what business demand is likely to be between two points. But data on surface travel, for example traffic carried by train operators, is said to be lacking.

36 In the case of a new route to a congested airport, either London or on the continent, a major barrier would be obtaining the necessary slots to operate the service. The view expressed was that even though a strong potential market might exist for new services to Heathrow, Paris, Frankfurt and so on, only an airline already established at the congested airport would have any reasonable chance of obtaining sufficient suitable slots to mount a service, despite the current rule that gives some preference to new entrants in the slot allocation process.

37 It was also suggested by some airlines that not all EU airports were as commercially minded as UK airports, or as willing to negotiate discounts for incremental traffic. Such airports were said to show little interest in stimulating new traffic.

Withdrawing service

38 The CAA recognises that considerable disruption can result when an airline suspends an air service. Some businesses – or perhaps second-home owners – may even depend on the service. In general, airlines wishing to maintain good relations with customers and regional bodies will be wary of suspending a route. Nevertheless, airlines are commercial entities, although BA, for example, still has to deal with a perception in some quarters that it should act as the national flag carrier and provide a public service regardless of commercial considerations. Its withdrawal from the Gatwick–Leeds Bradford route is a recent example where it came in for criticism.

39 Where an airline is the sole operator on a route with no significant surface alternative, then, to maintain good public relations, it is likely to make known its intention to withdraw. For example, the Plymouth/Newquay–Gatwick route did not fit BA's overall strategic plan of consolidating and rationalising its operations, and BA took a commercial decision to withdraw. However, it was able to provide some operational assistance while Air Southwest took over the service, acquired the Gatwick slots, and gained its own Air Operator's Certificate. Another example was the Guernsey–Gatwick route, which in similar circumstances BA was able to transfer to an existing airline, Aurigny.

Environmental issues

40 There is general recognition in the industry that addressing aviation's environmental impacts is of increasing importance. These issues are outside the scope of this study. However, it is worth recording that there may be countervailing environmental benefits from new regional air services to the extent that they diminish the amount of passengers (or cargo) that would otherwise travel by road over long distances to catch a flight from another airport; and that there is concern over the possibility of environmental measures disproportionately affecting regional services, to the detriment of the regions.

Chapter 7 Developments in regional services – the airport perspective

1 Table 7.1 below shows how traffic has developed at individual UK airports since 1990.

Table 7.1 Traffic development at UK airports 1990–2004

Passengers (000)	1990	1992	1994	1996	1998	2000	2002	2004 (a)
London Area Airports								
Gatwick	21,043	19,841	21,041	24,099	29,031	31,948	29,518	31,220
Heathrow	42,635	44,968	51,360	55,727	60,356	64,277	63,035	66,979
London City	230	186	477	724	1,358	1,581	1,602	1,645
Luton	2,679	1,943	1,801	2,406	4,110	6,164	6,474	7,399
Southend	119	16	---	4	3	3	5	3
Stansted	1,156	2,332	3,252	4,808	6,830	11,858	16,049	20,835
Total London Airports	67,861	69,287	77,931	87,768	101,688	115,831	116,684	128,082
Metro 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	2,617
Barra (b)	---	---	5	8	9	8	8	9
Barrow-in-Furness	---	1	---	---	---	---	---	---
Belfast City	548	612	1,227	1,360	1,313	1,288	1,890	2,071
Belfast International	2,294	2,241	2,038	2,351	2,626	3,127	3,551	4,340
Bembridge	---	---	---	---	---	---	---	---
Benbecula	32	33	36	36	35	34	32	30
Biggin Hill (c)	---	---	4	3	3	2	1	1
Birmingham	3,492	3,652	4,783	5,351	6,607	7,492	7,911	8,836
Blackpool	137	109	79	84	93	107	70	264
Bournemouth	137	105	107	157	308	271	392	491
Bristol	774	1,026	1,275	1,394	1,814	2,124	3,415	4,550
Cambridge	30	23	31	28	17	20	1	3
Campbeltown (d)	---	---	---	6	9	8	8	8
Cardiff	593	653	990	1,001	1,228	1,498	1,416	1,875
Carlisle	1	---	1	---	---	---	---	---
City of Derry	41	28	34	64	49	163	199	237
Coventry	17	9	2	1	1	2	4	416
Dundee	5	13	14	13	9	49	45	51
Edinburgh	2,492	2,538	2,996	3,808	4,542	5,494	6,911	7,955
Exeter	217	167	196	202	240	317	336	597
Glasgow	4,286	4,669	5,454	5,470	6,477	6,920	7,769	8,521
Gloucestershire	5	8	3	2	---	---	---	---
Hawarden	1	1	---	---	4	2	2	28
Humberside	135	151	246	274	336	443	490	533
Inverness	216	213	260	284	320	337	363	516
Islay	21	18	18	19	20	20	21	21
Isle of Man	532	460	500	584	692	698	718	758

Table 7.1 Traffic development at UK airports 1990–2004

Passengers (000)	1990	1992	1994	1996	1998	2000	2002	2004 (a)
Isles of Scilly - St Mary's	115	102	110	125	132	128	146	141
Isles of Scilly - Tresco	19	20	21	26	34	37	42	43
Kent International	19	6	3	---	---	6	0	68
Kirkwall	106	105	89	91	81	85	98	102
Lands End	---	---	---	---	---	---	---	26
Leeds Bradford	834	699	810	1,051	1,397	1,573	1,526	2,330
Lerwick (Tingwall)	13	5	4	4	4	2	2	2
Liverpool	474	445	439	618	867	1,978	2,835	3,324
Lydd	35	5	---	---	2	1	3	4
Manchester	10,146	11,678	14,311	14,467	17,201	18,349	18,618	20,857
Newcastle	1,555	1,942	2,411	2,425	2,913	3,145	3,387	4,653
Newquay (e)	---	---	---	---	---	---	---	233
Norwich	206	183	208	253	314	365	424	445
Nottingham East Midlands	1,280	1,250	1,613	1,821	2,135	2,227	3,233	4,332
Penzance Heliport	97	90	89	106	120	126	136	129
Plymouth	123	68	76	98	110	113	76	104
Prestwick	95	11	135	522	558	905	1,486	2,162
Scatsta	13	14	12	79	104	240	246	229
Sheffield City (f)	---	---	---	---	46	60	13	---
Shoreham	---	2	3	3	2	1	---	4
Southampton	489	404	469	544	721	854	788	1,524
Stornoway	83	86	94	94	93	88	93	111
Sumburgh	432	406	442	397	285	119	127	108
Swansea (g)	---	---	---	---	---	---	---	18
Teesside/Durham Tees Valley	342	310	356	429	643	740	669	777
Tiree	5	5	5	5	5	5	5	5
Unst	83	80	86	18	2	1	---	---
Wick	32	32	27	27	21	19	18	16
Total Other UK Airports	34,549	36,832	44,222	48,037	57,163	64,048	72,077	86,475
Total Reporting UK Airports	102,417	106,123	122,158	135,810	158,856	179,885	188,761	214,557
Channel Islands Airports								
Alderney	105	79	84	84	76	74	73	73
Guernsey	862	754	783	838	883	879	835	899
Jersey	1,867	1,596	1,616	1,624	1,672	1,621	1,455	1,481
Total Channel Islands Airports	2,834	2,429	2,482	2,546	2,632	2,574	2,363	2,453

Notes: *(a) 12 months ending November 2004* *(b) Barra began reporting April 1994*
(c) Biggin Hill began reporting in June 1993 *(d) Campbeltown began reporting April 1996*
(e) Newquay began reporting in January 2004 *(f) Sheffield City began reporting in 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*

2 Table 7.2 shows the 15 UK regional airports where total passenger numbers exceeded 1m in 2004. It is apparent that Manchester has by far the greatest traffic at 21m. Since 1990 there has been very strong growth at several airports, including Bristol, Liverpool and Prestwick where no-frills airlines have become established.

