

The following response has been prepared by Tees Valley Unlimited (TVU), the Local Enterprise Partnership for Tees Valley, Durham Tees Valley Airport (DTVA), Darlington Borough Council (DBC) and Stockton Borough Council (SBC), in response to the Davies Commission's 'Aviation Capacity in the UK: Emerging Thinking' consultation.

TVU, DTVA, DBC and SBC strongly support the emerging thinking of the Davies Commission that regional airports have a role to play in meeting future aviation capacity needs in the UK. However, we believe that a more holistic approach should be taken which does not solely focus upon easing capacity issues in London and the South East and recognises the importance of smaller regional airports, like DTVA, not just for the local economies they serve, but also for UK PLC as a whole. Therefore, we would like to make five key points (set out in detail below) which seek to explain and reinforce our thinking;

- 1. Smaller regional airports can make a real contribution to capacity shortages over the next 10 years**
- 2. Local and national economies can benefit from introducing differential APD**
- 3. Access to London/a national hub and potential slot-ring-fencing is crucial for smaller regional airports**
- 4. Smaller regional airports are developing as focal points for economic clusters and business connectivity**
- 5. Government can enact measures to reduce regulatory costs and improve the commercial viability of smaller regional airports**

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1. Smaller regional airports can make a real contribution to capacity shortages over the next 10 years

- 1.1. There is clearly a role for smaller regional airports, such as Durham Tees Valley Airport and others, to help the UK cope with increased aviation demand. Such redistribution would help accommodate this expected growth as set out by the Davies Commission and help rebalance the economy, providing further economic benefits for areas like Tees Valley. As the Commission recognises, regional airports “offer cheaper land charges and, often, faster boarding times, with cheaper parking for passengers.”
- 1.2. We agree fully with the emerging findings that “airlines will chose to fly from the airports that best meet the needs of their passengers,” but believe that government can incentivize operators to consider how best to meet the needs of passengers and businesses in the North of England. There are also emerging opportunities for the likes of DTVA to increase freight and logistics traffic, easing the pressure on the South East. We would, therefore, encourage the Commission to not solely focus on the needs of London and the South East.
- 1.3. Durham Tees Valley Airport has a key and well patronised thrice-daily flight to Amsterdam Schiphol, which is considered key by the local business community, but there is also demand for a restored London link (the previous service was very well used) which would benefit both Tees Valley and UK PLC.
- 1.4. As a recent IPPR North report¹ has highlighted, “there is a worrying trend toward closing connections to regional airports in favour of more profitable routes.” With this in mind, national aviation policy should clearly reflect and consider not just the impact upon passengers and businesses in the South East in terms of capacity, but also the economic impact that key flights and routes from smaller regional airports have upon local economies. We disagree with the Commission’s findings that “links to other European hubs from regional airports is not always the best solution either for passengers or for the environment,” as the link from Tees Valley to Amsterdam is critical for local businesses and competitiveness.

2. Local and national economies can benefit from introducing differential APD

- 2.1. As the emerging thoughts of the Commission suggest, “the persistent and tightening capacity constraints at key airports in the South East indicate that the market alone will not resolve” the issue of capacity constraints. There is clearly a need for government intervention in the form of introducing differential APD for a number of reasons (that we believe will not lead to “perverse consequences” as the commission suggest):
 - Regional airports in the UK have to compete with those across Europe for operators, regardless of whether these competitors are located next door. It does not seem fair or in any way aligned to the strategy of rebalancing the national economy, that airports such as DTVA are disadvantaged, while Northern Ireland is supported.

¹ IPPR North, ‘Faraway so close: The North East as an International Gateway,’ Oct 2013: <http://www.ippr.org/publication/55/11358/faraway-so-close-the-north-east-as-an-international-gateway>

- The devolution of APD powers to Scotland will further disadvantage regional airports in the North of England if regional airports do not benefit from reduced rates of APD. This could lead to a leakage of operators, flights and economic impact away from areas like Tees Valley at a time of economic uncertainty.
- Reducing APD rates can act as a further lever to attract foreign direct investment particularly in advanced manufacturing where Tees Valley is at the forefront of the UK drive. It can provide a fillip to help regional economies in the UK compete on a more level playing field across Europe.
- APD currently acts as a disincentive for operators to establish new routes from regional airports, holding back a nascent export-led recovery taking place in Tees Valley.
- A reduction in APD would make DTVA more competitive, adding further stimulus to a Tees Valley economy that is generating a clear sense of momentum through its Enterprise Zone, over £100m of RGF funding and the 9,000 private sector jobs created since the beginning of 2011.

