

# States of Guernsey Scrutiny Committee



## Security of Strategic Air Links

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*Scrutiny Review: November 2015*

This review focuses on how the States of Guernsey seeks to ensure the security of the Bailiwick's strategic air links.

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## Acronyms & Definitions

Acronym	Definition
PC	Policy Council
T&R	Treasury and Resources Department
C&E	Commerce and Employment Department
PSD	Public Services Department
ETG	External Transport Group
CICRA	Channel Islands Competition Regulation Authority
JCRA	Jersey Competition and Regulation Authority
GCRA	Guernsey Competition and Regulation Authority
OUR	Office of Utility Regulation
ILS	Instrument Landing System
PSO	Public Service Obligation
MoU	Memorandum of Understanding
APG	Alderney Pressure Group
SRC	States Review Committee
EDC	Economic Development Committee
ATR	Aerei da Trasporto Regionale or Avions de transport régional
TSP	Tourism Strategic Plan
BA	British Airways
CEO	Chief Executive Officer
RUAG	Rüstungs Unternehmen Aktiengesellschaft
BBC	British Broadcasting Association
TSB	Trading Supervisory Board
GACC	Guernsey Airport Consultative Committee
GIBA	Guernsey International Business Association
ALG	Alderney Liaison Group
KPMG	KPMG was formed in 1987 with the merger of Peat Marwick International (PMI) and Klynveld Main Goerdeler (KMG) and their individual member firms
KLM	Royal Dutch Airlines
AGCC	Alderney Gambling Control Commission
ACRE	Alderney Commission for Renewable Energy
SLA	Service Level Agreement
EU	European Union
PR	Public Relations
CAA	Civil Aviation Authority
APD	Air Passenger Duty
EDS	Economic Development Strategy
ETG	External Transport Group
EDF	Economic Development Fund
SPP	Social Policy Plan

## Panel Chair and Vice-Chair, Scrutiny Committee - Introduction

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The Bailiwick of Guernsey, an archipelago in the Le Gulf de St Malo, is dependent on its air links to connect residents within the Bailiwick and beyond to support many different aspects of island life. The importance of strategic air links cannot be understated; business, leisure, and tourism all require reliable, affordable, frequent connections to key destinations in order to flourish and grow. The appropriate provision for urgent medical flights is also significant. It is particularly important during current times of economic uncertainty that the Bailiwick maintains and strengthens its strategic air links to support economic growth and prosperity in the community.

This review focuses on how the States of Guernsey seeks to ensure the security of the Bailiwick's strategic air links. The findings within this report are based on the responses submitted to our consultation, the oral evidence gathered at three public hearings and additional research conducted throughout the process. The Panel began by examining current policy in relation to air links and quickly established that an overarching policy was not currently in place.

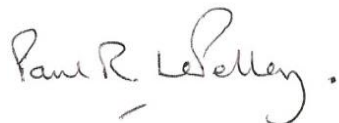
Guernsey, like other small jurisdictions, is in a difficult situation where air links are concerned and it is important to remember that independent airlines are commercially driven enterprises and will operate services only when and where there is a viable market. The Committee, therefore, maintains that Guernsey is in an extremely advantageous position in owning Aurigny.

One question raised during the review was whether the government ownership of Aurigny was being utilised to the maximum benefit for the Bailiwick or whether more could be achieved. Government ownership of Aurigny should allow this asset not only to be employed as an economic enabler but also to enhance residents' quality of life. The States of Guernsey owns Guernsey and Alderney airports and, in addition, is responsible for air route licensing. The Committee concluded that Aurigny's potential as an economic enabler for both business and tourism in the Bailiwick must be maximised.

When the Committee commenced this review it decided that Alderney must be given appropriate consideration due to the ongoing issues in relation to its air links. Over the course of this review a number of air transport related issues have been raised in relation to Alderney and it has become clear that they require resolution. Thus we recommend that a clear policy should be developed to support this link. However, any subsidy negotiated should be explicit and agreed by the States of Deliberation.

The Committee trusts that this report will serve to inform the public and the States of Guernsey on the issues surrounding the security of strategic air links and improve decision-making on future policy in this area which is of paramount importance to the Bailiwick.

The report follows the Westminster select committee model whereby evidence is gathered, through a call for evidence and public hearings, and presented in a report with evidence-based recommendations from the Committee<sup>1</sup>.

A handwritten signature in black ink, reading "Paul R. Le Pelley." with a period at the end. The signature is written in a cursive, flowing style.

Deputy Paul le Pelley  
Panel Chair & Vice-Chair, Scrutiny Committee

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<sup>1</sup> Whilst the information contained in the Report is considered to be true and correct at the date of publication, changes in circumstances after the time of publication may impact on the accuracy of the information.

## Executive Summary

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- I. This review has focused on how States of Guernsey policy has sought to ensure the security of the Bailiwick's strategic air links and has critically evaluated States' policies in relation to this area. This Report is based on the written responses submitted to our Call for Evidence, the oral evidence gathered at the three public hearings and additional research conducted throughout the process.
- II. Guernsey's air links are essential services connecting the Island to the UK, France and the wider world. They support business, tourism, sport, cultural activities and local travel. This review recognises the critical importance of these links and makes recommendations designed to ensure that government policy for the Bailiwick's air links is fit for purpose.
- III. The Committee believes that these air links should be viewed in the following way: - firstly there are lifeline services, without which life on the Islands (especially Alderney) would be severely restricted. There are also strategic services, on which Guernsey's financial services and tourism industry depend and which are essential for the Islands' economic well-being and growth. Finally there are the 'desirable' services; Guernsey is blessed with a relatively wide range of connections for a jurisdiction of its size. However, rather than the States having fostered these links the impression is given that they have developed almost by default and, without a coherent States policy, might be undermined in the same way.
- IV. Air links are a key driver of economic growth, job creation and staff retention and have a major impact on the quality of life and mobility of Bailiwick residents. As such, air links play a crucial role in delivering some key priorities of government, in particular jobs and economic growth but they also impact directly on the cultural, social and sporting activities of those living within the Bailiwick.

### **Responsibility, power and accountability**

- V. There is a marked lack of vision and direction within the States' arrangements for air links. No single Government Department has lead responsibility, rather it is shared across a large number of Government Departments, which together with Aurigny and other commercial partners have roles in ensuring the security of strategic air links.
- VI. In summary, the Commerce & Employment Department (C&E) has responsibility for route licensing but also for the Island's economic development (and tourism) which is dependent on air links; the Public Services Department (PSD) manages the airports in Guernsey and Alderney and the Treasury & Resources Department (T&R) manages the relationship with Aurigny and acts as shareholder. In addition, the External Transport Group (ETG) takes decisions on matters relating to the development and implementation of operational policies, the introduction of legislation and the

promotion, provision and regulation of air links to and from the Bailiwick. Commercial airlines also play an important, if diminishing, role in providing strategic air links across the Islands. The States of Alderney is also a key partner in this policy area; Alderney's air links are inextricably linked with those of Guernsey's via the role of Aurigny and the PSD's provision and maintenance of the airfield.