Table 7.2 Total passengers at top 15 UK regional airports 1990–2004

Airport	Passengers (000) 1990	2004	Growth 1990–2004
Manchester	10,146	20,857	106%
Birmingham	3,492	8,836	153%
Glasgow	4,286	8,521	99%
Edinburgh	2,492	7,955	219%
Newcastle	1,555	4,653	199%
Bristol	774	4,550	488%
Belfast International	2,294	4,340	89%
Nottingham East Midlands	1,280	4,332	238%
Liverpool	474	3,324	601%
Aberdeen	1,947	2,617	34%
Leeds Bradford	834	2,330	179%
Glasgow Prestwick	95	2,162	2176%
Belfast City	548	2,071	278%
Cardiff	593	1,875	216%
Southampton	489	1,524	212%

Notes: 2004 figures are for the 12 months ending November.
Airports with total passengers of more than 1m in 2004 are shown.

Source: CAA Airport Statistics.

Airport ownership

3 Over the last 20 years, airports in the UK have moved from being predominantly in public ownership to being mainly in private ownership, either wholly or partially (Table 7.3). Whatever their ownership, the evidence gathered during this study suggests that airports generally now have a much more commercial outlook. Their more pro-active approach, and the aggressive expansion of no-frills airlines stemming from the liberalised market, have combined to provide a level of network development that regional airports have lacked in the past.

Table 7.3 Ownership of UK airports

Publicly owned

Airport	Owners
Bournemouth, Manchester, Nottingham 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
Exeter	Devon County Council
Leeds Bradford	Five local authorities
Newquay	Cornwall County Council (civil facilities)
Barra, Benbecula, Campbeltown, Inverness, Islay, Kirkwall, Stornoway, Sumburgh, Tiree and Wick	Highlands & Islands Airports Ltd (owned by the Scottish Ministers)
Dundee	Dundee City Council

Wholly or substantially privately owned

Airport	Owners
Aberdeen, Edinburgh, Gatwick, Glasgow, Heathrow, Southampton, Stansted	BAA plc
Birmingham	Birmingham Airport Holdings Ltd (owned by 7 West Midlands District Councils 49%, Aer Rianta 24.125%, Macquarie Airports Group 24.125%, Employee Share Trust 2.75%)
Belfast International, Cardiff, Luton*	TBI plc * owned by Luton Borough Council but operated, managed and developed by TBI plc under a concession agreement.
Belfast City, Bristol*	Ferrovial * in joint venture with Macquarie Bank Group
Biggin Hill, Southend	Regional Airports Ltd
Blackpool	City Hopper Airports (Blackpool) Ltd 95%, Blackpool Borough Council 5%
Cambridge	Marshall of Cambridge Aerospace Ltd
Coventry	TUI
Kent International (Manston)	Planestation Group Plc
Liverpool, Doncaster Sheffield Sheffield City* Durham Tees Valley**	Peel Airports * Peel Airports 50%, Sheffield Business Park 50% ** Peel Airports 75%, five local authorities 25%
London City	Marketspur Ltd (the parent company is Sandford Ltd)
Newcastle	Copenhagen Airport 49%, seven local authorities 51%
Norwich	Omniport 80%, two local authorities 20%
Plymouth	Sutton Harbour Holdings plc (land leased from Plymouth City Council)
Glasgow Prestwick	Infratil Ltd

Notes: *Airport groups may also own airports outside the UK. Doncaster Sheffield opens April 2005.*

Source: *CAA records, airport websites December 2004.*

Airport competition

4 As noted in Chapter 6, airlines with new capacity to place in the market are continually seeking out new market opportunities. As a result, airports are in competition with one another to secure that capacity. In the course of discussions with airlines and airports there was a general impression that UK regional airports, to varying degrees, were now seeking out business much more actively, perhaps in response to the growth in the airline market, which has stimulated a more commercial approach and a greater recognition of the opportunities this affords for the airport and the wider region. One airline mentioned that in the past it had once started a service to a regional airport without even discussing the level of charges with the airport concerned. This would be unlikely now, and is a measure of how things have changed.

5 Although the competition for airline business may be sharpest between neighbouring airports, there is a degree of competitive tension between airports right across the UK and Europe. Where an airline is considering launching a series of new routes, the process may take the form of a negotiated package. As well as agreement on joint marketing, advertising and so on, this package might include the airport offering a particular level of charges – perhaps encouraging new routes by way of start-up discounts for the first few years – and the airline basing a certain number of aircraft at the airport, perhaps specifying particular routes.

6 Each airport tends to have a preferred portfolio of potential destinations for which it may actively seek services to give a rich and balanced network in terms of destinations (both UK and abroad, perhaps including long haul), scheduled/charter, frequency, and connections to the global network via services to larger hub airports. Those considerations may mean it will focus on attracting a particular type of airline. Case Studies 10 to 12 below provide some illustrations. Research for this study suggested a strong identification between the airport and the community it served, and a partial reflection of that was the airport's preferred portfolio of routes and airlines.

7 Once an airport has managed to attract a new service, it is of course the airline that then competes openly for passengers and attempts to draw them to the airport concerned using fare offers, marketing and advertising. In other words, the heightened competition between airports for airline business is generally hidden from the consumer, as it pre-dates the point at which competition for the final consumer takes place.

8 As noted in Chapter 6, different airports adopt different approaches when it comes to airport charges. Some airports are more willing than others to use lower charges to encourage airlines to set up new services; while others will not negotiate on charges *per se*, but will provide support for marketing a new service, thus reducing the airline's start-up costs. Indeed, a "virtuous circle" can develop whereby airports' more commercial approach, competitive pricing and improved facilities stimulate traffic growth, which in turn generates revenue from non-aeronautical activities and underpins further expansion.

9 However, once an airline has established itself at a particular airport, it may be more difficult for a neighbouring competing airport to attract it away because of the sunk costs involved, particularly when an airline has a large fleet based there. Some established airlines that may not qualify for new entrant deals can be frustrated by the level of airport charges they face, particularly as, with other costs having reduced, airport charges can form an increasingly large element of a short-haul airline's total operating costs. Airlines and airports consulted for this study suggested that where airport charges are low – perhaps in part through discounts, or discounts linked to route development funding – it can make a significant difference to airlines' willingness to open up new routes from that airport.

10 The increasing need for airports to stay competitive is demonstrated by several recent cases where airlines have switched between neighbouring airports – a trend that looks set to continue. For example, in 2004 Ryanair announced it was transferring 70% of its services from Birmingham to Nottingham East Midlands because, according to the airline, Birmingham required Ryanair to pay 100% more in airport charges.[1] Another high-profile switch was when bmi moved the bulk (and eventually all) of its Heathrow services from Belfast International to Belfast City in 2001. Thomson reportedly threatened to move some of its summer 2005 charter capacity from airports with high airport charges, including from Newcastle to Durham Tees Valley.[2] This switching, coupled with the competition between airports to secure new airline capacity referred to above, suggests at least an element of "buyer power" in the regional airport–airline supply chain.

11 Smaller airports may not of course have the deep pockets of larger airports (or airport groups), and where discounts are given to encourage a new entrant airline there will inevitably be rivalry and perhaps controversy. This may be particularly so where a route has been attracted using public funding – such as from a route development fund as discussed in Chapter 8 – or by an airport in public ownership. Less controversial is public investment in surface access infrastructure or wider marketing initiatives that can potentially benefit all airlines.

