Public Document Pack

Enterprise and Business Committee

Meeting Venue:
Committee Room 1 & 2 - Senedd

Meeting date:
8 March 2012

Meeting time:
13:00

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

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Agenda

Private pre-meeting (13.00 - 13.15)

1. Introductions, apologies and substitutions

2. Inquiry into international connectivity through Welsh ports and airports - Evidence session (13.15 - 14.00) (Pages 1 - 34)

Cardiff Airport
Steve Hodgetts, Business Development and Commercial Director
Catrin Elis, Press and Public Relations Manager

3. Inquiry into international connectivity through Welsh ports and airports - Evidence session (14.00 - 14.45) (Pages 35 - 39)

Flybe
Niall Duffy, Head of Public Relations and Public Affairs

Enterprise and Business Committee

Future of Welsh ports and airports

Evidence of Cardiff Airport

1. EXECUTIVE SUMMARY

- Cardiff Airport is widely agreed to be of economic importance to Wales.
- The development of independent and objective data related to passenger and cargo forecasts, as well as the economic benefits associated with aviation overall, would support policy and strategy development.
- Cardiff Airport exists in a competitive aviation context in which market conditions are key factors.
- To achieve an optimised network, airline risks must be mitigated by targeted, tangible support linked directly to national economic policies and priorities.
- The scale of support required is beyond that which the airport alone can reasonably provide.
- Every option for the delivery of appropriate support must be pursued.
- The infrastructure supporting Cardiff Airport – including the airfield, terminal and access routes - is not currently a critical inhibitor to route development, nor will infrastructure expansion alone lead to favourable route development decisions.
- The effective delivery of new or expanded services could be enhanced by improving communications and coordination between airport stakeholders within Wales; through the establishment of either a new single authority or a multi-agency task force providing synergies, support and better use of resources to achieve commonly shared outcomes; and, through joint marketing and promotional efforts supported by Government policy and investment programmes.

2. INTRODUCTION

This document addresses the key questions of the Enterprise and Business Committee's terms of reference at a macro level. Further data to describe the competitive context for Cardiff Airport can be found in the accompanying data paper which is referenced herein and separately deposited.

How important are major Welsh ports and airports, both to the economy of their own regions and to Wales as a whole?

Cardiff Airport is widely acknowledged to be of importance to the economic well being of Wales and in particular South Wales, as was recently emphasised in public comments by the First Minister. This reflects the consensus of independent research and examples of airports supporting other regions.[1] Whilst it is sometimes difficult to disaggregate airports from aviation as whole there is widespread evidence that airports are an economic influence.[2] Even where there are opposing views, the divergence is simply about the scale and appropriateness of the economic contribution.[3]

It is noted that other studies, when assessing the economic impacts of aviation, use a holistic approach. This requires the aggregation of direct employment and monetary contribution (money spent and taxes) together with indirect contribution (supplier employment etc) and induced contributions (tourism receipts, materials and goods flow attributable to the use of aviation). Such a study has not been performed for Cardiff Airport or Welsh aviation but would be a beneficial study for the Government to sponsor in order to quantify the net benefits of Cardiff Airport and other airports operating in Wales. This would also provide an estimated value for the benefits realised by recapturing demand currently served by non-Welsh airports.

Connectivity is best defined as the ability to reach a range of destinations at a reasonable generalised cost.[4] Cardiff Airport is the airport for the capital city and serves the largest population in Wales. This creates a level of expectation regarding the range of airline services Cardiff Airport should facilitate. This expectation is anecdotal and is often based upon comparisons with Edinburgh and Belfast Airports, and ignores factors such as the differences in terms of population, demographics, competition, over-water flying or proximity

[1] SQW 2008 report for Scottish Enterprise
[2] Oxera What is contribution of aviation to UK economy 2009, BCC Economic Impacts of hub airports 2009
[3] Friends of the Earth the Economic Impact of Bristol Airport 2005
[4] Oxera 2010 DfT Connectivity report

to London. Cardiff Airport's vision remains to serve as much of South Wales' aviation needs as possible and it remains extremely active in marketing to airlines in the UK, Europe, the USA and elsewhere in the world.

What factors limit realisation of the potential offered by major Welsh ports and airports; what opportunities are available to develop this potential; and how can these be realised?

Cardiff Airport serves approximately 45% of the demand for air travel from South Wales. Potential customers mainly use Heathrow and Bristol Airports with some usage of other airports.[5] There is a perception that the number of airlines and tour operators, and the services they provide, are entirely within the control of airports; however, this is not the case. Airports can influence and encourage an airline to serve a given market, but cannot compel them to do so. In the UK this is further influenced by the open competitive market for air transport which makes any airport market highly contestable.[6] There is also a natural South East 'pull' as airlines wish to consolidate their operating models, ensure efficiency and concentrate demand.[7]

The socio-economic characteristics of the region together with strong competition from other airports create a challenging market for the promotion of new or expanded airline services. . Specific examples are the large networks provided by Ryanair and easyJet at Bristol Airport which offers a significant pull for Welsh consumers, with some 15% of Bristol Airport's passengers being Welsh originating or destined for Wales. These airlines enjoy significant economies of scope and scale and are less willing to consider fragmentation by serving the Welsh market directly from Cardiff Airport.

An airline will only serve a market if they perceive it will be profitable and a strategic fit to its operation. Where airlines have large scale operations elsewhere with good economies of scope and scale, they will be reluctant to fragment them without attendant risks being covered. These risks can also derive from perceptions about the economic and demographic indicators for a market. For many desired destinations, there is marginal demand and viability leading to point-to-point routes only being viable by concentrating demand, usually via London. However, such diffusion can be countered by successful hub and spoke operations

[5] Cardiff Airport data paper slide 14
[6] Oxera 2010 DfT Connectivity report
[7] Cardiff Airport data paper slide 4

such as KLM's through Amsterdam and Flybe/Air France through Paris. It would also be advantageous to develop a range of hub opportunities particularly New York and a Middle Eastern hub such as Dubai. However, these will require support if the airline's perceptions of the risks associated with operating are to be overcome. These potential hub operations should be priorities in any overarching connectivity policy. Furthermore, it is well known that new routes can be unprofitable during the first few years of operation, and this again increases risk levels. If an airline cites such risks as being beyond their normal investment criteria, then the risk level must be ameliorated by some form of support package.

The provision of financial support by public authorities is governed by European Commission state aid rules and as such requires careful evaluation and procedural rigour. The quantum required by an airline is often beyond the reach of a regional airport alone as the scale of funding can reach several million pounds for any significant base or long haul route. Therefore, every opportunity for support must be pursued through the appropriate Government and European Commission channels.

There is also a need for a task force approach to support aviation with multi-departmental and agency participation, along with other business interests including the chamber of commerce and other interested partners. Such a model has been used successfully with Barcelona Airport, for example, within a comprehensive policy framework.

The European Commission "open skies" approach means that competition for airline commitment is not simply confined within UK markets but is Europe-wide, and worldwide for long haul services.

Given the open and contestable nature of UK aviation, it is clear from discussions with the majority of airlines that they perceive that Cardiff Airport's market is neither distinctive nor attractive enough to develop route networks at this time. Therefore, there is a need to create opportunity through differentiation and distinction backed by a unity between stakeholders and comprehensive – including Government - support. Whilst this can be achieved through targeted marketing support, another significant opportunity is the remission of Air Passenger Duty (APD). This is now a major constraint on aviation demand generally and has been the subject of high level discussions between airlines and airports.[8] In very recent discussions between Cardiff Airport and a leading low cost airline, they stated that unless APD was reduced, remitted or paid by the airport they would not be expanding services in the UK.

[8] AOA Press release 6/12/1011

If powers to levy or remit APD could be devolved to Wales then it could be used in such a way to reduce the cost of flying to consumers, thus stimulating demand and therefore stimulating favourable airline interest. This has already been used by the Northern Ireland Executive to remit APD on the Belfast – New York service, a route which had been under threat of closure. Whilst this is scheduled to be examined by the Silk Committee, the precedent set by Northern Ireland, or something similar, should be adopted rapidly in Wales.

The development of support for international connectivity would also be greatly aided by a strong policy focus, clear priorities and agreement on targets, including Germany, the USA and the Middle East. This is discussed in greater detail in the next section.