- VII. The Committee examined whether this complex structure of overarching and interwoven policy responsibilities delivers coherent and appropriate air links. At the moment fragmented arrangements mean that no single Government Department can ensure strategic air links are delivered. In addition it also means that no Government Department or Minister can be held to account for any shortcomings in this area. The Committee believes that this situation is unacceptable and is overdue for action.
- VIII. The changes put forward by the States Review Committee's July 2014 and July 2015 reports offer an opportunity to clarify responsibilities and ensure that government can both act effectively and be held accountable for this key responsibility. Lead responsibility for air links needs to be allocated to a single Government Department to ensure that proper attention is given to this vitally important area.
- IX. The Committee believes that the most important link in terms of government policy relating to strategic air links is that between business, tourism and economic development. Therefore C&E or its successor, the Economic Development Committee (EDC), should assume lead responsibility with the mandate and powers to ensure that appropriate strategic air links are in place and be held accountable for any policy failings. Strategic air links are one of the elements for the continued economic success of the Islands and should be seen as a key enabler of economic success. In this context - though there is little evidence that the C&E licensing function has in practice inhibited its economic development role - in order to ensure that the new lead department is not seen as constrained we support the removal of regulatory functions from the EDC.

### **Aurigny**

- X. One of our most significant findings relates to government policy regarding Aurigny since the company was purchased by the States of Guernsey in 2003. The policy framework has simply not allowed the States to take advantage of the opportunities presented by its ownership of Aurigny. Given that the Government owns the Airline, which is central to ensuring strategic air links across the Bailiwick, it is surprising that there is no clear policy to use Aurigny to support wider economic and political objectives. This "tool in the box" seems to have been ignored. It is hard to know what lies behind this reluctance. It may have been cultural / ideological considerations: Committees/Ministers perhaps felt uncomfortable with the idea of public ownership of an airline and were hesitant to make active use of an asset which they had, albeit reluctantly, acquired. This may be because, historically, politicians have been wary of interfering with a "commercial" interest preferring to simply ask it, in the words of

the Treasury Minister, to “not lose too much money”. However, judging from the responses of the C&E and T&R Ministers to our questions in the final review hearing, it is absolutely clear that Aurigny is set to stay in public ownership for the foreseeable future. If that is the case, the Committee suggest that this valuable asset must be used effectively in support of the economic and political objectives of the Islands<sup>2</sup>. The States is in the enviable position of having several levers of control over air links: the Airline, the Airport and the ability to protect routes by a licensing system. Yet the States has been reluctant to use the tools it has; the inability to do so is in part symptomatic of the system of government which has been in place since 2003.

- XI. The Committee also believes that lead responsibility at a policy level within government should go with advising the Airline on pricing policies. A decision needs to be made on whether the Airline should continue largely to price in line with commercial practice or alternatively look to operate more as a social enterprise. It cannot do both. Current criticism of Aurigny’s pricing policy is unfair when the Government fails to offer any clear direction on the purpose of the Airline within the context of its public ownership. Part of the problem is that after a period of unsustainable competition on the Gatwick route, the idea of what is a fair price has possibly become distorted in the public’s mind.
- XII. It must be understood that revenue which is not raised via its commercial operations has to be subsidised by the tax payer. The Committee believes that any subsidies paid should be explicit subsidies and not the ‘writing off’ of losses. They should be based on a statement of the purpose and priorities for Aurigny; these priorities should be made clear and the subject of a policy letter that is agreed by the States Assembly.
- XIII. If the Government wish to make a ‘subsidy’ explicit on certain routes they may need to do so in a manner which complies with the transportation law of the European Union. Under European Law, a public service obligation (PSO) is an arrangement in which a governing body or other authority offers an auction for subsidies, thereby granting the company that wins the tender a monopoly to operate a specified service of public transport for a specified period of time for the given subsidy. This is generally used in cases where there is insufficient revenue for routes to be profitable in a free market, but where there is a social need for transport being available.
- XIV. The States Review Committee’ (SRC) proposals envisage the creation of a dedicated States’ Trading Supervisory Board and see this as “an opportunity to secure and build upon, not to depart from, the progress made hitherto. We take this to mean a more

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<sup>2</sup> After the completion of our inquiry T&R recommended the recapitalisation of the Aurigny Group. This writes off the historic debt of the company and frees it from having to service interest payments on these debts. We have taken the statements by Ministers on the continued need for public ownership of Aurigny at face value. We trust there is no other reason for the recapitalisation which might lead to the future sell-off of Aurigny.



hands-on approach to the management of States-owned enterprises. Whilst the Committee welcomes the shareholder playing a more active role we believe that this change must serve the interests of the wider economy and the political objectives agreed by the States. The objectives given to Aurigny should be a tool to enable the achievement of wider government policy aims rather than focussing simply on the financial performance of the company<sup>3</sup>.

- XV. The company cannot exist in a vacuum, indifferent to the impact of its policies on the wider community. There is a scenario in which Aurigny could make a healthy profit and, in doing so, inflict massive economic and social damage on Guernsey and Alderney. This must be avoided by truly joined-up government policy which focusses on overall government objectives rather than a narrow focus on Departmental aims.

### **Alderney**

- XVI. For Alderney, with limited links by sea, air links really do fall into the lifeline category. The Island's leaders believe that Alderney's economic problems can only be effectively addressed by including their air links within any proposed remedy. The Alderney routes lose money and, with one exception, the T&R estimate of £900,000, as the annual deficit for running the Alderney services, was accepted by our witnesses<sup>4</sup>. There is no 'break-even' option for Alderney; without subsidised air links the very viability of the Island is in question. The issue, therefore, goes to the heart of relationships within the Bailiwick. It is perhaps surprising that a figure has been put on the size of the deficit. Hitherto it has been States policy not to identify the amount by which public services on Alderney are subsidised by Guernsey. For whatever reason, on the matter of air links, that taboo has been broken and the question now is what level of subsidy is appropriate for what level of service to Alderney.
- XVII. The Committee is aware that work has started to resolve these issues and it must be continued to ensure the Bailiwick's continued prosperity. Progress on a Memorandum of Understanding (MoU) to set out an acceptable service level in exchange for an open subsidy has so far been slow and the Committee believe this work should be prioritised<sup>5</sup>.
- XVIII. The Committee believes that the potential of using the levers afforded by ownership of Aurigny and the Airport to address the economic and political objectives of Alderney must be recognised. It is critically important that the management of Aurigny maintains the confidence of all major stakeholders. Judging by the comments

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<sup>3</sup> We acknowledge that T&R have provided shareholder objectives to Aurigny in the past which the States will be asked to update by resolution of Billet D'État XX 2015 – Treasury and Resources – Cabernet Limited, Recapitalisation, paragraph 4.1 – 4.4

<sup>4</sup> Billet D'État XX 2015 – Treasury and Resources quotes a revised figure of £700,000 for the ongoing forecast loss per annum, page 3086, paragraph 5.8

<sup>5</sup> Billet D'État XX 2015 – Treasury and Resources – Recapitalisation: this anticipates that the MoU will be in place by the end of 2015

of politicians in Alderney, the aircraft reliability problems that have affected the Alderney route have resulted in a loss of this confidence.