12 Where two airports share similar catchments, it was, not surprisingly, suggested by the more dominant airport (in several different regions) that this could result in "wasteful competition". The smaller airport, in contrast, tended to argue that competition was good for the consumer, and that there was no reason in principle why a region should not support more than one airport, as was common in the USA. One persuasive argument made was that focusing on one main airport in each region would remove a large element of competitive pressure.

13 There may be arguments that, other things being equal, it is difficult to serve a destination from two neighbouring airports. But there are many examples where, despite the existence of a service to a particular destination from a neighbouring regional airport, a new or existing service to that same destination appeared to prosper. Table 2.4 in Chapter 2 shows five international scheduled services operating from both Edinburgh and Glasgow in 2004, despite the airports being only 49 miles apart; Continental's Edinburgh–Newark service has reportedly had little effect on its existing Glasgow service. easyJet services from Liverpool to various destinations including Madrid, Nice, and Paris have been started alongside parallel services from Manchester (31 miles away). There are a number of parallel domestic services from Belfast City and Belfast International that co-exist. Newcastle and Durham Tees Valley (47 miles apart) have both supported services to Heathrow for many years.

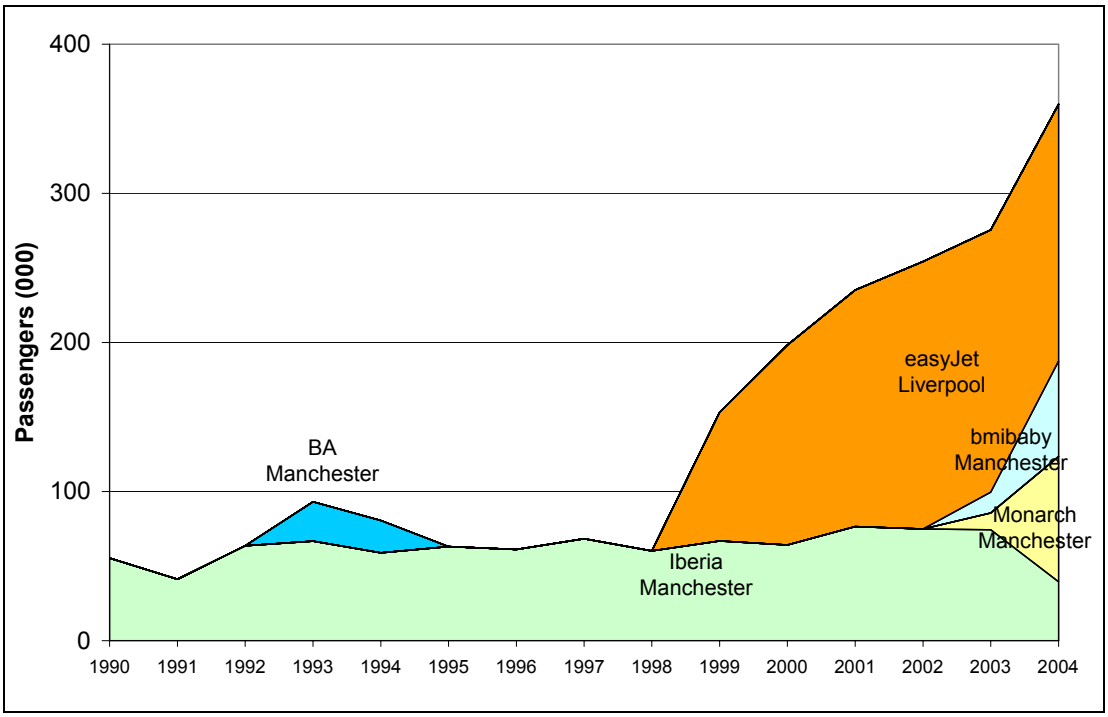
14 Traffic statistics provide considerable evidence to back up the general assertion that the addition of a competitive service can stimulate the whole market to the benefit of both airports. The entry of no-frills airlines on routes to London is a good example, and Figures 4.2 to 4.6 in Chapter 4 demonstrate this effect.

15 Further examples are shown in Figure 7.1 and 7.2 below. Liverpool John Lennon and Manchester airports share a considerable overlapping population catchment in the North West. When easyJet began services from Liverpool, two of its destinations were Barcelona and Nice, points already served from Manchester. On the Barcelona routes, easyJet's entry from Liverpool seems to have had little effect on Iberia's traffic levels from Manchester, and both bmibaby and Monarch also began scheduled services in 2003. However, both Iberia and bmibaby have since suspended services

1. Ryanair press release, 16 March 2004.
2. The Guardian, 21 August 2004.

in 2004, leaving Monarch as the only scheduled operator serving Barcelona from Manchester (Figure 7.1). In contrast, on the Nice routes, BA has actually re-entered the market from Manchester having withdrawn its service in 1996 prior to easyJet's entry from Liverpool (Figure 7.2).

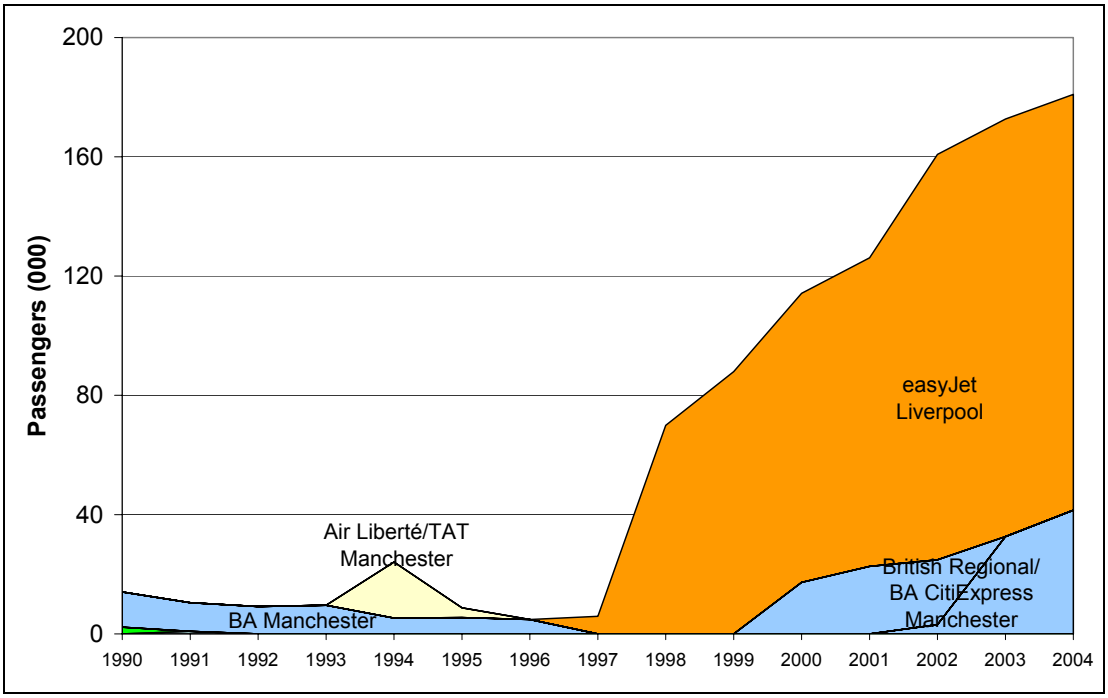
Figure 7.1 Traffic on Liverpool–Barcelona and Manchester–Barcelona 1990–2004



Notes: 2004 statistics are for the 12 months ending November.

Source: CAA Airport Statistics

Figure 7.2 Traffic on Liverpool–Nice and Manchester–Nice 1990–2004



Notes: 2004 statistics are for the 12 months ending November.