There is a perception amongst some observers that improved access and facilities at the airport will, of itself, improve connectivity and growth. This is a misconception: it is a strong route network and attractive prices that ultimately enables an airport to develop and grow, with all the benefits that this brings. Until such time as activity levels increase through the attraction of airlines to the airport with the appropriate support, the priority for investment must be on the safety and security of passengers. The latest multi-million pound investment in new radar technology and x-ray equipment by Cardiff Airport are good examples of this, always recognising the importance of a positive passenger experience for the success of the airport. Therefore, the focus has been, and will continue to be, on air service development in order to generate the activity levels required.

How effectively do Welsh Government policies support the development of major Welsh ports and airports?

Cardiff Airport has been working closely with the Welsh Government to find ways to co-operate in developing opportunities for Cardiff Airport. A positive working relationship has also allowed, for example, the logical extension of the St. Athan Enterprise Zone to include Cardiff Airport. However, there are still opportunities to improve delivery of proactive and reactive support; route development, in particular, remains an area of opportunity, consideration and prioritisation. At the same time, other specific areas must also be addressed. For example, the Transport Strategy stated that "enhancing international connectivity" is one of five key policy areas, but the document has very few outcomes, no programmes and no targets. Indeed, the key actions are around better east-west access (which encourages leakage to airports outside Wales as a consequence) and improved access to Cardiff Airport, neither of which tackles the key inhibitor to improved international connectivity (attracting airlines and developing network strength). There is a need for stronger policy emphasis on developing international connectivity and acknowledging the methods needed to achieve this objective, along with the need to link this policy with its ultimate objective in contributing to economic development for the region.

If the international connectivity policy is to be strengthened, there is a need for either a single authority to manage Wales's international work, or a task force combining resources to create synergies and economies of scope and scale. Whenever possible, investment and connectivity must be linked together, as indicated earlier. This will also assist in dealing with the UK Government on areas of airports policy and other reserved matters. There is need for effective engagement with the UK Government particularly on APD and state aid issues.

Cardiff Airport already participates within an agenda to promote Cardiff and the region because it believes the primary long term driver of the airport business is a coherent strategy to increase consumer and investor demand for Cardiff. Cardiff Airport is one of only 5 strategic private sector investors in Cardiff & Co and values this format.

3. CONCLUSIONS AND RECOMMENDATIONS

- Cardiff Airport is widely agreed to be of economic importance to Wales.
- The development of independent and objective data related to passenger and cargo forecasts, as well as economic benefits associated with aviation overall, would support policy and strategy development.
- To achieve an optimised network, airline risks must be mitigated by targeted, tangible support linked directly to national economic policies and priorities.
- Cardiff Airport continues to actively engage with airlines with a view to significantly expanding the route network. The scale of support required is beyond that which the airport alone can reasonably provide, and requires the adoption of Government international connectivity policy linked to the broader economic development policy.
- Every option for the delivery of appropriate support must be pursued.
- The infrastructure supporting Cardiff Airport – including the airfield, terminal and access routes - is not currently a critical inhibitor to route development, nor will infrastructure expansion alone lead to favourable route development decisions.
- The effective delivery of new or expanded services could be enhanced by improving communications and coordination between airport stakeholders within Wales; through the establishment of either a new single authority or a multi-agency task force providing synergies, support and better use of resources to achieve commonly shared outcomes; and, through joint marketing and promotional efforts supported by Government policy and investment programmes.

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Enterprise and Business Committee

Future of Welsh ports and airports

Data paper on behalf of Cardiff Airport

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Content

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Content (continued)

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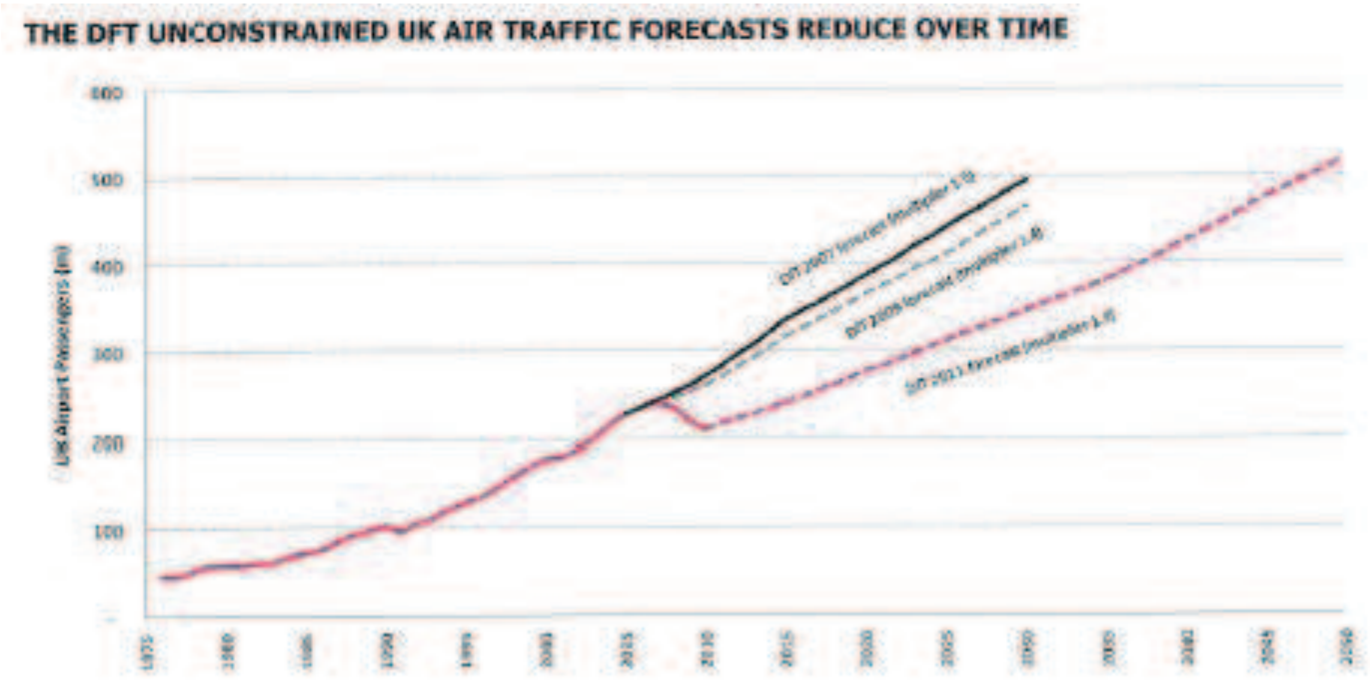
1. Relationship between GDP and air travel

This shows the relatively consistent long term trend between GDP and growth, and therefore GDP and propensity to travel. It also shows how the low cost “boom” was a substitution effect moving traffic between carrier types, but masks a slowing of overall growth rates

(Source: LeighFisher *UK Airports Performance Indicators 2010/11*)

2. UK DfT Unconstrained Air Traffic Forecasts

These show the latest DfT forecasts for total air travel demand and show how pessimism based upon the twin impacts of recession and APD have reduced future overall market size



(Source: LeighFisher *UK Airports Performance Indicators 2010/11*)

3. UK Airports passenger forecasts

- The table on the right shows the latest DfT forecast for the major UK airports.

- Notwithstanding the predicted capacity crunch in the South East it shows the gains to be distributed amongst a very few mature airports.

- The DfT model uses a sophisticated econometric approach. It concludes that Cardiff will not grow if growth is organic and current socio economic and supply characteristics remain unaltered.