- XIX. This crisis of confidence needs to be addressed with costed plans to deliver resilience on this route which can then be effectively evaluated. These plans need to consider all the potential costs involved in delivering reliable air links to Alderney, including requirements for aircraft, the role of the Southampton service, the physical infrastructure of the airfield and all the associated resources that are required.
- XX. Alderney has been well served by Trislanders for many years but the fleet is now in need of replacement. Aurigny's search for alternative aircraft has not gone smoothly and the resulting delays gave rise to a well-argued campaign to retain the Trislander as the aircraft of choice<sup>6</sup>. The question of replacement aircraft is linked to the nature of the airfield on Alderney. A future-proofing option of extending the runway to allow for the integration of the ATRs<sup>7</sup> into the Alderney services has not in our view been adequately evaluated.
- XXI. The search for suitable replacement aircraft revealed an issue which caused the Committee concern; that of T&R's ability to access expert advice independent of Aurigny. The Dornier purchase has involved large sums of public money but T&R appear to have been wholly reliant of Aurigny's advice concerning the appropriateness of the investment. Investment on this scale should be taken only on the basis of independent expert advice. The Committee, therefore, recommend that the Government should identify a source of independent advice before committing to investments of this magnitude. This principle has been established where previously the Government has sought independent advice when substantial investment decisions have arisen.
- XXII. Future decisions in terms of major investment should be based on clear choices made by government rather than being left to operational decision makers who have to weigh departmental rather than government wide concerns. A move to more holistic, integrated and less "silo" based decision-making should be aided by the proposed SRC reforms and the enabling changes planned for the public sector.

### **Air Licensing Policy**

- XXIII. This review has examined government policy to ensure it safeguards that the Bailiwick's air links remain fit for purpose. The Committee has considered the options around the regulatory regime required to support sustainable year-round air links. The Committee does not believe that a completely deregulated or "open skies" approach to air links is viable for Guernsey. The limited size of the market (in

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<sup>6</sup> Initially utilising the existing fleet and replacing with new Trislanders

<sup>7</sup> Established in November 1981, ATR is a joint partnership between the Airbus Group and the Italian Company Alenia Aermacchi (a Finmeccanica company) producing the ATR42 and ATR72 aircraft

comparison with Jersey)), the need to provide lifeline services and services which satisfy a social need, together with the States' ownership of Aurigny in particular led the Committee to form this view.

- XXIV. 'Open skies' could bring cheaper air fares in the short term on certain routes. Whilst this is superficially attractive, the Committee does not believe on the basis of the evidence reviewed, that in the longer term and on a year round basis that 'open skies' is sustainable.
- XXV. Although the introduction of 'open skies' in Jersey has resulted in cheaper fares to some destinations, the long term sustainability of this approach is unproven in a smaller market. The Isle of Man was cited by many as a warning of what can happen. The Committee also noted the potential vulnerability of Jersey to a situation where the major airlines serving the Island might decide to sell London airport slots.
- XXVI. The Committee therefore does not believe that 'open skies' is suitable to Guernsey. However, whilst we agree with the need to protect the Gatwick and other identifiable strategic routes from predatory behaviour, we are less convinced that the whole of the UK should be subject to blanket route licensing requirements. The Committee believes that the States ownership of Aurigny could be used to deliver some of the perceived benefits afforded by an 'open skies' policy if this is the chosen policy direction of the Government. If the availability of cheaper fares to certain destinations is the major policy aspiration then this could be achieved through the Government's ownership of Aurigny, provided any subsidy is made explicit and its purpose is understood.

#### **Business promotion/economic generation**

- XXVII. In this context, air connectivity has acquired a new strategic relevance for the local economy. High quality air links are essential in many business sectors to enable promotion, sale and export of local products, technologies and know-how overseas. A high standard of air links is often a prerequisite for external investments into Guernsey. Flying is also the way most international business travellers arrive in and depart from Guernsey. Direct connectivity is generally considered of more value than indirect connectivity so the States has, in our view, been right to prioritise the Gatwick link. The Island needs to have its own direct link to London. Guernsey, serviced as an add-on to Jersey-London services, would put the Island at a huge disadvantage.
- XXVIII. The risk of Guernsey falling behind competitors in this respect should be a concern for policy makers, especially in a context where air links are both a decision point for business location and a major enabler of economic growth. Guernsey's competitors may increasingly benefit from a framework of government policy and investment which truly embraces and supports air connectivity. Guernsey needs to take stock of the strategic relevance of air links for the economy and needs to embrace air

connectivity by promoting and supporting this sector. This must happen quickly and the changes in policy need to be effective. This is a time for new policy directions and change. This report makes a case for the Government to look at things differently and to change the way it works. Future policy must be realistic and we must ensure that policy is not determined by businesses' wish-lists. Unrealistic suggestions have been made for links to Amsterdam and Paris. Previous experience would indicate that these links are unlikely to be sustainable on a year round basis and Gatwick must remain as the key business connection.

### **Cultural and sporting activities**

- XXIX. Air links have a significant impact on the cultural and sporting activities of those living within the Bailiwick. The reduction in the frequency and availability of flights and the increase in the cost of certain routes have had a deleterious impact on cultural and sporting life. This has particularly affected a number of team sports' ability to compete in the UK and on an inter-island basis. If this situation is to be improved then the requirements of the Islands in terms of sporting and cultural links need to be clearly articulated and a dialogue needs to take place between those looking to access these services and those charged with delivering Guernsey's air links. "Events", whether sporting or cultural, are hard for airlines to cater for; there is rarely a return load to balance the outgoing group. Sports teams can bring the additional problem of late name changes and heavy luggage demands. But all this can be accommodated if there is the political will to see Aurigny also as a social facilitator for island life.
- XXX. The sporting and cultural life of the Islands cannot be allowed to fade away; it should be a concern that is promptly addressed within government. These facilities will impact business decisions because sporting and cultural elements support Guernsey as a place where business men and women want to live and be employed and therefore contribute to economic well-being. The SRC proposals place the responsibility for culture and sport with the Committee for Education, Sport & Culture. The new Committee will need to grasp this issue and provide it with the level of government attention it deserves.

### **Making policy connected**

- XXXI. One of the major observations resulting from this review is the clear requirement that government policy must be focussed on addressing major issues, such as ensuring strategic air links rather than rigidly based on Departmental responsibilities. Government must consider that the management of the Airport, the shareholder responsibility for Aurigny and the production of a tourism strategy, all have to be aligned to achieve key over-arching objectives rather than the current model where each is evaluated as an end in itself. Over this parliament different parts of the Government have been pulling in different directions.

XXXII. Government must understand that Aurigny, for example, can be used as a tool to achieve political and economic aims. Simply acting as if Aurigny is a private company and ignoring the potential to support the interests of the Islands in the wider sense cannot continue. Any “subsidies” being paid to Aurigny should be argued for politically and be visible. The management of the airports should be undertaken with their real purpose being considered - to facilitate the economic and political interests of the Island. The Committee was given no clear indication of what airport objectives are – quite possibly they are ‘not to lose too much money’! However, it cannot be right that we have two States Departments in their silos one, PSD, charging Aurigny and by association, T&R, a high level of landing fees to improve its balance sheet. Value has to be considered widely rather than in a narrow financial sense. This problem is not unique to strategic air links. If the Island is to continue to prosper government must take advantage of the opportunities presented by ownership of Aurigny and the airports and provide clear direction to management. These assets must be strategically aligned to the wider priorities of the Government, not focussed on individually-based and potentially contradictory financial performance targets. Achieving this policy synergy should be the main focus for future government policy to ensure strategic air links truly serve the economic and political interests of the Island.