Source: CAA Airport Statistics

16 The evidence seems to suggest that competition between airports is the preferred outcome, and that the market is the best determinant of what services can be sustained at any particular airport. Although combining services at one airport may lead to benefits from economies of scale, this will not necessarily provide a better outcome than competition, spurred by the ability of the airlines to switch, which provides a check on airports' pricing and service quality.

Case Study 10: Exeter Airport

Despite having only two scheduled services prior to Summer 2004, to the Channel Islands and Dublin, Exeter was anxious not to lose its charter programme – which had been growing – as a result of introducing a large-scale no-frills airline operation. The package of new scheduled services introduced by flybe in 2004 included a mix of domestic (daily services to Belfast, Glasgow, Edinburgh and Newcastle) as well as "sun" destinations (Alicante, Faro and Malaga – which inevitably caused some reduction in charter flights to those points). As a result, Exeter's passenger figures for 2004 exceeded 0.5m with April to October figures 70% higher than the same period in 2003. Summer 2005 will see further flybe services to Brest, Liverpool, Leeds Bradford, and, significantly, a twice-daily service to Paris, where flybe is making use of slots being released by a Birmingham service that it was previously operating on behalf of Air France.

Source: Exeter airport website and CAA discussions with the airport

Case study 11: Bristol Airport

In 2004 Bristol was served by 12 scheduled airlines and traffic levels reached 4.5m, comfortably exceeding the next biggest neighbouring airports (Exeter 0.7m and Cardiff 2m) put together. Bristol was chosen by Go (now absorbed by easyJet) as its second operating base. It was the first no-frills base outside London with an established "traditional" network of charter and scheduled operations, including services to Scotland, Paris and Amsterdam, which might be seen as potentially at risk from no-frills entry. This distinguishes Bristol from, say, Liverpool, where easyJet set up its first non-London operation but which previously had very few scheduled services.

In fact the entry of a no-frills airline has stimulated the market, and the airport has managed to avoid any loss of existing scheduled services at the airport. For example, KLM Cityhopper (four times daily) competes head to head against easyJet (daily) to Amsterdam, as does BA CitiExpress (five times daily) against easyJet (three times daily) to both Edinburgh and Glasgow. BA CitiExpress also operates to Paris five times daily, having increased frequency to replace frequencies lost after Air France withdrew its own service when the post-merger Air France/ KLM group rationalised services that fed both Paris and Amsterdam hubs. Traffic at the airport is now split 40% no frills, 25% full service and 35% charter. The airport notes that BA CitiExpress has recently expanded its operations from Bristol with new services to Zurich and Milan despite the substantial easyJet operation.

Bristol now has 37 scheduled services, including no less than six with head-to-head competition. This critical mass is now stimulating markets as the significant local catchment area becomes more aware of Bristol as a convenient local alternative to travelling by surface to London, which many had been doing. The most important recent development is Continental Airlines' decision to start a daily Newark service in May 2005.

Case study 11: Bristol Airport (continued)

To illustrate the improved international connectivity, the table below compares the international scheduled departure board at Bristol on a Wednesday in June 1993 with a Wednesday in August 2004.

Scheduled international services from Bristol

9th June 1993			*18th August 2004*		
			06:10	Malaga	easyJet
			06:25	Amsterdam	KLM Cityhopper
			06:40	Alicante	easyJet
07:00	Amsterdam	KLM Cityhopper	07:05	Paris (CDG)	BA CitiExpress
			07:20	Amsterdam	easyJet
07:55	Paris (CDG)	BA	07:40	Palma	easyJet
08:30	Brussels	Sabena	08:20	Dublin	Ryanair
09:00	Dublin	Aer Lingus	08:40	Paris (CDG)	BA CitiExpress
09:35	Paris (CDG)	Air France	10:25	Barcelona	easyJet
10:20	Amsterdam	KLM Cityhopper	10:35	Amsterdam	KLM Cityhopper
			10:35	Nice	easyJet
			10:50	Munich	BA CitiExpress
			10:55	Prague	easyJet
			11:40	Paris (CDG)	BA CitiExpress
			11:50	Bordeaux	flybe
			13:10	Venice	easyJet
			13:40	Dublin	Ryanair
			14:10	Copenhagen	easyJet
			14:10	Dublin	Aer Lingus
14:35	Brussels	Sabena	14:50	Berlin (SXF)	easyJet
			14:55	Bilbao	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
16:35	Dublin	Aer Lingus	16:30	Brussels	SN Brussels Airlines
			16:35	Faro	easyJet
			16:40	Bergerac	flybe
			16:45	Toulouse	flybe
			17:00	Amsterdam	KLM Cityhopper
18:55	Brussels	Sabena	18:50	Dublin	Ryanair
18:55	Paris (CDG)	Air France	19:00	Amsterdam	easyJet
			19:30	Malaga	easyJet
19:50	Dublin	Aer Lingus	19:40	Alicante	easyJet

Source: OAG Database of BACK Information Services and CAA discussions with the airport.

Case study 12: Liverpool John Lennon Airport

Liverpool Airport was acquired by Peel Airports in 1997, currently owners of airports at Doncaster Sheffield, Durham Tees Valley (75%) and Sheffield City (50%). Liverpool lost its Heathrow service in 1992 and had no air link with London for most of the 1990s. At that time the only other scheduled services were to Dublin, Isle of Man, Belfast and Jersey. Passenger numbers remained stagnant at 0.4–0.6m until 1997, when Peel entered into a contract with easyJet for it to act as "anchor" tenant at the airport by setting up its second base there after Luton. By 2002 easyJet was operating to Amsterdam, Barcelona, Geneva, Madrid, Malaga, Nice, Palma and Paris.

Recently other operators have started to see Liverpool as a viable airport with 23 new routes being announced since September 2004 to add to the existing 20. The new routes are to be operated by Air Wales, flybe, Ryanair and Wizz Air (of Hungary). Ryanair has announced that it will base up to four aircraft at Liverpool from March 2005 and will bring the total number of destinations it serves up to 13, including "plugging a gap" with new services to Italy. In terms of much-needed links with UK points, flybe's network will include new services from Liverpool to Glasgow, Edinburgh and Belfast City, and Air Wales' network will include Cardiff and Aberdeen. Passenger levels reached nearly 3.4m in 2004.

The airport believes that the success of the Continental and Emirates services to Scotland – where the conurbations are smaller than the potential catchment area of the North West – will increase the recognition that Liverpool could attract long-haul services. The airport also believes that it could attract significantly more charter traffic, given that its current share relative to Manchester is small compared with the relative size of the catchment areas of the two airports.

To illustrate the rapid increase in international connectivity, the table below compares the international scheduled departure board at Liverpool on a Wednesday in June 1993 with a Wednesday in August 2004.

Scheduled international services from Liverpool

9th June 1993			*18th August 2004*		
			06:10	Amsterdam	easyJet
			06:30	Malaga	easyJet
			07:00	Nice	easyJet
			07:40	Barcelona	easyJet
			07:50	Basel	easyJet
			08:00	Paris (CDG)	easyJet
			08:10	Palma	easyJet
08:50	Dublin	Ryanair	09:45	Amsterdam	easyJet
			10:30	Dublin	Ryanair
			11:55	Geneva	easyJet
			12:05	Berlin (SXF)	easyJet
			12:25	Malaga	easyJet
			12:40	Madrid	easyJet
			12:50	Dublin	Ryanair
			13:30	Cologne	easyJet
			13:55	Paris (CDG)	easyJet
			15:20	Alicante	easyJet
			15:45	Amsterdam	easyJet
			17:20	Nice	easyJet
			17:45	Malaga	easyJet
			17:55	Barcelona	easyJet
			18:55	Amsterdam	easyJet
			19:15	Paris (CDG)	easyJet
			19:40	Palma	easyJet
			20:00	Gerona	easyJet
			20:35	Connaught	Aer Arann Express
21:55	Dublin	Ryanair	22:25	Dublin	Ryanair

Source: OAG Database of BACK Information Services, CAA discussions with the airport.