(Source: DfT 2011)

Airport	2010 (million pax/ annum)	2020 (million pax/ annum)	Change%
Heathrow	65	80	+23
Gatwick	30	35	+17
Manchester	20	25	+25
Stansted	20	25	+25
Luton	9	12	+33
Edinburgh	9	13	+44
Birmingham	9	20	+122
Glasgow	7	7	-
Bristol	6	6	-
Liverpool	5	5	-
East Midlands	4	3	-25
Belfast International	4	6	+50
Leeds Bradford	3	3	Airport
Southampton	2	2	-
Cardiff	1	1	-
Doncaster	<1	1	-
Exeter	<1	1	-
Bournemouth	<1	<1	-

4. UK airports passenger numbers 2011 vs 2010

- The table shows the South East continues to dominate air transport

- Most UK regional airports lost share and Cardiff and several others lost substantial volumes. This shows the vulnerability of smaller airports to the loss of capacity cause by airline or aircraft removal

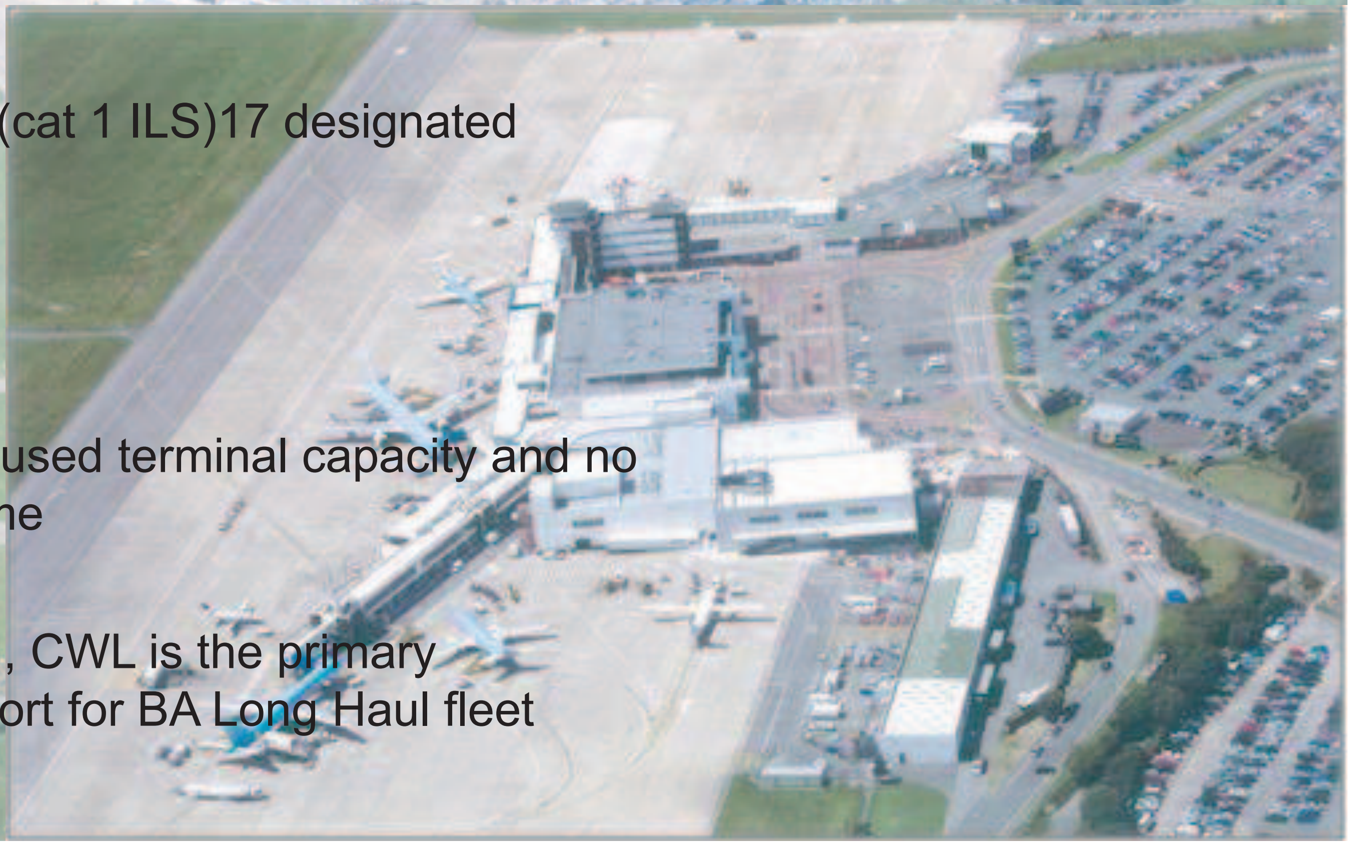
- Elsewhere growth was modest due to APD and low economic growth

(Source CAA statistics)

Airport	2011 Passengers (000)	2010 passengers (000)	% change	% of UK air travel 2011 (2010)
Heathrow	69,391	65,745	+6	31.7 (31.2)
Gatwick	33,644	31,342	+7	15.4 (14.9)
Manchester	18,804	17,663	+2	8.6 (8.4)
Stansted	18,047	18,562	-3	8.2 (8.8)
Luton	9,510	8,734	+9	4.3 (4.1)
Edinburgh	9,384	8,594	+9	4.3 (4.1)
Birmingham	8,608	8,654	-1	3.9 (4.1)
Glasgow	6,858	6,522	+5	3.1 (3.1)
Bristol	5,768	5,723	+1	2.6 (2.7)
Liverpool	5,247	5,008	+5	2.4 (2.4)
Newcastle	4,336	4,346	-	2.0 (2.1)
East Midlands	4,208	4,111	+2	1.9 (2.0)
Belfast International	4,102	4,011	+2	1.9 (1.9)
Leeds Bradford	2,667	2,724	-2	1.2 (1.3)
Southampton	1,762	1,734	+2	0.8 (0.8)
Prestwick	1,296	1,660	-22	0.6 (0.8)
Cardiff	1,208	1,398	-14	0.6 (0.7)
Doncaster	822	876	-6	0.4 (0.4)
Exeter	709	737	-4	0.3 (0.3)
Bournemouth	613	750	-18	0.3 (0.4)
All UK	219,010	210,656	+4	

5. Cardiff Airport Operational infrastructure

- Cardiff Airport 24 hour operations
- IATA Identifier: CWL
- ICAO Identifier: EGFF
- Runway Length: 2354m (cat 1 ILS)17 designated aircraft parking stands
- 3 airbridges
- Cardiff has significant unused terminal capacity and no slot constraints at any time
- Excellent weather record, CWL is the primary nominated diversion airport for BA Long Haul fleet



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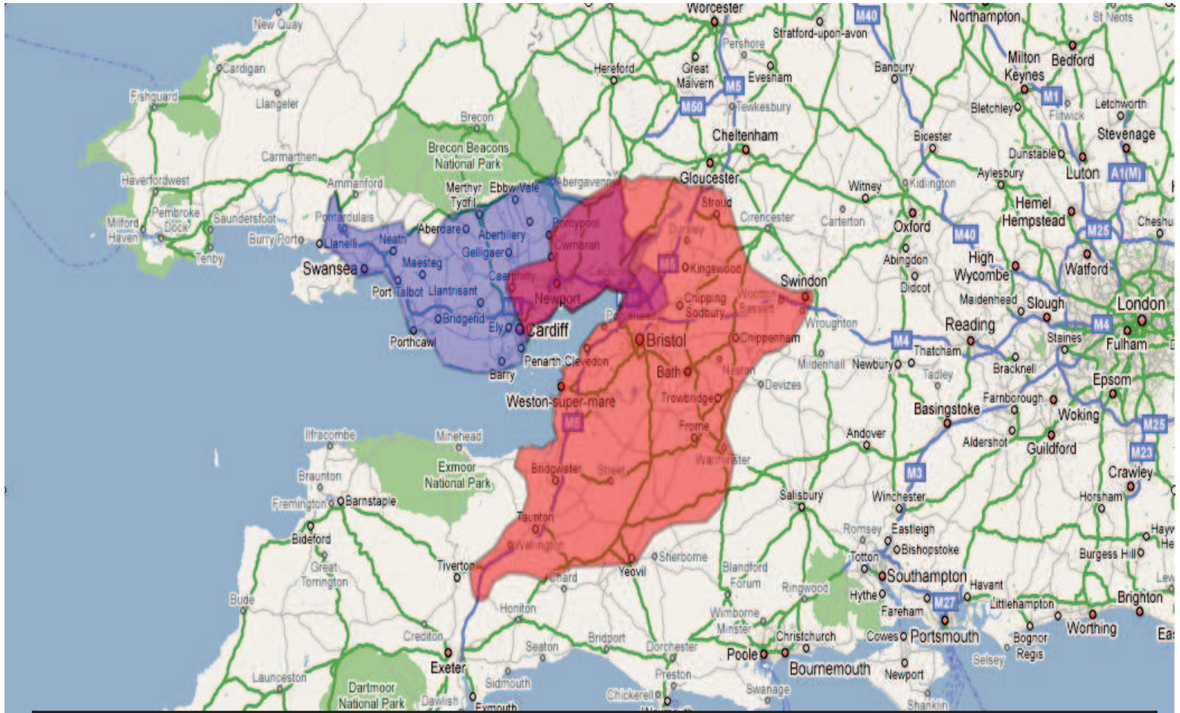
6. Catchment area: comparison between Cardiff and Bristol