#### **Runway extension**

- XXXIII. One of the recurring themes throughout this process has been concerns about the length of the runways in both Guernsey and Alderney. In Guernsey a significant minority of responses commented on the need to extend the current runway to allow the use of larger aircraft. However, given that the likely cost of this type of extension is significant (£20 Million +) it is difficult on the evidence reviewed to support these arguments. Whilst a runway extension could allow different commercial airlines to fly into Guernsey with associated benefits it is unproven that this would be sustainable and in the longer term commercial interests of the Island. The limited size of the market, the need to provide lifeline services and services which satisfy a social need, together with the States’ ownership of Aurigny in particular led the Committee to form this view.
- XXXIV. In terms of Alderney, the runways and their impact on reliability are a source of concern. Action needs to be taken to improve the reliability of the service and this must involve improving the existing runways. Therefore the Committee would support a full review of the possible options, including the cost implications and funding sources available to improve the current situation and a future runway extension. Investments such as runway improvements and, for Guernsey, an upgraded Instrumental Landing System must be viewed holistically and not solely in terms of departmental priorities.

# 1. Introduction

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- 1.1. In 2014 the Committee decided to review the policy framework in place to ensure the Bailiwick's security of strategic air links. The decision resulted from a period of change in air connectivity affecting the Bailiwick which had attracted significant attention in the local media and amongst business commentators and members of the public. The Committee sought to analyse air links in the context of the existing policy framework with the intention of commenting on the suitability of the existing and future policy. This included a review of oral evidence at three public hearings together with submissions received during a comprehensive consultation phase and the Committee's own research. We have sought to make evidence-based recommendations for a coherent air links policy that will drive economic growth and better serve the Islanders' future needs, whilst being at the same time efficient and effective.
- 1.2. The review seeks to clarify how the States of Guernsey strives to secure its strategic air routes; determine how effectively policy is implemented and adhered to; and assess whether Guernsey's current policy regarding strategic air links is fit for purpose.
- 1.3. The Committee established early on in the review that a coherent, overarching government policy on security of strategic air links does not exist. This situation is of concern in view of the Government's ownership of Aurigny, a factor which is emerging as the most significant determinant of the Bailiwick's air connectivity. The Committee believes that the Government must use all the tools at its disposal: as overseer of the air licensing regime; and as owner of Guernsey and Alderney airports; and of Aurigny itself to ensure that the Bailiwick's air links are given the highest priority in government policy to enable economic growth and sustainability.
- 1.4. The Committee was party to a great deal of information provided by a varied group of contributors ranging from Government Departments, the business community, tourism sector, knowledgeable third parties, sports representatives and private individuals. The Committee listened to differing opinions offered by witnesses at three public hearings and, through its detailed questioning, probed the views and suggestions it heard.

## Methodology

- 1.5. The Committee appointed a panel of five members in December 2013 to carry out the review. The Terms of Reference for the review were approved by the Committee in January 2014<sup>8</sup>. The review began with a 'Call for Evidence' whereby the Committee sought the views of stakeholders and interested parties. Thirty-three responses were

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<sup>8</sup> Appendix 1

received from a cross-section of interested parties: airline customers, Government Departments, local business groups, sports associations, a group of interested Alderney residents referred to as the 'Alderney Pressure Group' (APG) and the general public. The Committee sent specific invitation to the three airlines that operate the main air route connections in the Bailiwick. Aurigny provided a written response and its management gave oral evidence at the public hearing held on 22<sup>nd</sup> March 2015, Blue Islands provided a written response but declined an invitation to appear at a hearing and Flybe made no representation to the Committee. Following the analysis of these responses and a period of research, three public hearings were held at which witnesses were questioned by the panel in order to explore in greater depth the issues raised both by the consultation responses and the panel's own research<sup>9</sup>. The consultation exercise, panel research and hearings provide the evidence base for this report.

## Scope

- 1.6. In keeping with its mandate<sup>10</sup>, the Committee began by looking at the States' policy framework for the security of air transport for the Bailiwick. The focus for the review was the strategic direction to, and oversight of, the security of Guernsey's air links by States Departments, rather than a review of Aurigny Air Services Limited. We looked at whether there are any gaps in policy, if current policies lack clarity, and where policy improvements might be considered. The Committee also focused on the roles and responsibilities of the various States Departments in the administration of policy, whether these are clearly defined, whether conflicts exist and how effectively departments work together.

## Departmental Mandates<sup>11</sup>

- 1.7. In summary, the Commerce & Employment Department has responsibility for regulating air links via the air route licensing regime and tourism, enshrined in the recently published Tourism Strategic Plan. The Public Services Department manages the airports in Guernsey and Alderney and the Treasury & Resources Department manages the relationship with Aurigny and acts as shareholder. In addition the External Transport Group takes decisions on matters relating to the development and implementation of operational policies, the introduction of legislation and the promotion, provision and regulation of air links to and from the Bailiwick.

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<sup>9</sup> Appendix 9 and 10 – Hansard Transcripts

<sup>10</sup> Appendix 2

<sup>11</sup> <http://www.gov.gg/Guernsey-Government>

## 2. Historical Background

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- 2.1. Airlines are commercially driven enterprises and will operate services only where there is a viable market<sup>12</sup>. This has no doubt contributed to the fact that the Bailiwick has been serviced by several independent airlines in the past for various periods of time. In 1998 the unexpected sale by KLM, as majority shareholder of KLM UK Ltd, of its Guernsey to London Heathrow landing slots was announced and followed by the closure of its Guernsey base in March 1999. The loss of the London Heathrow link caused a media outcry with businesses in the Island outraged and predicting dire consequences. The Guernsey to London link continued to be serviced by Flybe (Gatwick - Guernsey services had commenced in 1991) and British Airways (BA) with both airlines offering several daily return services to London Gatwick (Gatwick).
- 2.2. Subsequently, it was BA's announcement on 12<sup>th</sup> May 2003 that the Company planned to withdraw their services from Guernsey and their offer to transfer their Gatwick landing slots to Aurigny Air Services Limited that instigated the States of Guernsey's purchase of the Aurigny Group<sup>13</sup>. The purchase of the Aurigny Group and with it BA's Gatwick landing slots was agreed primarily to ensure that the Island was guaranteed future access to a 'vital London hub'.

*"...acquisition of Aurigny is an opportunity for a strategic investment in a commercial operation that will be of considerable value in protecting the Island's long term social and economic sustainability. The Committee therefore concluded that the long term advantages of securing access to a London hub airport greatly outweighed any potential downsides and in consequence agreed to enter into discussions with the owners of Aurigny for its purchase."*  
<sup>14</sup>

*"It is for future consideration as to whether in the long term the States should retain 100% ownership of Aurigny or consider the involvement of other equity partners whilst retaining majority control or some kind of 'Golden Share' to protect the Island's strategic interests. The Committee believes that such consideration must come after the immediate need to take the strategic decision to acquire Aurigny and protect the Gatwick service. A period of consolidation will also be necessary in order to establish the Gatwick operation which will itself be a major challenge for the company."*<sup>15</sup>

- 2.3. The States of Guernsey's purchase of the Aurigny Group in 2003<sup>16</sup> reflected the strategic importance of air transport to the Island and, specifically, access to Gatwick Airport. The States' ownership, through the Treasury and Resources Department as shareholder, of the Aurigny Group and associated Gatwick landing slot times within Cabernet Limited was

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<sup>12</sup> 1st Report - Aviation Strategy, Volume II – Transport Committee, published 3 June 2013

<sup>13</sup> Aurigny Air Services and Anglo Normandy Engineering Limited

<sup>14</sup> Billet d'État Number XI, 2003 "Security of Air Links"

<sup>15</sup> Billet d'État Number XI, 2003 "Security of Air Links"

<sup>16</sup> Billet d'État Number XI, 2003 "Security of Air Links"



proclaimed as ensuring the security of the Gatwick route, seen as the most critical air link for the Island, primarily for a successful business economy.