"Visibility" and perception of airports

17 One recurring theme in the CAA's regional interviews was that regional airports had historically suffered from a lack of visibility. Even the immediate population is sometimes unaware, or at least insufficiently aware, of the scheduled services from their nearest airport. And, at a broader level, there can be serious practical difficulties, as explained below, when the flights on no-frills airlines that are actually providing the main connections to a regional airport, do not show on travel agents' reservation systems.

18 Yet, the more peripheral the region, the more enthusiasm, promotion and local coverage of a new air service there seems to be. Some regional airports have gone to considerable lengths and invested substantial resources to improve their brand image and visibility. For example, Liverpool is now known as Liverpool John Lennon Airport, Teesside is now known as Durham Tees Valley, East Midlands is now known as Nottingham East Midlands, and the new airport opening in 2005 at the former RAF Finningley is named Robin Hood Doncaster Sheffield.

19 Before no-frills airlines entered regional markets, the lack of visibility could probably be attributed to a genuine lack of scheduled services from regional airports, and airline perception that these airports could generate very little demand for scheduled services. Increasingly this is no longer the case. The success of no-frills airlines and airports' own initiatives has changed consumer perceptions massively.

20 But there may still be a need to promote the airport to both prospective outbound and inbound passengers, as well as to airlines. There can be a "snowball" effect whereby, as new services develop, people will become more accustomed to taking a flight from their local airport. Word will spread. The visibility of that airport will grow. The network may achieve a "critical mass", which will then attract more passengers and airlines. This sort of effect seems to have resulted in the recent rush of new services and airlines at Liverpool (see case study).

21 In recent years there have been greater efforts to bring large numbers of airports and airlines together at events such as the annual Routes conference. Such events would seem to be an excellent and cost-effective means of facilitating new services. Discussions appear to have brought together airlines and airports that might never otherwise have contemplated meeting, and to have resulted in new air service proposals.

22 Interviews with some airlines or airports suggested, perhaps surprisingly, that the announcement of a new regional service by one airline seems to attract the interest of other airlines. The implication is that, hitherto, airlines had not been aware, nor made aware, of the potential market that the airport concerned could offer. It is this perceived lack of awareness of the possibilities offered by regional airports that led the Scottish Executive (in association with Scottish Enterprise) to develop the Scottish Route Development Fund, which is discussed in more detail in Chapter 8.

23 In the discussion above it was noted that many regional airports seem to have a preference for a balance between full-service and no-frills airlines. As noted in Chapter 6, a preference for a full-service airline is understandable where such an airline is likely to provide better connectivity to a hub. But there also seems to be a credibility and visibility "boost" for the region in having a globally branded airline serving the airport. Foreign businesses are reportedly reluctant to set up in a city that is perceived as having inadequate air links, and what constitutes "adequacy" may include having a well-known airline operating from the local airport. No-frills airlines like easyJet and Ryanair are becoming well-known, particularly across Europe, but they may not have the same brand awareness or profile that the global alliances such as oneworld, SkyTeam or Star Alliance have outside Europe.

24 There are also more practical difficulties. CAA survey evidence[3] suggests that a not insignificant proportion of passengers are using no-frills airlines to fly to Stansted in order to connect with other no-frills flights and thus access low fares and flights to a wide range of destinations not available from their region. But it is less clear from survey data or discussions with the industry whether long-haul passengers, and in particular non-UK residents and business passengers, would use a no-frills airline as part of a multi-sector journey. As noted in Chapter 5, their ticket is more likely to be booked through a travel agent or travel website, both of which will usually make the booking through a Global Distribution System (GDS), which is not able to book flights on most no-frills airlines. Such passengers may not have the necessary knowledge of UK airline networks to construct their own itinerary, even if there were an advantage in doing so. This can be a serious drawback for an airport that has few or no full-service links. For example, an itinerary request to a travel website or travel agent using a GDS may show no (or convoluted) connecting possibilities using the services of full-service airlines, ignoring what may be feasible using the services of a no-frills airline. Understandably airports are therefore keen to encourage a full-service airline giving hub access to provide the practical visibility through the GDS as well as actual connectivity (via hub airports) to long-haul destinations.

Challenges for capacity development

25 Interviews with industry representatives suggested that there were no major infrastructure issues at regional airports, at least to the extent of any problems being an insurmountable barrier to the expansion of air services. However, the need for access to the airways system and for changes to controlled airspace required for safety reasons could be an obstacle to increased services. In addition, an increase in controlled airspace around regional airports will have a knock-on effect on other users of airspace, and will require the airport to consult with its local community and take into account the environmental impacts of any change. There are also issues around surface access.

26 Some airports expressed their frustration at problems with surface access. For example, planning requirements in respect of road improvements held up outline planning permission for new terminal development at Exeter. The perverse effect of discouraging the development was that passengers are likely to drive much further distances (in the case of Exeter, to Bristol or London), with consequent congestion and environmental implications. One UK airport suggested that it was disadvantaged relative to European airports – with which it is competing for new capacity placed by airlines – because it is expected to fund, or find ways to fund, new access roads that would be paid for by the taxpayer in other countries.

27 A dedicated rail or tramlink to a regional airport is desirable where it is feasible and can be financed, but it might be beyond the scope of the airport's resources, at least without outside assistance. Bus services tend to be locally run and may not serve the wider catchment area. Public transport issues can of course become embroiled in local government politics where airports have overlapping catchment areas and they are potentially competing for funding, or where the catchment covers more than one local authority. For example, a local authority may be unlikely to help set up a new bus route if this pulls traffic from its local airport to a neighbouring one. Such tensions may make public transport access issues extremely difficult to resolve. For example, Liverpool Airport is looking at running or soliciting services from nearby cities in the North West that would be outside the usual operating area of the local bus companies; while easyJet at one time ran seven daily buses from Manchester to Liverpool timed to feed its seven daily Liverpool–Belfast flights.

3. See Table 5.6 in Chapter 5.

28 To conclude, surface access appears to remain a difficult issue in some regions – and it could be one area where greater commonality of purpose among the various Governmental bodies and agencies involved in taking funding decisions and agreeing priorities could be helpful.

Chapter 8 Public policy initiatives

Slot allocation and regional access

1 The extent to which regional access to Heathrow can be protected, and the interaction with the method by which slots at congested airports such as Heathrow are allocated, is an area where there has been lively debate. The lack of availability of Heathrow slots was cited by many industry representatives as the main infrastructure constraint they face.

2 The CAA has long advocated a move away from the existing method of administrative allocation of scarce slots towards market mechanisms as the best means of ensuring the most efficient use of a scarce resource.[1] This could be achieved through a system whereby existing slots can be traded between airlines and potentially between other parties as well, and newly created slots (as a result of a new runway for example) could be auctioned in some way. The recent European Commission consultation on reform of EU slot regulations suggested the introduction of formalised secondary trading of slots. In December 2004 the CAA published its response[2] in support of that general concept and contributed to the UK Government's response to the same consultation.[3]

3 The CAA is aware of concerns that secondary trading might endanger existing regional links at Heathrow. In fact, the choice of switching services away from UK regional destinations to other points may often be forced upon airlines because of the overall constraints at Heathrow and, in the absence of a transparent and efficient secondary slot market, the difficulty of expanding their slot portfolio within these overall constraints. A secondary market in slots could, therefore, provide *greater* opportunities for UK-based airlines to acquire slots and thus reduce the pressure on UK domestic services. In addition, the establishment of a slot market which allowed regional or other public bodies, or business consortia, to purchase slots could provide a means by which slots at Heathrow could be preserved for regional services if the value placed on them by those bodies was sufficiently large to justify the purchase price.

