

STATES OF GUERNSEY SUBMISSION TO THE AIRPORTS COMMISSION**2 FEBRUARY 2015****Executive summary**

1. The relationship between Guernsey and the UK is very close – not just constitutionally, but also socially and economically. Guernsey is within the Common Travel Area, its people have British nationality, and for the purposes of aviation its airport is a regional airport within the British Isles.
2. As an Island, Guernsey is entirely dependent on air and sea links for connectivity. Given the close relationship between the UK and Guernsey, recognition of the importance of that relationship in aviation policy would be of huge and positive significance for Guernsey Airport and for the passengers who rely on Guernsey all year round, both for lifeline reasons and for economic reasons.
3. The net economic contribution that Guernsey's economy makes to the UK's economy is enabled through air connectivity. Air connectivity should be reinforced and enhanced to the benefit of both Guernsey and the UK.

Introduction: about Guernsey

4. Guernsey is a self-governing dependency of the Crown with its own directly elected legislative assembly, its own administrative, fiscal and legal systems, and its own courts of law. Although Guernsey is not part of the UK, it is part of the British Isles and there are very strong economic, cultural and social links between Guernsey and the UK. The people of Guernsey have British nationality and Guernsey participates in the Common Travel Area. Guernsey is not represented in the UK Parliament but the Crown – in practice through Her Majesty's Government – is formally responsible for the Island's defence and for its formal international relations.
5. Guernsey is not a member of the EU. However some aspects of EU law apply, as set out in Protocol 3 to the UK's Treaty of Accession to the European Union, which essentially relates to trade in goods and the EU Customs Union.

Population and economy

6. Guernsey's population is 62,732 with a working population of 31,950 as of September 2014, and this is stable with some slow growth. Guernsey has a strong finance sector (37.3% of GDP) with banking deposits to the value of £82 billion and £264 billion of funds under management. Guernsey's economy is made up of a number of other sectors, including: professional and legal services; agriculture, horticulture and fishing; manufacturing; energy; construction; retail; information communication technology; the creative and cultural industries; tourism and hospitality.¹

Guernsey's economic contribution to the UK

7. The financial services sector is Guernsey's biggest economic sector. In Q1 2014 the UK banks had net financing of approximately \$49.1 billion from Guernsey². The finance industry also generates significant professional fees for UK lawyers, accountants, fund managers, compliance and advisers in

¹ Policy Council, *Facts and Figures*, 2014 <http://www.gov.gg/ff>

² Data derived from Bank of England statistics: <http://www.bankofengland.co.uk/statistics/>

both Guernsey and the UK. In order to facilitate the symbiotic economic relationship between the UK and Guernsey, it is vital that the air links, especially those to London, are developed and maintained, and Guernsey Airport is absolutely central to that.

Guernsey Airport

8. Guernsey Airport is owned and operated by the States (government) of Guernsey and operates 13 routes, nine of which are to UK airports. There are currently three airlines that operate from Guernsey: Aurigny, Blue Islands and Flybe, with some additional chartered flights operating during the summer period. There were 859,623 passenger movements in 2013 through Guernsey airport, 78% of which were passenger movements through the UK³.

9. Guernsey Airport can be classed by UK standards as a smaller airport, in that its total passenger movements are less than 900,000 per annum and its runway length (at 1463 metres) is comparatively short and places some limitations on both the type and operational range of aircraft which can service the Island.

10. There were 347,335 movements to Gatwick Airport in 2013, which reflects the importance of Gatwick Airport to Guernsey for islanders travelling for business, leisure, health, and education reasons, as well as for the Island's onward connections with the rest of the world.

11. Guernsey Airport itself directly supports 649 full-time equivalent direct jobs with an income injection of £31.2 million into the Guernsey economy through direct, indirect and induced employment and operations⁴. However, the main contribution is the airport's role in ensuring the Island maintains connectivity for social and economic purposes.

Lifeline links

12. Outside of business, Guernsey residents depend on air connections for students attending higher education and medical care. In 2013, there were 4,478 passenger movements to receive treatment at hospitals in the UK, and there were 252 medical emergency flights to UK hospitals⁵. In 2013 there were 803 Guernsey students enrolled in higher education in the UK and of these, 91% of those were undertaking an undergraduate degree at UK universities⁶.