- Wales has the UK's lowest GDP (GVA) values. The is a key determinant of propensity to travel (see slide 1) and is a primary measure used by airlines in evaluating routes.
- This issue is compounded by the relative inequality of South Wales with Bristol and the larger population in the Bristol catchment area
- These measures are used by airlines in determining which markets they wish to serve

(Source statistics.gov.uk)



Catchment comparison	Cardiff Airport	Bristol Airport
Population within 60 Minute drive radius (2007)	Circa 1.8 Million	Circa 3.4 Million (+89%)
Avg GDP per head (2009)	£15,418	£19,063 (+24%)

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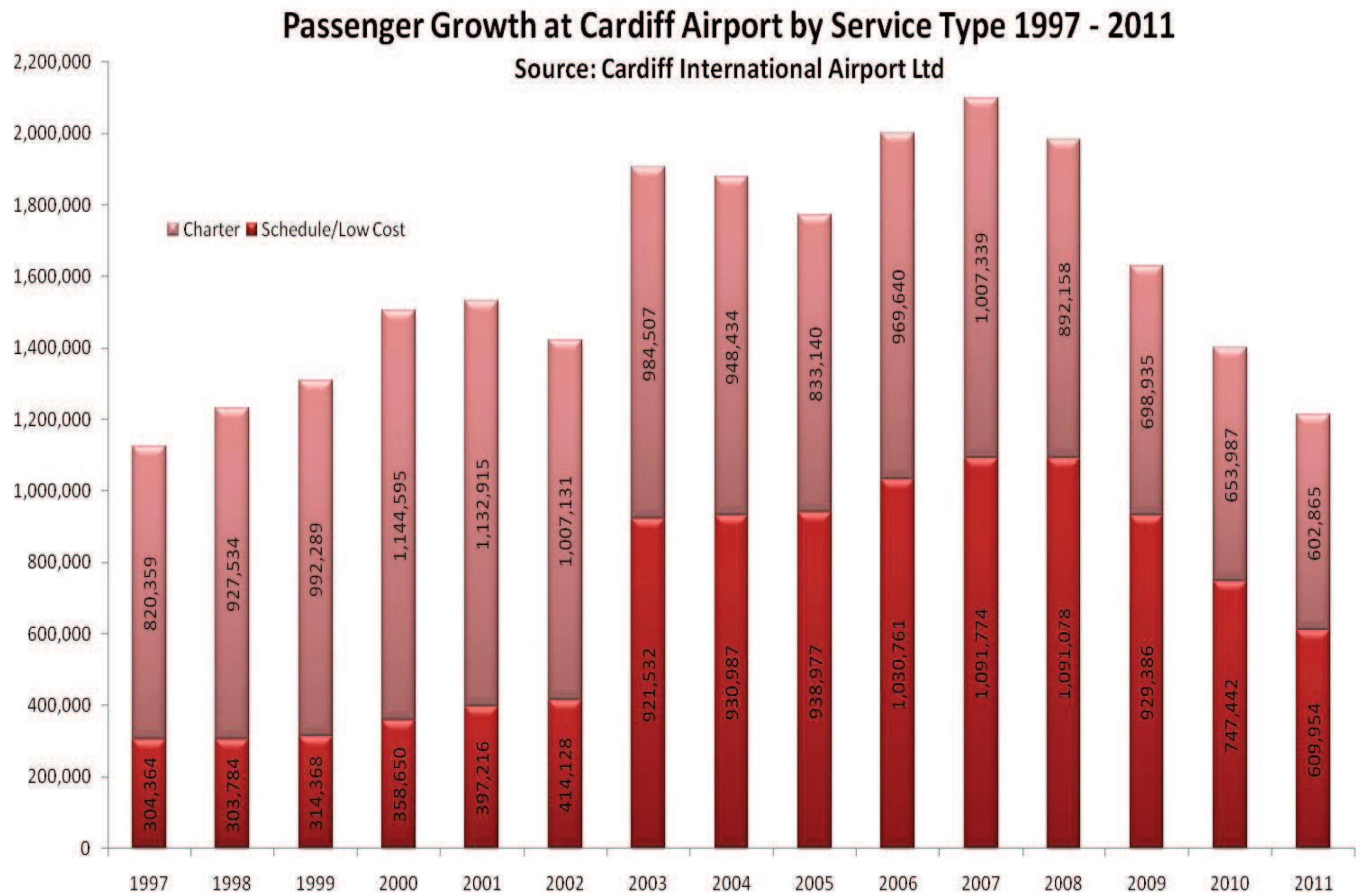
7. Passengers at Cardiff Airport by Service Type 1997 - 2011

- This chart shows the volatility of Cardiff's airline mix. The decline from the peak of 2007 has been due to the recession, leading to attrition from bmibaby and charter

- Unlike the dip in 2002 when BA left, it has not been possible to secure a large scale replacement



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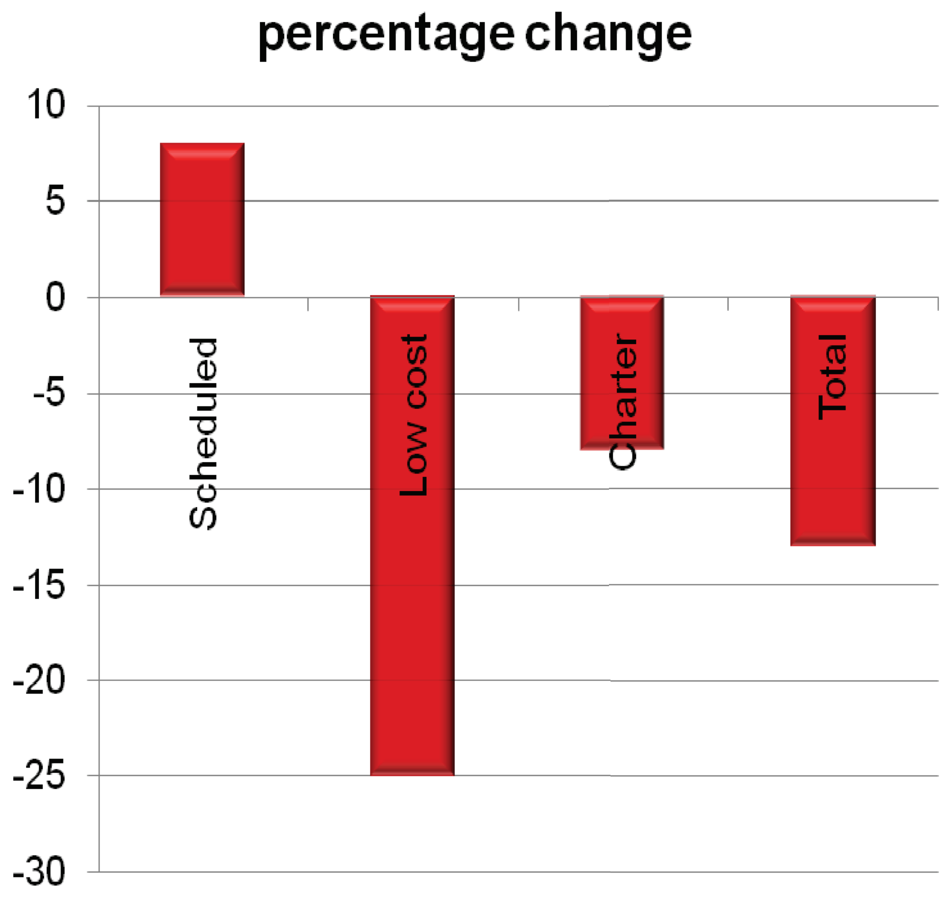
8. Percentage change in key sectors 2011 at Cardiff Airport

- This slide shows how the headline loss of passengers in 2011 is heavily influenced by the loss of bmibaby low cost passengers and the continued national decline of charter