4 The main reduction in regional services from Heathrow occurred during the 1990s.[4] This was primarily the result of more marginal services being squeezed out as capacity became more constrained. There may be some natural constraints on the extent to which the remaining Heathrow-based airlines operating domestic services would wish to reduce significantly the amount of regional feed traffic they bring into an airport they use as a hub, as this would negatively impact on the viability of other services operating from that hub. Without the feed traffic from UK regional (and other) points network airlines would be less able to operate longer haul services at the load factors and profitability that they can currently. Indeed, bmi has recently *introduced* services between Heathrow and Aberdeen and Inverness.

1. "The Implications of Secondary Slot Trading", CAA, November 2001 available at www.caa.co.uk/erg/ergdocs/slotsnov01.pdf
2. "Introducing Commercial Allocation Mechanisms: the UK CAA's Response to the European Commission's Staff Working Paper on Slot Reform", CAA, December 2004 available at www.caa.co.uk/docs/5/SlotReform-theUKCAAFinalResponse.pdf
3. "UK Response to the European Commission's Slot Allocation Consultation", Department for Transport, December 2004 available at www.dft.gov.uk/stellent/groups/dft_aviation/documents/page/dft_aviation_033272.hcsp
4. See Tables 4.2 and 4.6 in Chapter 4.

5 An approach based on secondary trading as the best means of securing continued access to Heathrow from regional airports goes with the grain of commercial decisions and the dynamics of the airline market. The alternative is to attempt to intervene in the market through mechanisms such as the ring-fencing of slots at Heathrow for regional services, as some have advocated. However, such ring-fencing risks imposing a high, and hidden, cost on the aviation industry and on the wider economy.

Public Service Obligations

6 Public Service Obligations (PSOs) are used in the UK to protect certain routes that are vital to the economic development of a region and that cannot otherwise sustain a commercial air service. Provision for a PSO to be imposed by an EU Member State is included in the "market access" Regulation 2408/92[5] that formed part of the liberalisation measures of the EU Third Package that took effect from 1993.

7 If no airline has commenced or is about to commence scheduled air services in accordance with the PSO that has been imposed on that route, a Member State may offer the right to operate the services by open public tender in accordance with Regulation 2408/92. The contract arising out of an invitation to tender, which would normally specify a minimum level of service, including fares, may include the payment of subsidy, taking into account the costs and revenue generated by the service. When initiating a tender process, a Member State may limit access on that route to only one airline for a period of up to three years.

8 Following the imposition of a PSO on a route, it is possible for the Member State to ring-fence slots at airports for domestic scheduled services so that an airline cannot use them for a service to an alternative destination. It is only possible to ring-fence slots currently being used for the regional service concerned. Only slots at airports which have been designated "co-ordinated" under the European regulation on slot allocation[6] can be ring-fenced. Heathrow, Gatwick, Stansted and Manchester are all co-ordinated airports in the UK.

9 Before a PSO can be imposed, Regulation 2408/92 requires that the route must:

- be to a "peripheral region", or be to a "development region", or be a "thin route to any regional airport"
- be "vital to the economic development of the region"
- require a PSO to ensure the "adequate" provision of scheduled air services – in assessing "adequacy", the public interest, other forms of transport, air fares and conditions, and the combined effect of all airlines operating or intending to operate on the route must be taken into consideration.

10 The third criterion suggests that it is not possible to impose a PSO on a route between two cities or regions on which adequate services are already being operated commercially.[7]

5. Council Regulation (EEC) No. 2408/92 of 23 July 1992 on access for Community air carriers to intra-Community air routes.
6. 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) No. 793/2004 of the European Parliament and of the Council of 21 April 2004.
7. See paragraph 4.47 of "The Future of Air Transport" White Paper, December 2003.

11 At present the UK imposes 16 PSOs which are all on routes wholly within Scotland (Table 8.1). Other Member States have imposed PSOs to varying degrees. For example, France has imposed PSOs on 80 routes, more than 20 of which are from Paris Orly and currently being operated;[8] Portugal imposes a number of PSOs linking the Azores and Madeira to the mainland as does Spain on routes within the Canary Islands; and Norway imposes PSO routes to 29 airports (as of 2003), most of which are short runway airports to provide links to remote regions in Western and Northern Norway.[9]

Table 8.1 Public Service Obligations imposed by the UK

Route	Subsidised by	Contract expires	Operator
Glasgow to Campbeltown	Scottish Executive	31.03.06	Loganair
Glasgow to Tiree	Scottish Executive	31.03.06	Loganair
Glasgow to Barra	Scottish Executive	31.03.06	Loganair
Stornoway to Benbecula	CNES	31.03.06	Highland Airways
Benbecula to Barra	CNES	31.03.06	Loganair
Kirkwall to Papa Westray	OIC	31.03.05	Loganair
Kirkwall to Westray	OIC	31.03.05	Loganair
Kirkwall to North Ronaldsay	OIC	31.03.05	Loganair
Kirkwall to Eday	OIC	31.03.05	Loganair
Kirkwall to Stronsay	OIC	31.03.05	Loganair
Kirkwall to Sanday	OIC	31.03.05	Loganair
Shetland Mainland to Foula	SIC	31.03.05	Loganair
Shetland Mainland to Papa Stour	SIC	31.03.05	Loganair
Shetland Mainland to Out Skerries	SIC	31.03.05	Loganair
Shetland Mainland to Fair Isle	SIC	31.03.05	Loganair
Shetland Mainland to Unst	SIC	See Notes	

Notes: *CNES = Comhairle nan Eilean Siar (the Council in the Western Isles of Scotland)*
OIC = Orkney Islands Council
SIC = Shetland Islands Council
While a PSO has been imposed on Shetland Mainland to Unst, there is no air service at present.

Source: *Department for Transport.*

8. Comprising 20 routes from Paris to French regional airports (of which 15 are being operated, all from Orly); 23 routes between French regional airports (only 8 operated); 18 between Corsica and Paris Orly, Lyon, Marseille, Montpellier and Nice (14 operated); six between Strasbourg and principal European cities (all operated); Dijon–London and Pau–Madrid (neither operated); and 11 routes within or to French departments overseas. *Source:* Direction Générale de l'Aviation Civile, 2005 and OAG World Airways Guide.
9. *Source:* Norwegian Royal Ministry of Transport and Communications, 2003. Norway is part of the European Economic Area and therefore within the European single aviation market governed by Regulation 2408/92.

The use of PSOs to protect a regional service to London

12 In 2004 the UK Government consulted on the criteria that it should use to trigger whether and how to protect existing regional air services to London using the PSO mechanism.[10] The CAA responded to the consultation in October 2004.[11] (The Government is still developing its policy following the consultation.) The CAA's views are summarised below.

13 The benefits conferred by the liberalisation of aviation in Europe, both generally and in the regions, suggest that the interests of users will be best served if airlines are free to operate air services in competition with one another according to their commercial judgement, subject only to the application of normal competition policy. Similarly, users will tend to benefit most through airports being run on commercial lines, with their owners seeking to maximise the efficiency and commercial attractiveness of their operations.