3. Access to London/a national hub and potential slot-ring-fencing is crucial for smaller regional airports

- 3.1. As mentioned above, a key issue for regional airports, such as Durham Tees Valley Airport, is slot access at Heathrow and in that way we believe that potential ring-fencing for local and regional services is vital, both to improve connectivity for our residents and businesses, but to take the pressure off London and the South East. The key measure that government could put in place in order to enhance regional connectivity – itself an ingredient of economic growth – is to mandate landing slots at Heathrow for a number of regional flights. This could be achieved by offering slots with lower landing charges to regional airports and promoting the use of flights from Heathrow that would serve two regional destinations, such as DTVA and Aberdeen.
- 3.2. The inability to access Heathrow from smaller northern airports effectively means that Heathrow is only an international hub for the South East and not a national asset serving the whole of England. With High Speed Two (HS2) only reaching up to Leeds, Tees Valley and other areas in the North East are hit by a double whammy of poor rail and air connectivity to the nation's capital at a time when such links are of vital importance for local economic growth.
- 3.3. Public Service Obligations (PSOs) would be a useful mechanism to achieve this, but such tools must be backed up by subsidies to make routes viable. Equally we would support policies that reduce landing charges at Heathrow for arriving domestic flights (which would then obviate the need for subsidies). The experience of TVU in trying to pursue a PSO is that the procedures need to be simplified to make them workable. It would be far better to ensure, through the regulatory process, that the landing charges and slot allocation procedures are amended to ensure that regional flights are viable.

4. Smaller regional airports are developing as focal points for economic clusters and business connectivity

- 4.1. Durham Tees Valley Airport, as with smaller regional airports across the UK, is developing as a focal point for growing economic clusters and business connectivity. DTVA already makes a large impact on the Tees Valley economy, supporting 600 direct and indirect jobs and contributing £37m annually in GVA. This includes a cluster of innovative businesses on site, from giant military training and airport inspection firm, Cobham Aviation and the Serco International Fire Training Centre to specialist aviation operator Weston Aviation, freight forwarder Camair and aircraft maintenance, overhaul and repair experts Sycamore Aviation.
- 4.2. With the contribution of the aviation industry to economic growth being its facilitation of business connectivity and international trade, an airport is of crucial importance in facilitating inward investment, supporting Tees Valley's critical mass of export-led businesses and helping to grow aviation-related activity on the airport site.
- 4.3. Durham Tees Valley currently serves one of the UK's most important industrial complexes including over half of the country's petrochemicals industry and over a third of the pharmaceutical industry. It also caters for a growing renewable energy base servicing offshore wind and oil and gas projects around the world, including supporting Tees Valley's growing reputation for subsea excellence and innovation. Existing major users of the Airport include the likes of multinationals SABIC, GSK, Huntsman, AMEC and ABB Engineering, with Tees Valley having close industry links across the globe; from France (EDF, Mersen), Holland (Heerema, Hertel) and India (Firstsource, Tata Steel, Tetley) to Saudi Arabia (SABIC, Cleveland Bridge), the USA (Cummins, Darchem, Huntsman) and Japan, Thailand and Singapore (Nifco, Dupont, SSI, SembCorp). Such firms have invested millions of capital expenditure in new projects in Tees Valley over recent years.
- 4.4. A vibrant airport operation enhances the proposition of the area, increases its competitive advantages and highlights it as an investment destination. Safeguarding the airport and creating momentum would provide a more robust proposition to a potential inward investor, and would considerably help to improve the perception of the Tees Valley area as a place for international business. To ensure export-led growth, particularly in the advanced manufacturing sector, a vibrant local airport with international links is therefore crucial.
- 4.5. This is a critically important service for the process industries, advanced manufacturing and engineering sectors, particularly those in foreign ownership and those who serve an international client base. It provides ease of access for sending staff and executives overseas, as well as hosting clients or senior company executives. In fact, the Tees Valley is the largest integrated chemical complex in the UK and the second largest in Western Europe. It is home to a range of key clusters in the chemical sector – particularly at Wilton, Seal Sands and Billingham – including refining, petrochemicals, speciality and fine chemicals, plastics, biotechnology and pharmaceuticals. Therefore, Tees Valley is recognised as the pre-eminent chemical production location in the UK due to its nationally-recognised centre of excellence, the Centre for Process Innovation at Wilton, and having attracted over £750m of inward investment in the past 3 years alone from world-leading companies such as SABIC, Mitsubishi, Ineos, Air Products and Lotte Chemical. There are hundreds of firms in the process supply chain and, by generating sales in excess of £10bn per annum, the process industry based in Tees Valley is a key driver of not only the regional, but also the national economy.