- The growth in scheduled passengers which included the Zurich service demonstrates that Cardiff remains robust in the key routes generating connectivity and economic benefit



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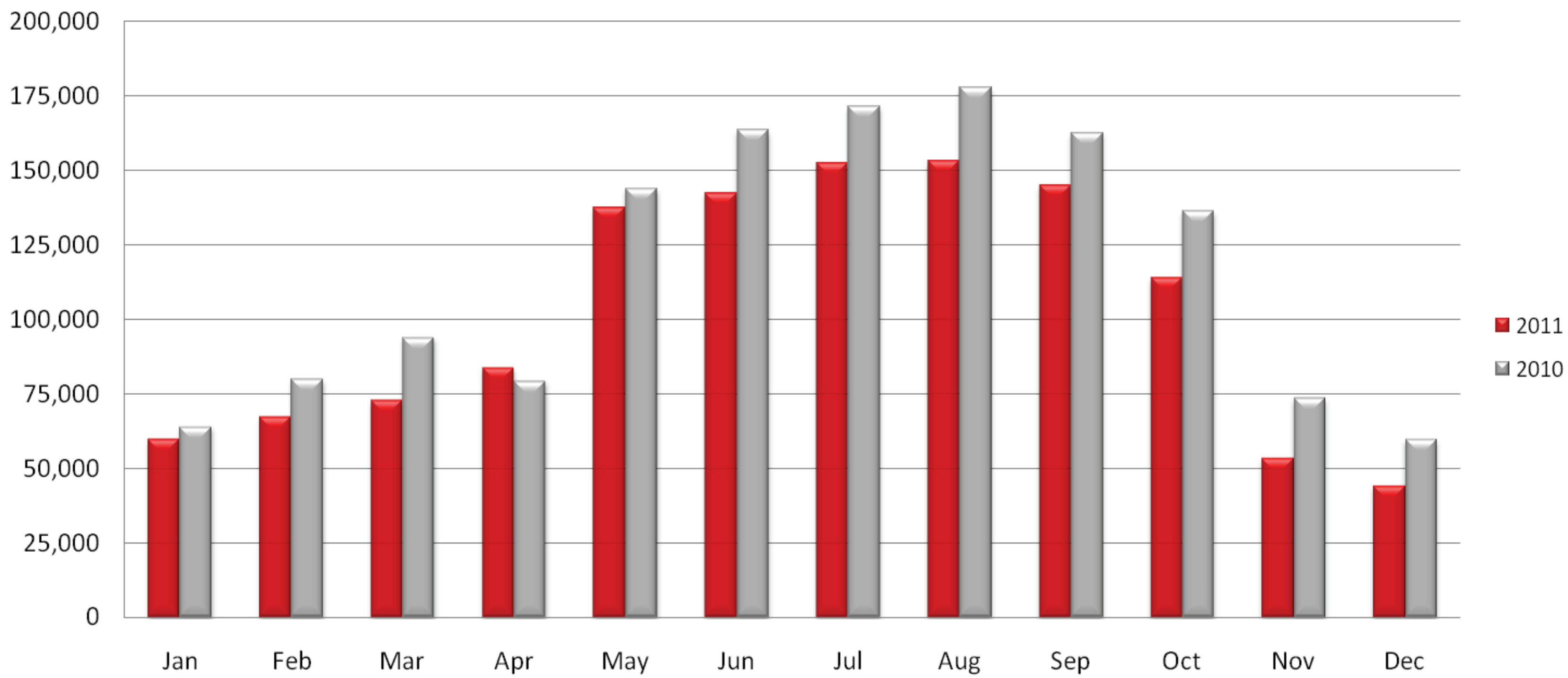
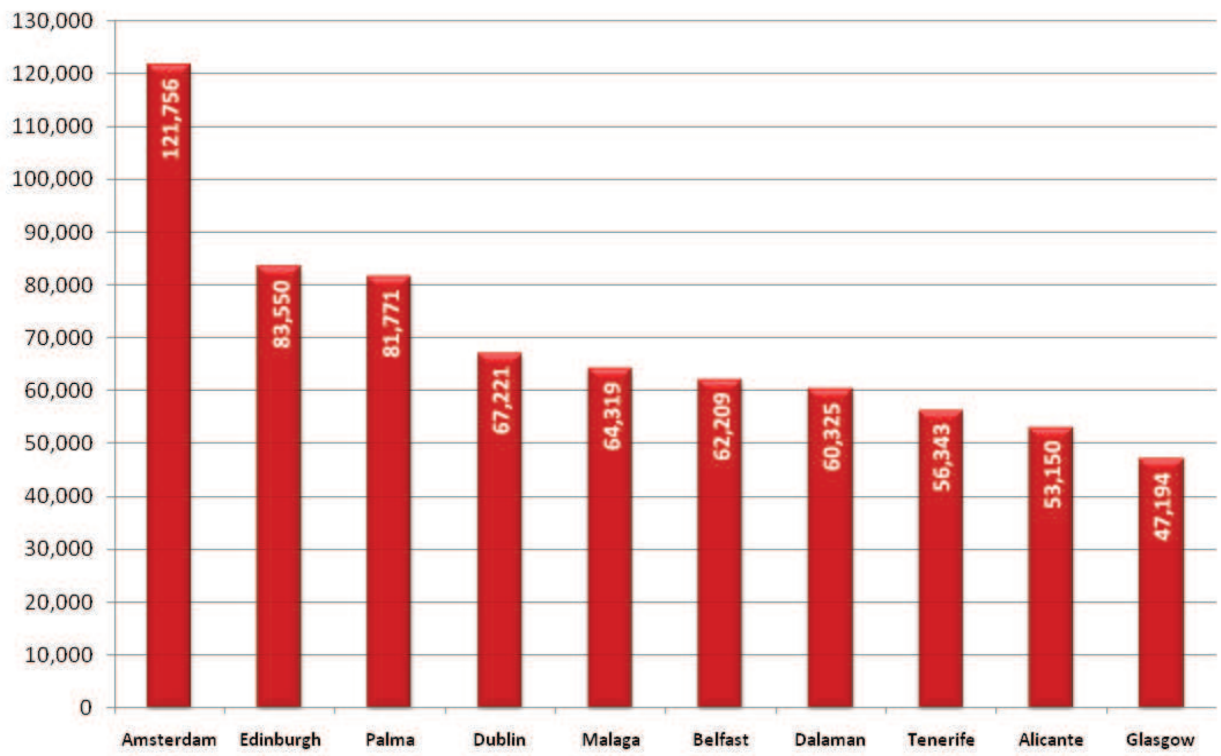
9. Cardiff Airport Seasonal Profile of Passengers

- The chart below shows the monthly passenger profile and demonstrates the strong seasonality which is affecting most regional airports



10. Top Ten destinations 2011

- Amsterdam remains the busiest route from Cardiff and the one with greatest connectivity and economic benefit
- Edinburgh retains a mix of two way traffic and business and leisure traffics. However, due to the effect double APD of capacity and frequency have been lost
- Despite Malaga being 5th busiest route airlines have been reluctant to replace lost bmibaby capacity



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11. 2012 routes operating from Cardiff Airport

Destinations	Operated by	Flight frequency
Bulgaria Bourgas	Balkan Holidays Thomson	2x weekly Summer season
Caribbean Barbados (cruise)	Thomson for P&O	16 flights during Winter season
Cyprus Larnaca Paphos	 Thomson, Thomas Cook Thomson, Thomas Cook	 2 x weekly Summer Season 2 x weekly Summer Season
Egypt Sharm el Sheikh	Thomson	2 x weekly Winter, 1 x weekly Summer
France Paris (CDG) (offers connections to Air France network)	Flybe / Air France	7 x weekly year round
Greece Corfu Crete (Heraklion) Kefalonia Kos Rhodes Zakynthos	 Thomson Thomson, Thomas Cook Thomson Thomson Thomson, Thomas Cook Thomson, Thomas Cook	 1 x weekly Summer Season 2 x weekly Summer Season 1 x weekly Summer Season 1 x weekly Summer Season 2 x weekly Summer Season 2 x weekly Summer Season
Italy Naples *(ad-hoc) – June 2012* Verona *(ad-hoc) – June 2012*	 Newmarket Holidays Newmarket Holidays	 1 flight Summer Season 2 flights Summer Season
Malta Malta (May to October 2012)	Air Malta	1 x weekly Summer Season
Netherlands Amsterdam (offers connections to KLM Network)	KLM	21 x weekly year round
Portugal Faro Madeira (ad-hoc)	 Thomson Atlantic Holidays	 1 x weekly Summer Season 1 flight Summer Season