14 There may be wider economic and social benefits from air services that cannot be captured by the operator of the air service driven solely by the profit motive. If these benefits are significant, then it may be reasonable for local or national government to seek to support the service. Table 8.1 shows that in the UK, PSOs have been used for precisely this purpose, as these services represent lifeline routes for peripheral communities. PSOs are therefore, in certain circumstances, a necessary and useful tool for protecting air services to regional points, but any proposals for their extension need to be seen in the context of what the market has delivered already, as their use will risk distortion to that market.

15 These considerations suggest that PSOs should be used sparingly and in tightly defined circumstances; they should be restricted to ensuring the retention of essential services and be regularly reviewed, to mitigate negative impacts. This is because PSOs can have downside effects and hidden costs. As noted above, preventing scarce slots at congested airports from being put to alternative uses, i.e. ring-fencing them, could impose a high and hidden cost on the airline industry and on the economy generally.

16 The barrier to entry created where access to the route is limited to one airline only for a set period of time risks stunting innovation and the development of more efficient services, new products and lower fares. It could reduce cost pressure on the airline operating the PSO service and so generate requirement for subsidy. Any exclusive grant of a right to serve a route under a PSO should therefore be non-discriminatory and transparent, with the maximum degree of contestability concurrent with ensuring that a service can be provided. In all cases the PSO should be retendered periodically. The period should be kept short – unless there are extenuating circumstances – and the tender process framed so as to encourage bidding and innovative solutions.

17 The Government's consultation document did not envisage that there would be need for subsidy on regional routes to London, but if a subsidy is paid to an airline to provide a PSO service, the CAA believes that the cost should be borne by those who stand to reap the wider benefits. 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.

18 EU law states that the PSO service must be vital to the economic development of the region. The economic case for a PSO should therefore include convincing evidence to demonstrate that all alternative options for supplying the service have been

10. This followed an announcement in "The Future of Air Transport" White Paper.
11. Available at www.caa.co.uk/docs/5/CAAResponse-DfTConsultationonProtectionofRegionalAirServicestoLondon.pdf

exhausted. It is important to consider carefully in each case whether intervention is necessary or desirable, in order to avoid excessive use of PSOs and consequent re-regulation and distortion of competition in the market for UK domestic air services, and to minimise any potential for airlines to "game" the system.

19 The Government's consultation paper stated that the 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 other London airports. This will help to limit the potential negative impacts of a proliferation of PSO routes on the most economically efficient usage of slots at very constrained airports such as Heathrow.

Route Development Funds

20 Airport operators routinely offer incentives to airlines to "kick-start" the inauguration of new routes, usually in the form of a package of discounts on airport charges or marketing support. Some routes may also qualify for assistance from a Route Development Fund (RDF), whereby incentives are provided by regional bodies to services that are deemed beneficial to the region's overall economic development, encouraging inbound tourism or new business, and that meet the criteria of the fund. The funds bring together key public sector economic development stakeholders – including regional administrations, regional development agencies and tourism authorities – in the decision-making process and allow them together to influence the air services being attracted to the region. The RDF implemented by the Scottish Executive in 2002 has proved particularly successful in helping to attract a range of new direct services to Scotland, with offers having been made on 28 routes by the end of 2004 (see Case Study 13). The Government's *The Future of Air Transport* White Paper[12] subsequently invited the Welsh Assembly Government and the English Regional Development Agencies to consider whether they would wish to set up an RDF to encourage the establishment of new services from regional airports in their areas and to consider what priority they would attach to such a fund. By the end of 2004, the Northern Ireland fund had announced support for seven new routes. The North West Development Agency announced its intention to set up an RDF in November 2004, and other Regional Development Agencies and the Welsh Assembly Government have also shown an interest.

21 As the White Paper made clear, any such fund needs to comply with UK and EU law, especially in respect of state aids and competition. The Government is now working with regional bodies to develop guidance for devolved administrations and development agencies, in the form of a protocol to which they can voluntarily adhere. The guidance will be concerned with the operation of all funds to ensure that they are compatible with the "Manchester"[13] and "Charleroi"[14] decisions, and any further guidance the Commission may subsequently publish. The Government also aims to address any emerging problems with funds and to keep under review the contribution they are making to regional economic development targets. The funds currently in operation are subject to strict conditions and are intended to provide support for routes that are likely to be commercially viable after the first three years. The budgets for these funds are spread over three years; after this period the fund managers will need to decide whether there is a case for continuing to operate the fund, based on the needs of the region.

12. Paragraphs 4.41 to 4.43 regarding the establishment of the Scotland and Northern Ireland funds.
13. European Commission Decision of 14 June 1999, United Kingdom – Manchester Airport, State Aid NN 109/98.
14. European Commission Decision of 12 February 2004, OJ L137, 30.4.2004.

22 The views of the industry itself about the use of RDFs seem somewhat polarised: some regard such funds as very important, while others see them as unnecessary or potentially distortive. Some development agencies are quite clear that an RDF is a worthwhile investment of public funds, for example because new air services that bring wider benefits to the region are achievable for a reasonable outlay, whereas improvements to other transport modes may be difficult to achieve. There is a consistent view that the availability of funding – not surprisingly – should help to make the airport more attractive to airlines. In other words, it would move the airport up the "league table" of airports in Europe for airlines (particularly no-frills airlines, but also other airlines – like Continental, or Emirates) that see the UK regions as a growth opportunity for new capacity coming on line. Airlines are seen as having taken all the "low-hanging fruit" routes and the decisions are now much more marginal and hence can be swung by relatively small amounts of temporary funding. Others seem more cautious, pointing to the difficulty of ensuring RDFs will deliver value for money and considering whether alternative uses of the money might be more productive.

23 The financial support from an RDF will not, in isolation, be the sole reason for the development of new services. The amounts involved are relatively small, and as noted below some services qualifying for funding have been withdrawn while other significant services have started without funding. Experience with the Scottish and Northern Ireland funds suggests that the establishment of a fund, financial support aside, may be raising the profile of the airports and region concerned, encouraging airports to be more dynamic in their marketing, and generally attracting interest from airlines. In other words, what seems to be particularly important is that a fund represents a firm recognition that the airport and the region are prepared to share the financial risk of a new service with the airline. That seems to generate confidence in the airline and a "feel-good" factor that spreads to other airlines and thus other routes, some of which do not qualify for funding but may be inspired by new routes that do.

Case Study 13: Route Development Funds

The Scottish Route Development Fund

The fund was created by the Scottish Executive in November 2002. Its stated aim is to redress the barriers to economic growth caused by international scheduled destinations being underserved from Scotland. The fund is managed by Scottish Enterprise and exists to support year-round new direct scheduled services which will bring tangible economic benefits to Scotland, including reductions in journey times, the creation of day-return trips to overseas destinations, stimulation of export markets, direct employment and improved global connectivity. The Scottish Executive claims that the £6.8m fund (spread over three years) will create an estimated economic benefit of £150m over ten years and around 600 tourism jobs. As of December 2004, eight different airlines were receiving support, and there were 17 routes that had been offered funding and that were being operated or were proposed, including eight Ryanair routes from Prestwick, and two long-haul routes that are seen as strategically very important for Scotland, Continental's Edinburgh–Newark and Emirates' Glasgow–Dubai services. Seven funded routes have been withdrawn – five routes from Edinburgh operated by Duo (which went out of business), Edinburgh–Jersey (bmi) and Inverness–Stockholm (Snowflake).

The Northern Ireland Air Route Development Fund

The fund was launched in September 2003 and is administered by Air Route Development (NI) Ltd, a new company set up by Invest NI. The £4m fund provides investment support to local commercial airports for up to three years. It is aimed at helping the airports to reduce the costs of landing charges on new routes that are shown to be of net economic benefit to Northern Ireland. As of December 2004, seven routes have been offered RDF funding, including Continental's Belfast International–Newark service and easyJet services to Paris, Nice and Geneva.