- 2.4. On 21 June 2007, the States gave Aurigny permission to raise a private loan to purchase two new ATR 72-500 aircraft<sup>17</sup>. These entered service in March 2009 and replaced the older ATR 72-200 fleet. At this time Aurigny increased the frequency of return flights between Guernsey and Gatwick from four to five daily<sup>18</sup>.
- 2.5. The York Aviation Report published in 2009<sup>19</sup> highlighted the critical importance of the Gatwick air link to the financial services sector (as a link to the capital and hub for business travel) and warned of the consequences if Flybe withdrew its Gatwick service. The Report stated that loss of the Gatwick route would mean a loss to the Island's economy of around £80m per annum.
- 2.6. In July 2010 Blue Islands announced its interest in purchasing Aurigny and commenced a due diligence process with the Treasury and Resources Department. This sparked major debate throughout the Bailiwick. The plans to sell were dropped, however, when the Department concluded that it could not be certain that the Gatwick slots would be safeguarded, or that a combined airline could be profitable in the long-term<sup>20</sup>.
- 2.7. In May 2013 Flybe announced the withdrawal of its Gatwick service from March 2014. In response Aurigny and the Treasury and Resources Department evaluated options for expanding operations to cater for passengers previously carried by Flybe. The then Chief Minister, Deputy Peter Harwood, said:

***"Having been well-trailed in the media, Flybe's announcement does not come as a surprise. I know that both Treasury & Resources, as the shareholder in Aurigny, and the External Transport Group, Chaired by Deputy Paul Luxon, have been considering the opportunities and challenges that will be presented by this development."***

Deputy Paul Luxon, Minister for the Public Services Department and Chair of the External Transport Group, said:

***"The March 2014 lead-in date will give Aurigny time to evaluate its commercial position, and to consider any potential changes in the operation of their business case in order to react to market demand. In the meantime we have been assured by Flybe that the existing level of services in and out of Guernsey will remain, and we welcome that."***

- 2.8. In July 2013, the States approved an Emergency Billet from the Treasury and Resources Department, authorising the Department to facilitate the purchase and lease of aircraft:

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<sup>17</sup> Billet d'État Number XVI, 2007

<sup>18</sup> The purchase of the ATR 72-500 aircraft was not linked to the increase in Gatwick rotations

<sup>19</sup> York Aviation, "Airport Development - Economic Assessment of Options", 2009

<sup>20</sup> On 14 September 2010 the Treasury and Resources Department announced that the sale would not proceed.

*“ to authorise the Treasury and Resources Department to facilitate any borrowing by the Aurigny Group to finance the purchase of such additional aircraft as are required to service the Aurigny network by providing guarantees for borrowing from third parties or by offering the Group a loan from the States General Investment Pool; and ...to facilitate any borrowing by the Aurigny Group to finance the purchase of such additional aircraft as are required to service the Aurigny network...”*

2.9. Aurigny subsequently announced its plan to buy a 122-seater Embraer 195 jet aircraft whose capacity would be able to compensate for the loss of the Flybe Gatwick service. Aurigny estimated that its ‘bottom line’ performance over its existing operations would be improved by between £1.7 million and £3 million per annum.

2.10. The Guernsey Press reported on 14 August 2013 that Aurigny had lost £12.5m over the previous decade. Aurigny estimated at this time that its bottom-line could improve by up to £3m per annum with a new jet and as sole operator on the route. The hope at this time was that:

*“States ownership of Aurigny could keep prices down operating as a monopoly for the good of its customers and the Island” – Guernsey Evening Press; Opinion*

2.11. On 24 October 2013, Aurigny and Blue Islands submitted an application to the Channel Islands Competition and Regulatory Authorities (CICRA) for exemptions under Competition Laws<sup>21</sup>. The end result was a ‘code-share’ on the Guernsey-Jersey route that has been described by users as ‘an aircraft split in half’ with the airlines prohibited from operating an interlinked booking system. There has been public criticism of this change with concerns relating to frequency and capacity of flights and availability of seats particularly during times of inter- island sporting events.

2.12. Aurigny set itself a target to increase its passenger numbers from 196,000 to 282,000 in 2014 and then 300,000 in 2015<sup>22</sup>. Recently released figures have revealed that Aurigny carried 557,000 passengers **across its network** in 2014 and is on track to further increase this figure in 2015. In April 2014 the Treasury and Resources Department reached an agreement with Aurigny stating that the company would offer 60% of its available fares to Gatwick for £65 or less during the year, excluding air passenger duty and subject to annual review<sup>23</sup>. Having satisfied this condition Aurigny would then be free to set the remaining fares at market levels. The Minister, Treasury and Resources Department, stated that the fare structure would ensure that residents and visitors could travel between the Island and Gatwick for a reasonable cost. He also stated:

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<sup>21</sup> The Channel Islands Competition and Regulatory Authorities or 'CICRA' is the name given to the Jersey Competition Regulatory Authority and the Guernsey Competition and Regulatory Authority (formerly the Office of Utility Regulation).

<sup>22</sup> This target refers to the Gatwick route alone

<sup>23</sup> Billet D'État XX 2015 – Treasury and Resources – Cabernet Limited, Recapitalisation: Shareholder objectives will be updated to include a revised fare structure (paragraph 4.2)

*“Importantly, Aurigny remains confident that it can deliver on these commitments while continuing to move towards a break-even position... in 2015/16.”*

Despite ongoing communication from both the Treasury and Resources Department and Aurigny there has been and continues to be regular publicly voiced discontent with the fare pricing policy and sole operator status of the States-owned airline.

- 2.13. In July 2014 Aurigny announced that it would commence a daily service between Guernsey and London City from 8<sup>th</sup> September. Mark Darby CEO stated that the route would be designed around business commuters and that he would make sure the service was “slick and on-time”. A Fokker 50 turboprop aircraft was wet-leased to commence flying the route as an interim solution in order to comply with route licensing requirements.
- 2.14. On 28<sup>th</sup> August 2014 Blue Islands announced plans to increase the number of flights from Guernsey to Southampton from three to four per day in direct competition with Flybe. The BBC reported that in May 2014, 5,104 fewer passengers used services between Guernsey and Gatwick, compared to May 2013, a drop of 16%, whereas Southampton services saw a 44% year-on-year increase with 5,276 extra passengers<sup>24</sup>.
- 2.15. By Autumn 2014 Flybe had, with little notice, reduced its Southampton flight schedule to one daily Southampton flight (from four at the start of 2014) and in June this year the Airline refused to counter the rumour that it may drop its daily Guernsey to Southampton service completely. More recently Flybe has increased its service slightly and for the moment appears committed to servicing the route.
- 2.16. In May 2014 Treasury and Resources obtained States consent to guarantee a further loan allowing Aurigny to purchase a replacement fleet for the Alderney routes. Subsequently in April 2015 the Treasury and Resources Minister made the following statement about the significantly delayed process:

*“The first stage involved the acquisition of three second-hand Dornier aircraft as an interim arrangement. At that time, it was not anticipated that new aircraft would be available until the end of 2016. In addition, the Department did not believe Aurigny should be investing in new aircraft until such time as the States had made a decision about any possible extension of the runway in Alderney and the consequent possibilities this would offer for the introduction of larger aircraft. Members will, of course, recall that the States has subsequently decided last December against such an extension for the time being.*