(Source: Cardiff Airport)

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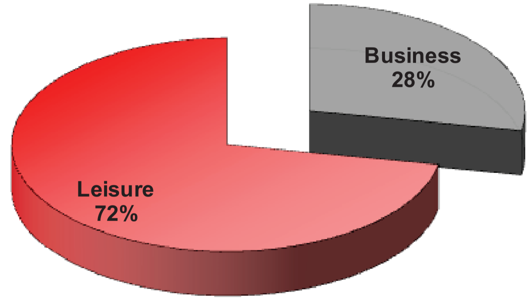
11. 2012 routes operating from Cardiff Airport (continued)

Spain (Mainland)		
Alicante	**Vueling, Thomson**	**1 x weekly Winter, 4 x weekly Summer**
Malaga	**Thomson**	**1 x weekly year round**
Barcelona (offers connections to Vueling network)	**Vueling**	**3 x weekly Summer season**
Reus	**Thomson, Thomas Cook**	**2 x weekly Summer season**
Balearic Islands		
Ibiza	**Thomson, Thomas Cook**	**3 x weekly Summer season**
Majorca	**Vueling, Thomson & Thomas Cook**	**8 x weekly Summer season**
Menorca	**Thomson & Thomas Cook**	**2 x weekly Summer season**
Canary Islands		
Gran Canaria	**Thomson, Thomas Cook**	**2 x weekly Winter, 2 x weekly Summer**
Fuerteventura	**Thomas Cook**	**1 x weekly Winter, 1 x weekly Summer**
Lanzarote	**Thomson, Thomas Cook**	**2 x weekly Winter, 2 x weekly Summer**
Tenerife	**Thomson, Thomas Cook**	**4 x weekly Winter, 2 x weekly Summer**
Switzerland		
Zurich	**Helvetic Airways**	**3 x weekly year round**
Tunisia		
Enfidha	**Thomson, Thomas Cook**	**1 x weekly Winter, 2 x weekly Summer**
Turkey		
Antalya	**Thomson, Thomas Cook**	**2 x weekly Summer season**
Bodrum	**Thomson, Thomas Cook**	**2 x weekly Summer season**
Dalaman	**Thomson, Thomas Cook**	**5 x weekly Summer season**
UK & Ireland		
Jersey	**Flybe**	**4 x weekly Summer Season**
Newcastle	**Eastern Airways**	**12 x weekly year round**
Belfast City	**Flybe**	**9 x weekly year round**
Dublin (offers connections to Aer Lingus network)	**Aer Lingus**	**13 x weekly year round**
Aberdeen	**Eastern Airways**	**6 x weekly year round**
Edinburgh	**Flybe**	**19 x weekly year round**
Glasgow	**Flybe**	**12 x weekly year round**
Anglesey	**Manx2.com**	**10 x weekly year round**
USA		
Orlando Sanford	**Monarch**	**1 x weekly Summer season**

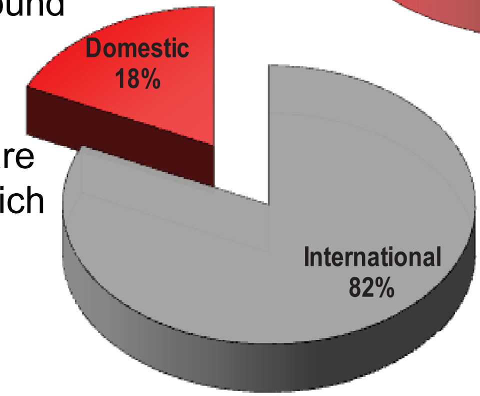
(Source: Cardiff Airport)

13. 2010 Passenger Traffic profile: journey type, purpose & origin

- This shows Cardiff's profile of passengers. It shows 28% of users at Cardiff are travelling for business with 72% travelling for leisure purposes. This is consistent with other regional airports. The majority of the leisure flying is out of Wales but there are inbound flows on Aer Lingus, Flybe, Helvetic and KLM



- It can also be seen that only 18% of passengers are flying to / from destinations in the UK a market which is being heavily affected by double APD.



- Of those using Cardiff 77% of them are Welsh originating with 23% from outside Wales over the whole year. However, this is influenced by charter and low cost leisure flying. In winter the proportion of non Welsh users can be as high as 60%

(Source CAA surveys)

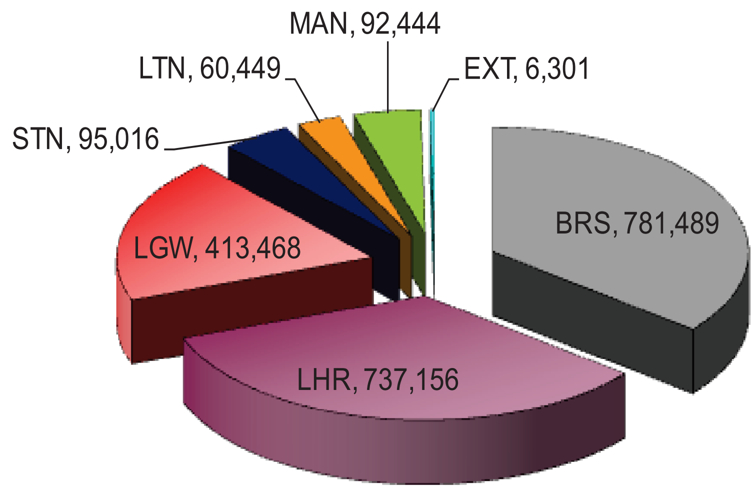
14. Passengers from South Wales using other airports

- **1 in 3 passengers** travelled to a destination that *was already served directly from Cardiff*

- **45%** travelled to a destination that could have used KLM and partners via AMS with a one stop connection

- **64%** travelled more than 3 hours by car to the other airport to make this journey

- *Cardiff's vision remains to reclaim as much of this traffic as possible. By using their local airport the carbon signature for the overall journey is reduced due to the reduction of the surface access component*



(Source: CAA surveys)

15. 2010 CAA survey of leakage to London

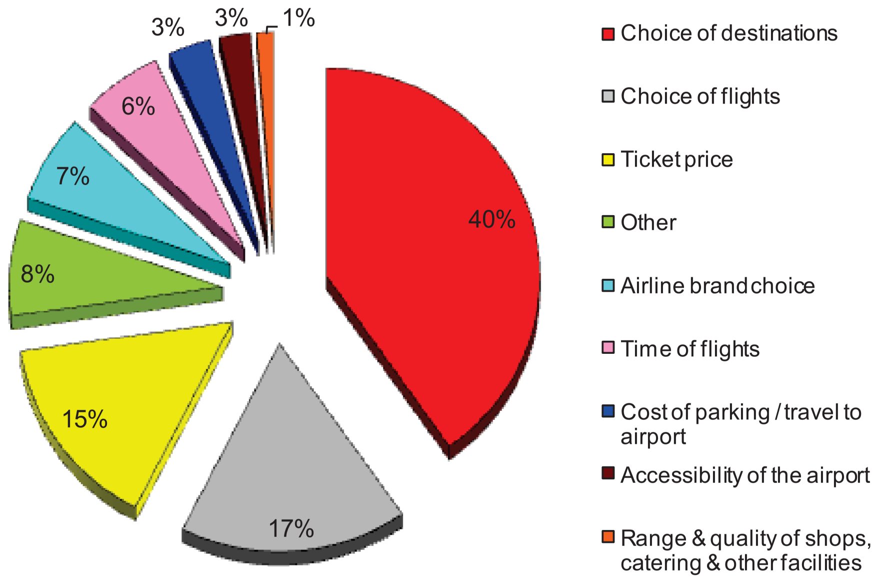
- The table below is indicating the passengers that travelled from London to these countries in 2010 by markets over 10k; who originated their journeys from South Wales (within 60 min drive radius of Cardiff Airport)