The North West Air Services Development Fund

The Air Services Development Fund is the first English regional fund. It was launched by the North West Regional Development Agency in November 2004 for an initial three-year period starting in April 2005.

Source: relevant websites and CAA discussions with the fund managers.

24 The CAA believes that there are certain circumstances where using RDFs could 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. The CAA recognises the success of the Scottish and Northern Ireland funds in bringing forward new routes and changing perceptions, although there are a number of routes from Scotland that qualified for funding that are no longer operating. RDF funding will not necessarily generate a sustainable service (for example the Inverness–Stockholm service[15]) where other essential factors for success such as the right aircraft, fares and slot times are not also in place. One factor that may determine the long-term viability of a route is the amount of inbound traffic it can generate. Some routes to Scotland and Northern Ireland that airlines see as a good commercial prospect are being started without RDF funding. Examples are as Aberdeen–Heathrow (bmi), Glasgow–Philadelphia (US Airways), Belfast–Prague and Belfast–Barcelona (both Jet2.com), while easyJet's services at Belfast are a package of funded and unfunded routes.

15. See Case Study 3 in Chapter 4.

25 Moreover, financial support could have the undesirable effect of:

- replacing private sector funds with public sector funds to the detriment of the taxpayer and to the benefit of the airline;
- encouraging airlines to operate routes that are not actually commercially viable, such that when the funding dries up either the route is discontinued or the airline's financial position is more precarious – including:
  - the use of (perhaps spare) aircraft that are too big for the likely traffic demand;
  - encouraging small airlines to over-expand;
- discouraging other airlines from entering the market in competition with a subsidised service;
- potentially creating a "race to subsidy" as each region seeks to outbid its rivals in attracting air services using public funds;
- encouraging gaming behaviour by airlines or airports to gain the benefit of subsidy.

26 Regional bodies contacted during research for this study were aware of the potential for displacement, gaming and subsidy races, and the existing criteria for the Scottish and Northern Irish schemes are designed to try to reduce these risks. Similarly, the Government is clearly aware of these same issues and its ongoing work in developing a protocol for the use of RDFs is welcome.

27 With this in mind, any support should be based on non-discriminatory criteria and open to any airline. It should be no more than is necessary to kick-start a route and support it for a short period while it becomes established. In other words, it should accelerate development of a route that might otherwise have been a marginal decision.

28 As with PSOs, the CAA recognises that there may be positive externalities connected to the provision of regional air services, and because these may not be captured through the decisions of airlines based solely on the profit motive, this may justify financial support in some way. The support should be provided by those benefiting from the positive externalities arising from the service (i.e. regional stakeholders) so that they will accurately price the value of the service and expose what they are truly willing to pay for. A properly run RDF should be a way of sharing the start-up risk among the airline, airport and region.

29 The CAA does however suggest a cautious approach to the use of RDFs. There remains a need to avoid excessive use of subsidies because of the potential market distortions this could create; and it will be important that decisions on RDFs are taken against the backdrop of the overall growth in unsupported services from regional airports, which suggests that the market can, in the main, work well without public intervention.

30 Any policies put in place should seek to minimise these downside risks – and must not infringe European state aid rules. The role of central Government in relation to RDFs, as set out in *The Future of Air Transport* White Paper, should primarily be facilitative and focused on providing guidance on such legal issues.

Chapter 9 Conclusions

1 The foregoing analysis of data, and interviews with industry, shows that UK regional air services are in a good state of health and have enjoyed a period of substantial and sustained growth in recent years, although there are variations between regions.

2 The growth in UK regional air services has been fuelled by liberalisation of the EU aviation market from 1993, which provided opportunities for new entry, particularly from no-frills airlines. The greater competition this has brought has in turn driven lower fares, shorter journey times, other innovations and stimulation of passenger demand. Airlines and airports are now more fully promoting the attractiveness of regional services and exploiting the propensity to fly of passengers in the local catchment areas. A rich mix of short-haul airlines serving a wide range of UK regional airports has developed, offering a range of different products.

3 The growth story includes big increases in the numbers of passengers travelling to and from UK regional airports, and also in the number of destinations (including "business" destinations) being served. All of this is good news for consumers, for business, for the regional economies, and for the UK as a whole; and it brings the additional benefit of reducing the pressure on overstretched London infrastructure as more passengers make use of direct services from their local airport rather than travelling through London.

4 The growth in international services from the regions has primarily been in the short-haul market, but there are some signs of an increase in long-haul services from regional airports. Long-haul services from regional airports are, however, always likely to be more limited by the absolute size of catchment areas and the need for feed traffic to make them commercially viable – something that a true hub airport can offer but is harder for regional airports to match. An interesting development is the use of smaller narrowbody aircraft for services to the US from airports like Bristol and Belfast – paralleling the trend in the last 10 years for full-service airlines to operate 50-seat regional jets on some relatively long, thin short-haul routes.

5 In response to these changing market conditions in the airline sector, regional airports have themselves changed the way they conduct their business. They appear to be adopting a more commercially focused approach, seeking to maximise non-aviation revenues in order to price their landing fees competitively and improve their facilities, attract services to their airport and realise the full potential of their business and the regional economy. There appears to be a greater propensity for some airlines to switch operations between UK airports than before, suggesting that in certain circumstances, for some airports at least, there may be a shift in the balance of power between the airport and the airline.

6 The perception of regional airports as a place to do business has improved significantly since the early 1990s as the success of new entrants has demonstrated their commercial potential and as regional airports have successfully marketed themselves. However, there may be some residual problems regarding the low public profile of some regional airports among potential airline customers.

7 Access to Heathrow remains an important issue for regional airports and regional economic development, and in particular for passengers wishing to connect to other services. There has been some reduction in services between UK regional airports and Heathrow over the past decade. However, overall, London is better served from the regions than in the past, with more services at Gatwick, Stansted, Luton and London City that numerically much more than offset the loss of Heathrow services.

In addition, links to other European hubs from regional airports can provide an alternative means of making connections, and survey data suggests that passengers may also be using Stansted for connections to the no-frills short-haul network there.

8 The main physical constraint cited by industry representatives was the availability of slots at congested airports, particularly Heathrow. The introduction of a formalised market in slots seems 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.

9 There are some arguments for initial, limited support for new services to regional airports (including overcoming information and perception problems) and there is some evidence from Northern Ireland and Scotland that public funding via Route Development Funds can bring forward new services. However, this sort of support should continue to be used cautiously and against strict and transparent criteria.

10 Imposing Public Service Obligations may also in some cases be appropriate to maintain essential air services providing they are used sparingly, in tightly defined circumstances, and are regularly reviewed, to mitigate negative impacts. Preventing scarce slots at congested airports from being put to alternative uses, i.e. ring-fencing them, could impose a high and hidden cost on the airline industry and on the economy generally.

11 The challenge for Government, regional bodies and the aviation industry would appear to be how best to ensure a continuation of what has largely been a success story in the regions, delivered through the normal workings of the market, and removing residual regulatory impediments. The policy position in relation to liberalising fifth-freedom (or indeed other) traffic rights available to overseas airlines from UK regional airports may be an example of the latter.

12 Connectivity of UK regions to key domestic and international destinations contributes to their growth potential, and air transport is the main conduit for this. Over the last two decades there has been a massive improvement in this connectivity, delivering direct benefits to passengers and, potentially, wider economic benefits to the UK regions. This has been almost entirely delivered by the market responding to the incentives created through liberalisation. Policy makers at all levels should seek to work with the grain of the commercial incentives that have driven the success of UK regional air services so far.