*At that time last year, Aurigny was forecasting that its Alderney services would lose in the region of £900,000 per annum. It anticipated that the introduction of the second-hand Dornier aircraft on the Alderney services would improve the financial performance of the routes by around £100,000 per annum. Its 2015/16 budgets for the Alderney services*

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<sup>24</sup> <http://www.bbc.co.uk/news/world-europe-guernsey-28967802> - albeit this equates to a relatively small number of passengers

*anticipate a further improvement in the performance of the routes, largely as a result of the fall in oil prices, with an overall loss on these routes of £700,000 currently estimated.*

*Moving now to the second stage. This envisaged the replacement of two of the three second-hand aircraft with new Dorniers at an estimated cost of up to £6m per aircraft. The third second-hand aircraft would be retained primarily for back-up and peak period purposes. My Department did, however, make it clear that any decision to purchase new aircraft would still be subject to its agreement to a detailed business case from Aurigny.”*

2.17. This purchase been highly problematic for Aurigny, with delays and false starts occurring throughout.

*“It is fair to say that the acquisition of the second-hand Dorniers has been a frustratingly slow process - for all interested parties.”<sup>25</sup>*

The Treasury Minister also pointed out problems that had arisen since the May 2014 decision in light of the Dornier manufacturing company, RUAG<sup>26</sup>, being able to accelerate the delivery of two new aircraft:

*“Firstly, there are of course absolutely no guarantees as to how long this option from RUAG will remain available. Should the option arise, a failure to exercise it in a timely manner could result in a lost opportunity;*

*Secondly, Aurigny requires a fleet of three Dorniers to enable it to retire its elderly Trislanders and secure the future operation of its Alderney services. At present, it has only been able to acquire two;*

*Thirdly, as I have already noted, the States has now decided against an extension of the runway in Alderney, meaning the Dornier is an appropriate aircraft for the facilities there for the foreseeable future;*

*Fourthly, whilst the operating and maintenance costs of the new aircraft will be lower than second hand ones, these benefits will be outweighed by the additional costs of ownership, particularly depreciation. The net additional cost of operating each new aircraft in terms of interest and depreciation will be around £300,000 per annum; and,*

*Fifthly, the States agreed last December to direct the Commerce and Employment Department to investigate options for safeguarding the routes to and from Alderney. Whilst my Department strongly supports the need to undertake this work, it also recognises that some of the options under consideration could involve putting the services out to tender, with the risk that Aurigny loses the services to another operator and is left with surplus aircraft.”<sup>27</sup>*

Despite the Treasury Minister highlighting the problems being faced by Alderney, the roller-coaster continues with numerous setbacks being broadcast in the media, fuelled by a highly disgruntled population in Alderney who continue to suffer from an unreliable air link provision.

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<sup>25</sup> Treasury Minister’s statement on Aurigny Air Services’ – aircraft acquisitions – Wednesday 29 April 2015

<sup>26</sup> RUAG Aviation is the Aviatric Division of the Swiss technology group RUAG - producer of the Do228 NG, system solutions

<sup>27</sup> Treasury Minister’s statement on Aurigny Air Services’ – aircraft acquisitions – Wednesday 29 April 2015

*“However, in the face of this mixed bag of considerations, my Department is clear that the overriding factor must be the needs of Alderney and the wider Bailiwick. We have talked extensively in this Assembly over the last year or so about the challenges of economic decline and depopulation being faced by Alderney. In debating both the report on the Airport and Economic Development in Alderney last December and, more recently, the Personal Tax, Pensions and Benefits Review, we acknowledged that Alderney's problem is Guernsey's problem and that intervention was needed to help stimulate and sustain its economy. We all recognise the undeniable significance and importance of air links to Alderney's social and economic wellbeing. Without doubt, the important work being undertaken in Alderney on the development and implementation of its Economic Development Plan will be substantially prejudiced in the absence of secure and reliable air links. My Department's view, which I think is reflected in the tenor of the debates we have had as an Assembly, is that these must be a priority.”<sup>28</sup>*

2.18. On 16<sup>th</sup> October 2015 the Treasury Minister announced details relating to the recapitalisation of Aurigny to be included in the November Billet. The recapitalisation would address Aurigny's accumulated losses dating back to 2003 and amounting to £19.9m. In addition, the Department recommends that Aurigny is capitalised for its forecast losses totalling £5.3m for the years 2015, 2016 and 2017. The Minister stated:

*“Aurigny remains mandated to break even and our policy letter indicates that this should be possible by 2018, subject to new funding arrangements being put in place for its loss making, but socially and economically essential, Alderney services. Recapitalisation of its historic debts will help to stem its losses and work more effectively towards break even, whilst continuing to provide Guernsey and Alderney with a high degree of air connectivity that could never be delivered year round by a commercial operator. “Balancing commercial considerations with Aurigny's wider responsibilities to the Bailiwick remains a constant challenge for the States and the Airline. The launch of the London City service is a clear example of how Aurigny has put its role as an economic enabler for the Island ahead of the commercial considerations that might otherwise have discounted introducing the route. For as long as we expect Aurigny to continue fulfilling this social and economic role for the Island, then we have to accept that this will bring with it a risk that ongoing financial support will be required.”<sup>29</sup>*

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<sup>28</sup> Treasury Minister's statement on Aurigny Air Services' – aircraft acquisitions – Wednesday 29 April 2015

<sup>29</sup> Treasury Minister's statement on Aurigny Air Services' – Recapitalisation of the Aurigny Group – 16<sup>th</sup> October 2015

### 3. Responsibility, Power and Accountability

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3.1. Responsibility for air links is shared between the Commerce and Employment, Public Services and Treasury and Resources Departments along with other bodies such as the External Transport Group, Alderney Liaison Group, Aurigny and commercial providers. This web of interlinking responsibilities leads to an absence of ministerial accountability and lack of a clear lead departmental responsibility. The Committee were somewhat surprised by these shortcomings, considering the vital role which the security of strategic air links have to the social and economic wellbeing of the Bailiwick<sup>30</sup>.

**Recommendation 1: A clear lead Government Department must be established with responsibility for security of strategic air links.**

**Recommendation 2: There remains an inherent danger that a state-run airline can become inefficient. Aurigny must be given a comprehensive set of objectives with clear performance measures in place under the structure proposed by the States Review Committee**

The levers which the States has to influence the development and maintenance of air routes were described to us as follows:

- Air route licensing
- Subsidies for route development paid by Commerce and Employment
- Direct intervention though States ownership of Aurigny
- Management of the airports in Guernsey and Alderney

In our view, the most significant of these by far is the States' ownership of Aurigny itself. Mr Charles Parkinson thought the way in which the Government currently controlled Aurigny was broadly along the right lines. The States had distanced themselves from the commercial operations of the trading entities they own and he stated:

*“...the reality is that politicians do not generally know how to run airlines and it is normally better to let the management get on and do it, subject to supervision in an effectively non-executive director type of capacity, which we do have with Cabernet, the parent of Aurigny.”*

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<sup>30</sup> We acknowledge that Treasury and Resources have provided shareholder objectives to Aurigny in the past which the States will be asked to update by resolution of Billet D'État XX 2015 – Treasury and Resources – Cabernet Limited, Recapitalisation, paragraph 4.1 – 4.4

<sup>31</sup> Hansard – Q69. – Mr Charles Parkinson

How that ownership came about is well known and was described to us by Malcolm Hart<sup>32</sup>. Mr Hart remains a staunch supporter of the purchase on the basis of it being, as he saw it, the only way of guaranteeing the Gatwick slots for Guernsey.