United States	179,662	Austria	15,911
Italy	77,690	Malaysia	15,033
Germany	74,109	Denmark	14,827
United Arab Emirates	69,450	Romania	14,471
Spain	65,149	Mexico	14,106
Turkey	51,393	Qatar	13,926
Greece	50,367	Hungary	13,755
Singapore	44,489	South Africa	13,460
France	40,506	Cuba	12,852
Canada	34,192	United Kingdom	12,174
Egypt	25,994	Switzerland	12,013
Australia	23,525	Netherlands	11,795
Russian Federation	20,746	Sri Lanka	11,233
Cyprus	20,688	Jamaica	10,931
India	18,199	China	10,866
Oman	17,478	Portugal & Madeira	10,337
Dominican Republic	16,276	Finland	10,259
Hong Kong	16,106	Gambia	10,152

(Source: CAA surveys)

16. Passenger choice factors

- Reasons for not flying from Cardiff - the biggest inhibitors
- These show the factor that a lack of destinations is the key followed by frequency and ticket price. However, this is often a misconception with destination actually being served, albeit with lower choice of flights and fares than competing offers,
- These are airline issues and show how important it is to support route network development if traffic is to be recovered.
- It is significant that accessibility and quality of facilities account for only 3% of decisions showing that these factors are not critical in determining choice.



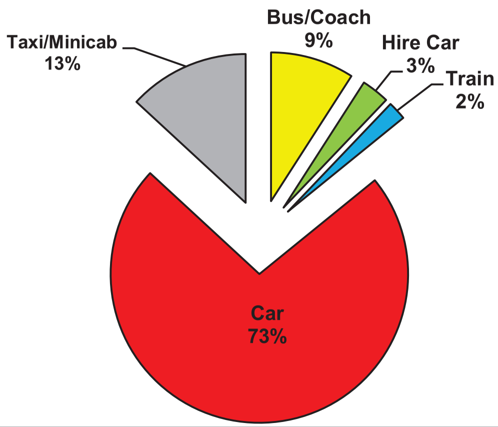
17. Surface Access to Cardiff Airport

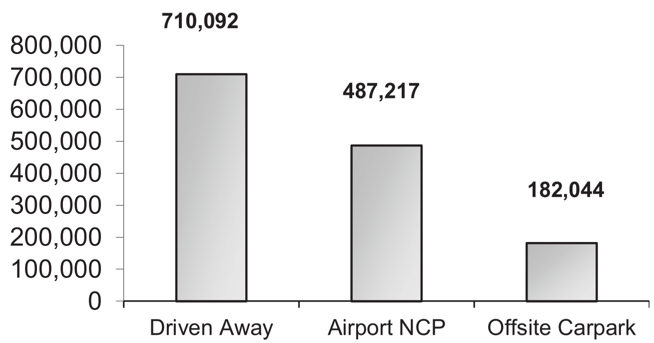
- Passengers access the airport by car and this is not surprising given the strong predominance of Welsh originating passengers and the currently poor frequencies on public transport.

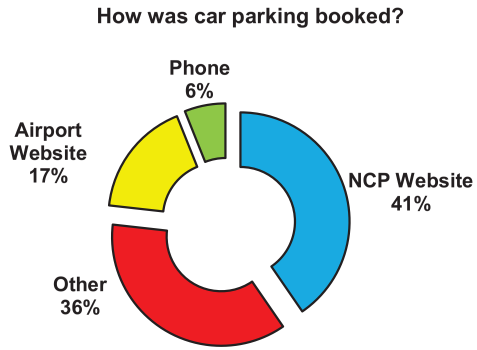
(Source: CAA survey)

- The greatest proportion are dropped off thereby increasing the number of access journeys made per passenger

- Even with a mature and frequent public transport system it is unlikely that access by public transport could be greater than 20%







18. Desired improvements and new routes

- Terminal improvements

No improved facilities required	58%
More shops	5%
Local transport improved	3%
Restaurant improved	3%
Smoking area	3%
Parking improved	2%
Chemist	2%
Childrens play area	2%
Improved refreshments	2%
Internet facility	2%
Toilet improvement	1%
Improved check-in	1%
Cheaper refreshments	1%
Airport access	1%
Spectators gallery	1%
TV lounge	1%

- This shows that the majority of Cardiff's customers believe that no additional facilities of improvements are required

- New destinations
  - New York
  - Sydney
  - Rome
  - Florida unspecified
  - Bodrum
  - Italy unspecified
  - Bridgetown, Barbados
  - Auckland
  - San Francisco
  - Dubai
  - Los Angeles
  - Las Vegas
  - Boston
  - Egypt unspecified
  - Aberdeen
  - Krakow
- This the consumers preferred list of additional destinations.

(Source: CAA surveys)

19. Bmibaby route history

- This table demonstrates the lack of stability on the network caused by bmibaby's failure to maintain fleet size at Cardiff and therefore allow routes to retain frequency and mature
- All of these decisions were unilateral by the airline and were unaffected by the airport charging regime
- This clearly shows how dependent an airport is upon the commitment and credibility of its airline partners (Source Cardiff Airport)

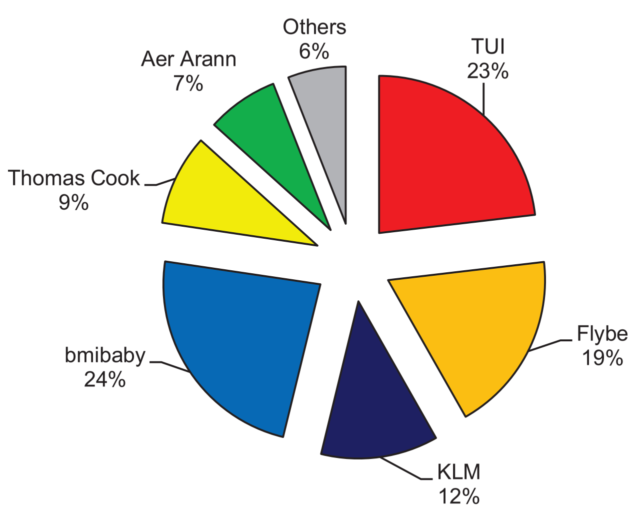
	2002	2003	2004	2005	2006	2007	2008	2009	2010	Details
Alicante	10,127	70,879	77,936	83,347	95,368	86,635	84,346	71,170	64,461	Started Oct 2002
Amsterdam					50,592	48,149	45,171	6,019		Started March 06, ended March 09
Belfast	9,599	66,040	50,615	7,491	57,236	93,274	52,170	48,788	7,146	Started Oct 2002
Bergamo	358	29,487	2,372							Started Dec 02, ended March 04
Cork		3,208	9,477							Started Oct 03, ended March 04
Edinburgh	16,900	123,082	150,382	151,268	155,216	153,053	125,980	110,403	51,088	Started Oct 02, ended March 11
Faro	4,152	7,122		18,526	30,243	33,495	37,457	39,739	34,059	Started Oct 2002.
Geneva	1,104	6,031	5,535	3,746	6,466	7,365	13,791	9,738	6,064	Started Dec 02, ended April 11
Glasgow	12,507	90,207	22,269	107	82,050	76,915	55,963	8,180		Started Oct 02, ended April 29
Ibiza		56				3,540				Operated S07 & S11
Jersey	4,727	40,735	12,658	6,214	6,184	16,075	16,128	17,980	15,169	Started Oct 02, ended March 11
Malaga	8,170	69,658	82,488	84,227	90,547	90,365	85,185	83,285	63,007	Started Oct 2002,
Munich		18,975							2,734	Started March 03, ended Oct 03
Murcia						30,119	31,131	22,296	20,551	Started March 07
Palma		46,540	31,800	48,440	52,123	56,669	60,469	52,737	42,844	Started March 03
Paris		67,273	71,812	13,495						Started March 03, ended Mar 05
Prague		7,093	51,701	52,076	47,679	15,649				Started Oct 03, ended March 07
Toulouse		6,808	8,061							Started April 03, ended Oct 04
Warsaw							20,823	269		Started Feb 08, ended Apr 09
Barcelona							11,998	19,643		Started May 08, ended Oct 09
Gdansk							2,050			Started April 08, ended May 08
Mahon								8,196	9,148	
Total Passengers	**67,644**	**653,194**	**577,106**	**468,937**	**673,704**	**711,303**	**642,662**	**498,443**	**316,271**	**14 ROUTES PREVIOUSLY DROPPED**
Annual Growth		***866%***	***-12%***	***-19%***	***44%***	***6%***	***-10%***	***-22%***	***-37%***	
Routes	***9***	***16***	***13***	***11***	***11***	***13***	***14***	***14***	***11***	