13. Guernsey has a long established link with the UK in a number of sports, which sees sports teams from the Island – such as Guernsey FC and Guernsey Hockey – competing in UK based leagues or competitions on a weekly basis during the course of their particular season. There are also numerous festivals held locally across a whole myriad of sports that regularly attract visitors to Guernsey. Frequent and reliable air connections between the UK and Guernsey ensure the continued success of these events. Long-standing fixtures between sports teams and the ad hoc sporting events that happen throughout the year have made Guernsey Airport a vital link for what is a very important part of Guernsey's culture.

Aurigny

14. In 2003 British Airways announced its withdrawal from the Gatwick-Guernsey route, leaving one commercial provider (Flybe) operating the route. The States of Guernsey then purchased Aurigny Air Services, with the aim of ensuring the continued security of services to and from Gatwick. The States

³ Guernsey Trade and Media, *Facts and Figures*, <http://www.guernseytrademedia.com/marketing-guernsey/facts-figures/default.aspx>

⁴ York Aviation, *Airport development – economic assessment of options*, June 2009

⁵ Social Security statistics

⁶ Policy Council, *Facts and Figures*, 2014: <http://www.gov.gg/ff>

of Guernsey continues to wholly own Aurigny Air Services, which is run as a commercial operation daily to London Gatwick. Aurigny uses ATR 72 turboprops and bought an Embraer 195 in July 2014 to service the Guernsey-Gatwick route, a step taken once it was announced that Flybe would be withdrawing from Gatwick Airport.

Engagement in the process

15. Guernsey has met with Gatwick Airport, Heathrow Airport and the Department for Transport in 2014 and 2015, and we have submitted evidence to UK Parliament's Transport Select Committee inquiry on *Smaller Airports* (October 2014) and the National Connectivity Task Force (December 2014). In early 2015 Guernsey Airport joined the Regional & British Airports Group (RABA).

Q1: What conclusions, if any, do you draw in respect of the three short-listed options?

16. Given the economic and social factors set out above, it's clear that connectivity to London and the south east is critically important for Guernsey – in respect of both point-to-point connectivity and via a hub for onward travel. Gatwick Airport currently fulfils that requirement.

17. It is clear that approval of any of the three short-listed options will secure that hub-connectivity in the longer term and we would urge the Commission to recognise the current constraints on runway capacity which is leading market forces to firstly drive up costs of operating and secondly to drive out regional connectivity.

18. Guernsey experienced this in the late 1980s at Heathrow Airport (where increased costs of slots drove out demand and then operators from that Airport) and has had its existing capacity at Gatwick significantly tested and pressurised over the last 24 months through pricing increases which have led to a reduction of carriers and capacity at Gatwick in 2014.

19. To date Guernsey has engaged with the operators of both of the short-listed airports to better understand their plans in relation to regional connectivity, and in particular to Guernsey and the Channel Islands. It is not Guernsey's intention to indicate a preference between the short-listed proposals. However, we do hope that a number of factors can be weighed by the Commission and UK Government, and moreover reflected in the development of the successful submission.

Q2: Do you have any suggestions for how the short-listed options could be improved, i.e. their benefits enhanced or negative impacts mitigated?

20. Guernsey agrees with the view that a portfolio of slots on a new runway, at whichever short-listed option is recommended by the Commission, should in effect be ring-fenced in order to enhance air connectivity to the UK regions, nations and Crown Dependencies. From Guernsey's perspective, this will help to reinforce and enhance the economic contribution Guernsey makes to the UK. Both airports have assured us that if a mechanism can be found to achieve this they will happily co-operate.

21. In terms of mechanisms, the following are among the possibilities that Guernsey would support in principle:

- Making guaranteed regional access a condition of the chosen scheme securing planning approval.
- Creating pricing policies that better protect smaller regional aircraft.
- Re-tasking the Civil Aviation Authority with a new regional connectivity brief to ensure that this is delivered.
- Changing the composition of the slot allocation committee to include regional interests.

22. We anticipate some mix of these approaches, and potentially of others that may also be submitted, could form a solution. We would therefore be pleased if the Commission encourages the preferred scheme to improve their proposals to address regional accessibility ambitions by:

- Quantifying the number of regional slots they are prepared to countenance.
- Indicating which UK regional destinations they are considering, and if these include the Crown Dependencies.
- Addressing the affordability concerns for smaller aircraft, and how small an aircraft they would countenance (e.g. 19 or 34 seater)
- Deciding what long-term reassurances and guarantees they can offer the regions to ensure that slots will not be recycled and lost in the future

Q4: In your view, are there any relevant factors that have not been fully addressed by the Commission to date?