*“...the business (Aurigny) was bought by the States and it was bought simply for this one reason: that no jurisdictional body of government or anything can control slots at an airport. The only people who can control slots are an AOC holder – an Air Operator Certificate holder. Therefore, if a government wants to control slots it has to own an airline.”*<sup>33</sup>

He remains an advocate of its continued ownership by the States and contrasted the advantages of Guernsey’s position to that of Jersey which had previously decided to “just let the market take its place” with an ‘open skies’ policy which left them at the mercy of ever-changing airline policies, a view which the Commerce and Employment Minister appeared to share.

*“...with the pressure cooker that you have now in the south of England on slots, owning our own airline, being able to control that lifeline link, the most preferred route for business and tourism and our own citizens into London, is a real feather in Guernsey’s cap. I think if I were sitting here as Minister of Commerce & Employment and I had another airline flying in and out of Gatwick, knowing what I do know about the pressure on those routes, I would be extremely nervous because I would be scared that one morning, maybe two years down the road or three years down the road, I could get a call from that airline saying, ‘Ever so sorry, but from next week we are not flying to you,’ or ‘We’re reducing our rotations by half because, actually, the only way we can get a slot out of Gatwick now is to take this one, and that’s the only way we can open up our new Middle East route.’ So security is everything for us as an island.”*<sup>34</sup>

- 3.2. In October 2013 the Treasury & Resources Department presented a report - Securing Strategic Air Links to London Gatwick Airport to the States Assembly in which it concluded that Aurigny’s *“raison d’être” is to serve the Bailiwick as an economic enabler for the Islands.*<sup>35</sup>

*“As airlines and air transport become progressively more deregulated throughout the world, the Department is conscious that its proposals for the Gatwick route go against current and established practice. It also acknowledges the benefits that deregulated markets can bring and appreciates the concerns that some may have if Aurigny becomes the sole operator on the Gatwick route. However, Aurigny’s ownership by the States of Guernsey means that it is not driven solely by commercial considerations. The Airline’s “raison d’être” is to serve the Bailiwick as an economic enabler for the Islands.”*<sup>36</sup>

Having bought the airline it is also clear and this was confirmed by Ministers that there are no plans by the States to sell it<sup>37</sup>. Whatever the cultural/ideological sensitivities may be

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<sup>32</sup> Hansard – Q194. – Mr Malcolm Hart

<sup>33</sup> Hansard – Q194. – Mr Malcolm Hart

<sup>34</sup> Hansard – Q263. – The Minister, Commerce and Employment Department

<sup>35</sup> Billet d’État Number XXIII, 2013 – “Securing Strategic Air Links to London Gatwick Airport”

<sup>36</sup> Billet d’État Number XXIII, 2013 – “Securing Strategic Air Links to London Gatwick Airport”

<sup>37</sup> Billet d’État Number XX, 2015 – Treasury and Resources Department – Cabernet Limited, Recapitalisation. In paragraph 3.5 T&R state that in 2007 the Department advised the States that ownership of the Aurigny Group was overwhelmingly in the public interest and that the matter remained under constant review



about public ownership, Ministers, past and present, from whom we took evidence were united in the view that Aurigny should remain in States ownership, if not in perpetuity then certainly for the foreseeable future. The Commerce and Employment Minister went so far as to describe it as:

*“...a real feather in Guernsey’s cap.”*<sup>38</sup>

The Treasury and Resources Minister commented:

*“All the analysis would show that the only safe way to ensure that you retain the slots into Gatwick is to fly them, and the only way that we could be sure as an island and as a community that those slots are retained for the benefit of the Island is if we own the Airline that flies those slots. So I cannot envisage circumstances in the short to medium term where we would be looking to change ownership of Aurigny at all... in the foreseeable future I cannot see any viable alternative other than us retaining direct ownership of Aurigny in order to secure those slots and not put those at risk.”*<sup>39</sup>

- 3.3. But having bought the Airline the question arises, however, of how to run it and whether maximum advantage is being obtained from this important asset. For Mr Parkinson there was a social purpose to ownership, for Alderney particularly, but also for connecting Guernsey with the rest of the world and he saw a strong case for an explicit subsidy for these routes. Then there was normal commercial traffic and finally, the chance to use Aurigny as an economic development tool with time-limited route subsidies.

*“Aurigny is now in effect serving several purposes. There is the social purpose of connecting Alderney, in particular, to the rest of the world, and to a lesser extent Guernsey to the rest of the world. There are the commercial drivers which say we need to have good routes into the City of London and so on and then there is just normal commercial traffic, holidaymakers and so forth. There is a strong case, inevitably, for subsidising the social routes and Aurigny say they are losing, I think they said £900,000 a year on operating into Alderney, and I think we should identify that as an explicit subsidy, that Aurigny should just get a cheque every year for £900,000 to operate services into and from Alderney. On the commercial side, there could be more scope for using Aurigny as an economic development tool and if, for example, the Commerce & Employment Department thought that it would be commercially valuable in the context of a wider economic plan to have a direct link from Guernsey to Paris, just to pick a destination at random, then we could, as the States, agree to subsidise a Guernsey to Paris service for a period of years and see how it goes. If we did that, again, the subsidy should be explicit.*

*Having identified those routes which we are, for one reason or another, going to subsidise and having identified the subsidy, Aurigny should be under instructions to at least break even. What we have had in the past is, frankly, just a tolerance of persistent losses and the directions to the management of Aurigny have been to try not to lose too much money, more or less, which is actually not a target that anyone would want to manage towards.”*<sup>40</sup>

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<sup>38</sup> Hansard – Q263. – The Minister, Commerce and Employment Department

<sup>39</sup> Hansard – Q277. – The Minister, Treasury and Resources Department

<sup>40</sup> Hansard – Q75. – Mr Charles Parkinson



- 3.4. Turning first to the social purpose, Aurigny has been instructed to limit its fares on a percentage of its Gatwick flights. We agree that this is a ‘muddy’ area; if the Gatwick fare cap represents a cost to Aurigny, in other words, if they could sell those tickets at a higher price then it is part of Aurigny’s social role and the subsidy for it should be made explicit.

*“It comes back to the purposes for which we own the Airline. We need much more clarity about that. One of the reasons we own and operate Aurigny is the social reason. So, just as we subsidise routes from Alderney to an extent, we have to ensure that there are reasonably priced flights available on London Gatwick because the community need them... It is a very muddy area. As I understand it, and this is since my time, Aurigny has been told or has agreed to limit its fares on a certain percentage of its flights to Gatwick. I do not know whether that actually represents a cost to them. Whether they could have sold those seats for more money...If it does represent a cost to them, then it is part of the social element or social reason for owning Aurigny. We need to be much clearer and understand much better what subsidy we are paying there and why we are doing it.”<sup>41</sup>*

- 3.5. Mr Stuart Falla argued strongly for Aurigny’s social role in view of the position Aurigny now occupies:

*“If the business model that was put in place at that time [when Aurigny was taken into public ownership] was that they should operate as near as possible like a commercial enterprise, then I believe that is appropriate to its day. I think now we are enjoying almost a pure monopoly on the routes that they should move more to a public service ethos and therefore the public service obligation ought to be imposed upon them.”<sup>42</sup>*

He considered Aurigny to have the wrong business model, one that was interested only in the bottom line and not in the numbers of people travelling:

*“...I think that the business model that Aurigny are being asked to follow does not value numbers travelling. They are only interested in the bottom line and I think that is wrong, if we are effectively a monopoly operator. If the Post Office decided only to deliver letters to people that had more than five letters, we would say no, you have to go to even the granny out at Torteval that might be along a track, because that is their public service obligation. I think they have got the wrong business model.”<sup>43</sup>*

*“Therefore their business model should not be at a baseline of profit but on how well they serve the community in all its aspects, sport included, but I would contend, wearing a pro-business hat on, they are not serving the business community very well currently, either.”<sup>44</sup>*

A change to the public service ethos along the lines he suggested would represent a cost to the Island. The validity of this approach would, therefore, have to be measured against the increased numbers carried and the economic and social value the Island placed on those extra journeys. Mr Falla made a comparison with States’ policy on, in his view, the meagre benefits of encouraging cruise ships.