5. Government can enact measures to reduce regulatory costs and improve the commercial viability of smaller regional airports

- 5.1. In order to create a vibrant aviation offer in the UK and support future demand growth, Government can enact measures to reduce costs for smaller regional airports, such as reducing landing charges (as outlined above), and also support schemes that improve the commercial viability of such important economic assets.
- 5.2. An example of just such a scheme is Southside at DTVA. Southside is a consented aviation related industrial park within Durham Tees Valley Airport and DTVA have twice applied to Regional Growth Fund for support with the costs of providing road infrastructure which would unlock airport related development, in turn providing vital financial support for the Airport and underpinning its viability.
- 5.3. The scheme would allow for the expansion of activities of existing operators at the airport, including the Serco International Fire Training Centre (ITFC). The ITFC is the leading fire training centre in the world, working for airports and organisations across the globe. They currently offer fire training and consulting services to airports, industrial and maritime clients from around the world. New facilities and better accommodation with easier fire ground access – which Southside would provide – could enable Serco to increase their growth within established international markets, such as the Middle East and continental Europe.
- 5.4. As well as safeguarding and allowing for the expansion of the ITFC, the new road would allow DTVA to promote and develop further aviation related industrial development, building on the success of firms such as Sycamore Aviation at DTVA. Sycamore is a newly formed company which began occupation of a 45,000 sq ft hangar at DTVA in October 2012. Sycamore has set up its base at the airport and has already begun work on the part by part dismantling of a number of airliners, using state-of-the art methods to deal with the growing demand for recycling facilities, employing qualified aircraft engineers to remove and catalogue each component ready for potential re-export, the value of which can be in excess of £10million per aircraft.
- 5.5. The DTVA Southside project is therefore focused on aviation sectors requiring or benefitting from adjacent aviation infrastructure in B1, B2 and B8 accommodation. DTVA Southside allows for direct and indirect access to the taxiway and runway and will therefore appeal to logistics and supply chain businesses with particular links to the petrochemical, offshore and advanced manufacturing strengths of the Tees Valley area. The site has excellent road links and potential for an adjacent rail link.
- 5.6. TVU and the local authorities supported the bids to RGF because of how it can assist with the retention and expansion of SERCO, help underpin a viable passenger airport and secure aviation-related growth in the Tees Valley economy, principally through the start of development at Southside. Unlocking this aviation and logistics business park, through new highway and services infrastructure, has the potential to provide more than 1,400 new jobs over the next ten years and it is forecast to create up to 1,500 new jobs, safeguard 600 and support 100 construction roles, as well as bring up to £60m into the local economy.

- 5.7. This project is both at the heart of the Tees Valley's ambitions to grow the local economy, particularly in key sectors such as export-led advanced manufacturing, creating wealth and employment for our area, and such schemes should therefore be considered to be important by government in making a major contribution to the UK in terms of both economic impact and assisting in relieving some of the pressure and capacity constraints that increased aviation demand will create.