20. Airline Market shares comparison

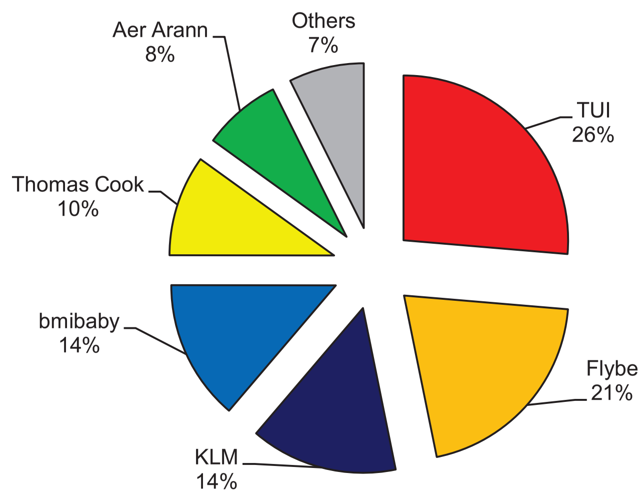
- This slide shows the impact of the stepped withdrawal of bmibaby's operation at Cardiff. It also demonstrates the importance of KLM particularly as they are the key connection to and from the rest of the world

(Source Cardiff Airport)

2010



2011

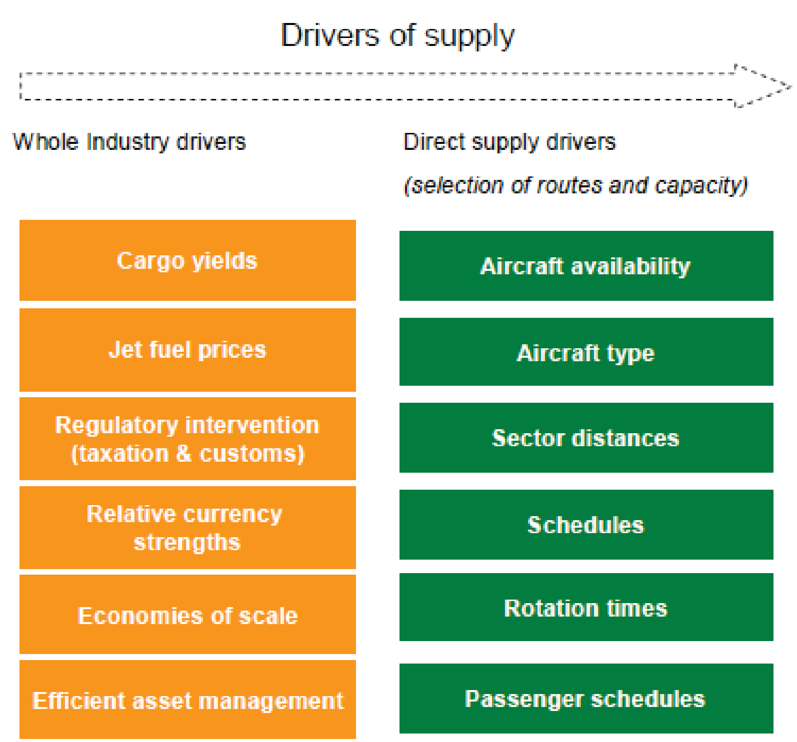


21. Cargo market drivers

- This diagram from the UK DfT report on the cargo market shows the key influences driving the use of air cargo
- The issues of aircraft availability and aircraft type are a key inhibitor of cargo development at Cardiff
- The size of aircraft and routes are detrimental to cargo operations using underbelly on passenger aircraft. This is particularly sensitive given, as shown next, bellyhold carries the majority of cargo uplift

(Source: DfT Steer Davies Gleave report 2010)

FIGURE 1.11 KEY DRIVERS OF SUPPLY

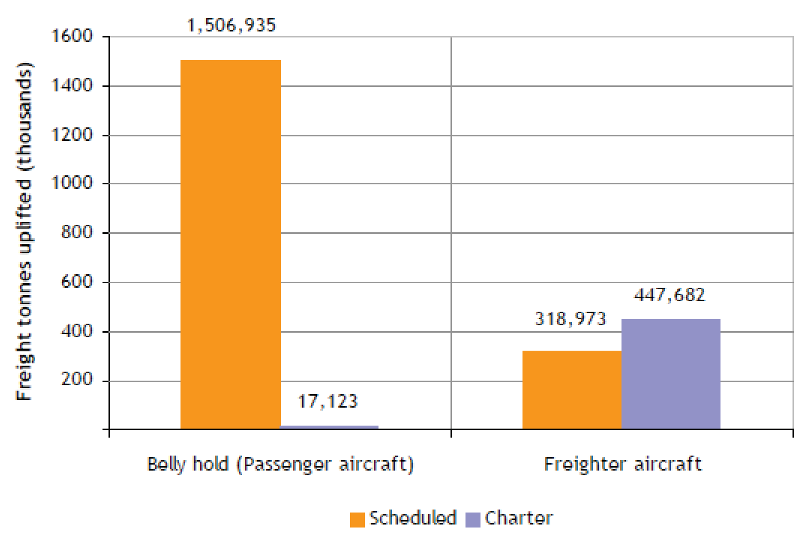


22. Cargo uplift by service type

- This chart shows clearly that the majority of cargo is flown in the holds of passenger aircraft. This requires wide-body configurations which are not normally found at regional airports. Even if Cardiff was to focus on the pure freight market this is dominated by the activities of freight forwarders who are South East focused due to the bellyhold volumes.

- The fast parcels market is mature at present and dominated by East Midlands & Stansted who enjoy population, location and connectivity advantages not enjoyed in Cardiff. TNT left Cardiff in 2008 because they were unable to capture viable levels of traffic *(Source DfT Steer Davies Gleave report 2010)*

FIGURE 3.9 2008 FREIGHT TONNES UPLIFTED BELLYHOLD / DEDICATED FREIGHTER SPLIT



23. Flown cargo by Airport

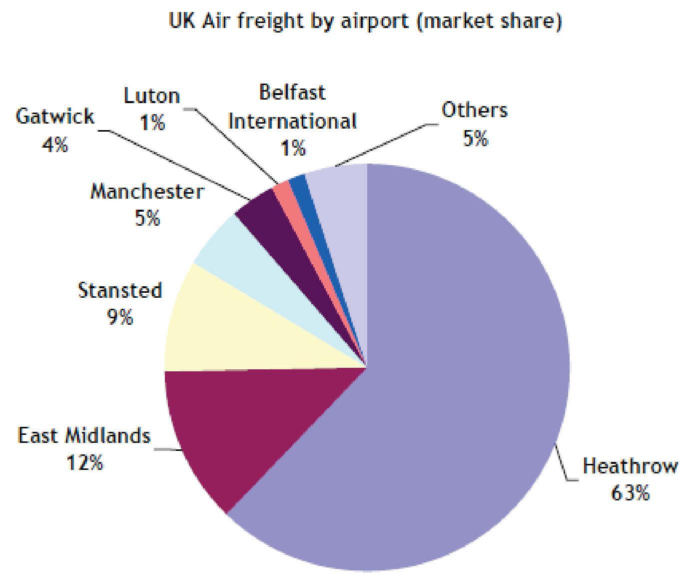
- This figure using CAA data, also taken from the UK DfT report on cargo, demonstrates the dominance of Heathrow because of the long haul, widebody operated network.

- The relatively small showings of Gatwick and Manchester, despite strong strategic focus and investment, confirms the difficulty of penetrating the flown cargo market.

- The East Midlands and Stansted operations are fast parcel hubs which are mature with dedicated infrastructure.

(Source DfT Steer Davies Gleave report 2010)

FIGURE 3.3 2009 UK AIR FREIGHT MARKET SPLIT BY AIRPORT (TONNAGE)



Source: CAA

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.

- ENDS -