23. We would argue that the Commission should not simply rely on commercial viability as a measure of what is required to address regional access needs; some markets are simply too small. We hope it will factor in equity of access to London and onward international markets as a consideration underpinning their recommendations to Government.

Q8: Do you have any other comments?

Strategic Importance of Regional Airports

24. An important additional point to make is that as well as supporting economic growth and prosperity, regional airports play host to a wide range of specialist roles such as fire, pilot and aeronautical training; aircraft maintenance, testing and teardown; dedicated freight, aid or mail operations; national security and emergency services; and business aviation and more routine general aviation that cannot be accomplished at more congested airports.

Regulatory Regime

24. Guernsey Airport supports reviewing cost/risk balance within certain operational safety measures (e.g. Rescue and Fire Fighting Services and air traffic control); and also the adoption of risk-based approaches for smaller airports that will allow costs to be managed down from current *one-size-fits-all* standards. The CAA *terms of reference* could quite easily be extended to promote enhanced regional air connectivity and assist in making smaller airports more commercially sustainable.

Slots

25. As an Island, Guernsey is entirely dependent on air links for efficient connections for business and leisure purposes as well as for medical care and for Guernsey students who study in the UK. Whilst Guernsey is realistic about what might be achievable, it is important that the Airports Commission takes into account what is important to islands or remote communities when it is considering aviation policy. A particular issue that has been quoted both in UK government policy documents and the Airports Commission consultation is the availability and improvement of surface transport as an alternative to domestic air services. This might well be the case in some instances, but not when there are remote or offshore communities reliant on access to the hub airports, such as Guernsey.

26. Whilst we understand that Guernsey and the Crown Dependencies cannot be treated as equals under the public service obligations (PSOs), we hope that the Commission can recommend that a UK National Policy Statement includes ring-fenced/non-transferrable slots for regional airports to either Gatwick or Heathrow Airports; and that some specific mention is included such that Guernsey and

the Crown Dependencies are incorporated in any PSO service to ensure that one of the critical drivers for the hub (i.e. regional connectivity) is ring-fenced at whichever airport secures a new runway.

27. From Guernsey's perspective it is crucial that ring-fenced slots are appropriate in timing, frequency and charge. The UK Regions have alternative connectivity points to hubs – primarily road and rail - whereas Guernsey is solely reliant on aviation (and to a lesser degree ferry) connections to the UK mainland for their hub-access.

28. Guernsey would support the possibility of entering into voluntary arrangements on affordable slot prices with Gatwick and Heathrow Airports for the allocation of appropriately timed and costed slots.

Landing charges

29. Increases in landing charges often have a disproportionate impact on regional airlines operating smaller – yet quieter and less pollutant – aircraft, as well as on the users of such airlines. Earlier this year, Flybe sold its slots at Gatwick due to substantial increases in landing charges, leaving only Aurigny to operate the Guernsey-Gatwick route. There is an ongoing risk for regions and jurisdictions, such as Guernsey, that the essential short-haul flights will not get the priority they need in order to survive, and that the dominance of long-haul airlines at vital hub airports such as Gatwick will continue to expand to saturation point. The effect of this could be to damage regional connectivity, and with it, the viability of smaller airports. Our view is that fair landing charges at hub airports are essential for maintaining the future of smaller airports.

Air Passenger Duty

30. It is clear from discussions with other regional airports that Air Passenger Duty (APD) is a major barrier to the economic development of regional airports. APD is costing Guernsey businesses and individuals around £3.5 million per year. There are two main issues relating to APD: (1) it is often unintentionally applied to Guernsey travellers and passengers when it should not be; and (2) the cost of APD for short-haul carriers especially is significant, and adds a burden to airlines which is subsequently passed on to passengers who travel to Guernsey in a price sensitive and competitive market.

31. APD is often applied to Guernsey travellers and passengers of onward travel when it should not be. This double-charging occurs where passengers from Guernsey are paying APD for the second leg of any journey that takes place within 24 hours after arrival at a UK airport. There is currently no mechanism for Guernsey passengers to claim back the APD that they have accumulated when they have had to transit using two different airlines. This double charging has a significant impact on both family and business passengers.

32. HM Revenue and Customs has suggested that the way to prevent erroneous payment of APD is to rely on flights where interlining agreements are in place, which would require domestic airlines to have these interlining agreements with almost every airline leaving the UK. This implementation would be both cost prohibitive and impractical and would be a significant financial burden for the small air operators that use Guernsey Airport.

States of Guernsey
2 February 2015

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