

Response to the Assembly for Wales Enterprise and Business Committee Inquiry into the Future of Welsh Ports and Airports

1. About Flybe

1.1 Flybe welcomes the opportunity to submit a response to the Assembly's inquiry into the future of Welsh ports and airports. Headquartered in Exeter, Flybe is proudly and determinedly a regional airline and is both Europe's largest regional airline and the UK's number one domestic airline. Employing around 3,300 staff, we currently operate 84 aircraft on 211 routes from 36 UK and 62 European airports (*all routes on sale Jan '12-Oct'12*) in 18 countries and carried more than 7 million passengers in 2011. CAA statistics show that, during 2011, Flybe was responsible for 120,383 air movements, nearly 13% of the total for the UK. This made us the third largest airline in terms of departures from UK airports, behind only British Airways and Easyjet.

1.2 Flybe has established a comprehensive regional route network and our spread of airports is intended to offer customers a convenient point-to-point network operating from regional airports which are a preferable alternative to having to travel to more distant major hub airports. In addition, the domestic route network does not attempt to compete with surface transport where alternative road or rail options give journey times of three hours or less. As such, and because we offer three times more domestic routes than our nearest competitor, Flybe can legitimately claim to understand the needs of the UK's regions better than any other airline.

1.3 Since October 2008 Flybe has also operated a franchise arrangement with the Scottish airline Loganair, under which 16 Loganair aircraft fly using the Flybe brand across 28 routes, serving island communities such as the Shetland and Orkney Islands and other transport-isolated areas.

2. Flybe in Wales

2.1 Flybe started operating a scheduled network of services from Cardiff airport in April 2007, following the acquisition of BA Connect, British Airways' regional business. Initially the programme consisted of Belfast City and Paris CDG and then in March 2008, we introduced flights to Edinburgh, Glasgow, Jersey and Newcastle – all of which except Newcastle are still in operation.

2.2 CAA passenger numbers for 2011 show Flybe as the biggest scheduled airline at Cardiff, as follows:

Flybe – 220,805

BMI Baby – 196,584

KLM – 121, 674

Aer Arran – 60,705

2.3 Of those Flybe passengers, 41,677 flew to Paris CDG and of that number, some 11% (4,577) then connected on to other airports, confirming the importance of this route in accessing global destinations. For the record, the most popular destinations for those connecting passengers are:

- Dubai
- Tokyo
- Rio de Janeiro
- Seoul
- Johannesburg
- Doha
- Hong Kong

3. Regional Aviation

3.1 Welsh Business and leisure travellers need reliable, regular and reasonably priced transport links to UK and international destinations. Passengers rely upon services to and from places such as Northern Ireland, Scotland and the Channel Islands; services that in many cases, cannot be replicated, either in terms of speed or comfort, by train, car or ferry. Increasingly, as can be seen from the figures above, this is also true for access to European cities such as Paris and Amsterdam.

3.2 Regional aviation is a challenging business with many recent examples of failed operators both here in the UK and across Europe. This is in part due to the high risk and highly competitive nature of aviation and in part due to EU State Aid regulations being more stringently applied in relation to financial support of traditional flag carrier airlines. We would be happy to expand upon this at the evidence session.

3.3 Surface access and public transport, both road and rail, needs to be improved to the overwhelming majority of the airports we serve and Cardiff is no different. For a best practice transport hub that connects rail, road and air, we would recommend the Committee examines Southampton airport. It has all the features that a 21st century integrated cross-modal facility should have, with a train station a matter of 100 metres from the check-in hall and rapid access to both the M27 and the M3. Of note, Flybe's post-code analysis of where our passengers commence their journey shows that increasing numbers are from South and

West London, and are opting to travel from Southampton airport rather than the busier, slower alternative of Heathrow.

3.4 The current state subsidy for the rail network, at £5.2 billion in 2009-10 (the last full year's figures available), dwarfs anything that the aviation sector receives and gives lie to the aviation subsidy myth that unfortunately still pervades much commentary on this issue.

3.5 Flybe understands and accepts that major regional transport infrastructure improvements such as those in relation to road and rail need Government pump priming funds to enable delivery. Aviation on the other hand, pays all its own infrastructure costs and all its own security costs. Because aviation does not receive any public subsidy, it is the individual airline's responsibility to fund our own investment. In our case, Flybe has invested over \$2bn in recent years in new generation aircraft and now has one of the youngest fleet in the world, with an average aircraft age of 4.4 years. Ultimately, we would hope to recoup those costs by means of increased efficiencies, lower servicing costs and less expenditure on fuel, however, encouragement through the tax system for such investment would be a sign that the government backs those airlines who dispose of ageing aircraft and replace with newer.

4. Air Passenger Duty

4.1 Air Passenger Duty is a barrier to economic growth. It is well documented that the UK has the highest aviation tax in the world – a seriously short-sighted policy for an island nation. As can be seen from the table below, the numbers of UK domestic air passengers has fallen by nearly 20% since 2007-08. While this drop has clearly been in part the product of the recession and continuing economic challenges, the fact that APD for a domestic flight was £5 per passenger per flight in 2007-08 and is now £13 per passenger per flight has undoubtedly had an impact.

	2007/08	2008/09	2009/10	2010/11	VAR 2010/11 - 2007/08
Total Domestic	23,823,789	21,756,515	20,226,330	19,656,739	-17.5%

4.2 Flybe commissioned an economic analysis by Oxera of the regional impact of APD which showed that a reduction in the tax for the regions but not London has relatively little impact on London itself - mainly because the proportionate impact on regional airports of a small percentage of passengers switching from London is quite substantial.

4.3 Flybe argued strongly in our response to the Treasury's consultation that any reform of the banding structure of APD must remove the inherent unfairness that means UK domestic passengers pay the tax on both legs of their journey, while those flying abroad pay just once

because APD is a departure tax and only applies to outbound flights from the UK. The fact that a return passenger travelling between Belfast City and Glasgow (208 miles) pays *double* the tax that someone flying between Glasgow and Dalaman in Eastern Turkey does (4,086 miles) is not just inequitable - it is scandalous. Although the Westminster government decided against such an amendment, Flybe still believes that this 'double hit' must be addressed in order to safeguard UK domestic aviation and UK regional economic competitiveness.

4.4 The Westminster government recognised, both in its APD consultation document and response, the important role played by aviation in supporting regional economies. The economic development of any region is dependent upon the access and communications into and out of that region. Any reform of taxation must take into account the needs of the UK regions and not fall for media spin that all domestic aviation is bad. The Government must strive to protect communities and businesses where flying is a necessity, not a luxury. The vast majority of domestic flying (some 70%) is time-sensitive business travel and Visiting Friends and Relatives (VFR). Such flying is essential to the UK regional economies both directly in business travel and through the support to employment mobility and social cohesion in VFR traffic and is patently more important than 'fly away' tourism that contributes nothing to 'UK plc'.

4.5 Flybe supports the devolution of APD to Northern Ireland, Scotland and Wales. Should such devolution happen, Flybe would recommend checks and balances being in place to safeguard regional services ahead of tax breaks for 'vanity routes' to long-haul destinations that would otherwise not be economically viable.

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