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<sup>41</sup> Hansard – Q83. – Mr Charles Parkinson

<sup>42</sup> Hansard – Q87. – Mr Stuart Falla

<sup>43</sup> Hansard – Q88. – Mr Stuart Falla

<sup>44</sup> Hansard – Q88. – Mr Stuart Falla

*“Therefore it would be a cost to the taxpayer. If the cost is measured against the volumes of traffic that are coming to the Island, then you balance the two against each other. We are just spending quite a lot of money on getting cruise liners to come in and spend threepence. The majority that come on airlines are going to spend quite a bit more than that. The whole community would see there is more travelling taking place at a cost...If, instead of taking profit as the key determinant, one looked at the number of people carried — so therefore you measure the success of the Airline on the numbers and growth of those numbers over a course of time — then I am sure the tourist industry would be very happy because their numbers would be growing. I am sure the business community would be happy in the sense that more people are opting to come to Guernsey to do business and I know the sporting fraternity would be and I am sure that visiting friends would be and all the rest of it...”*<sup>45</sup>

The Committee has sympathy with Mr Falla’s reasoning but see a problem in simply measuring success by the passenger numbers carried. With a large enough subsidy passenger numbers will doubtless increase but in the process Aurigny may forgo revenue which it might otherwise receive from business travel to the Island. Subsidies in the form of fare caps should, therefore, be targeted to ensure that the beneficiaries are those passengers whom the States wishes to see supported. While we would wish States policy to move in the direction of Mr Falla’s thinking, we cannot go so far as to agree with him on the analogy he gave us of a postal service<sup>46</sup>.

- 3.6. For Treasury and Resources, the Minister saw the issue arising from ownership of Aurigny as one of balancing the securing of the lifeline link to Gatwick with not, *“disrupting the normal commercial market.”*<sup>47</sup> The key word for us here is ‘normal’; the history of certain Aurigny routes has shown them not to be markets in which commercial competition can be sustained at a level which gives the Island a sustainable air service, which it would find acceptable. To the Minister’s question, *“because we own an airline, should we be seeking to compete against every other airline operating to the Island?”*<sup>48</sup> - the Committee would answer with an emphatic ‘no’. But on the other hand we see the social role for Aurigny as going beyond the Alderney routes; it extends also to capacity and pricing on the Gatwick flights at weekends and other peak times; it certainly extends to capacity on the Jersey routes; and we would add, perhaps controversially, to not being at the mercy of a commercial airline for medical flights to Southampton.
- 3.7. The Treasury and Resources Department recently acknowledged the influence that Aurigny brings to the economic and social well-being of the population. The Department has concluded that the existing arrangements for Alderney are unsatisfactory because:

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<sup>45</sup> Hansard – Q93. – Mr Stuart Falla

<sup>46</sup> Hansard – Q88. – Mr Stuart Falla

<sup>47</sup> Hansard – Q275. – The Minister, Treasury and Resources Department

<sup>48</sup> Hansard – Q275. – The Minister, Treasury and Resources Department

*"In determining service levels, Aurigny is left in the invidious position of having to balance commercial factors with considerations about Alderney's social and economic well-being."*<sup>49</sup>

The Committee agrees that where there is a social need for air links, it is for politicians, not Aurigny's management, to decide on the correct balance and to fund air route services that cannot be run on a commercial basis by way of an open subsidy. We consider that this argument applies equally to services beyond Alderney such as the air link between Guernsey and Jersey where there is a social need but operators are unable to offer additional capacity and frequency without undermining their commercial viability.

**Recommendation 3: Ownership of Aurigny should provide the Government with an enhanced opportunity for social sustainability and its objectives should be diversified to serve Islanders' overall requirements. Aurigny should be operated to fulfil both community service and commercial objectives in tandem.**

We do not have the technical expertise to comment on whether the Dornier is a suitable replacement for the Trislanders. Clearly, there are those who believe it is not and among them are people with expertise who have made specific criticisms based on their assessment of the technical capabilities of the Dornier. However, for us, the discussion raised a broader question of what access Treasury and Resources has to technical advice independent of Aurigny. The States has been asked to agree an £18m investment in three Dorniers; how is Aurigny's shareholder, Treasury and Resources, to know that this is **technically** the right solution? When this question was put to the Treasury and Resources Minister his answer was revealing. His assumption was that we must be asking about *financial*, not *technical* advice.

*"...with all our shareholder functions there will (be) times when we do need specialist input. In the process, for example, of developing the business case for the recapitalisation of the Airline, which will come to the States later this year, we have sought to take advice from BDO in testing the financial assumptions that Aurigny have used, and some of those are quite specialist to the nature of the industry. So the answer is that, as we do elsewhere, we will need to bring in and will continue to need to bring in specialists as and when, but it is very much on a case-by-case basis."*<sup>50</sup>

When pressed, he replied that if the question was 'how do you know you are being asked to fund the right aircraft choice?', then the answer was to have the right people on Aurigny's Board. To then go on to question the Board's choice would be to try and second guess Aurigny and put Treasury and Resources in the position of acting as a shadow board.

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<sup>49</sup> Billet d'État XX 2015 – 25<sup>th</sup> November 2015

<sup>50</sup> Hansard – Q286. – The Minister, Treasury and Resources Department

*“Clearly, the main responsibility for us as shareholder is ensuring that we have got a balanced report and that we have got the right expertise around the board table. We regard that as being one of our key responsibilities: the appointment of the board. But in terms of airline technical or aero-engineering expertise, I cannot think of circumstances in the last few years where we have felt we needed that as shareholder.”<sup>51</sup>*

- 3.8. The Committee believes that the ‘saga’ of finding a replacement aircraft for the Alderney routes has shown the limitations to this approach. To have a source of technical advice independent of Aurigny is not to act as a shadow board. When it comes to investment in Guernsey’s electricity supply the States previously employed an energy adviser independent of Guernsey Electricity. We are not suggesting the same arrangement for air links, but substantial investment in new aircraft is a major investment decision and we consider that Treasury and Resources should not simply ‘rubber stamp’ Aurigny’s choice of aircraft and concern itself only with the financial aspects of leasing versus buying outright.
- 3.9. We note that recently Aurigny advertised to recruit new board members with financial expertise and equally we believe that Treasury and Resources should acquire technical aviation expertise in certain circumstances.

*“We are recruiting early so that we have ample time to attract and employ the highest calibre candidates who can give us experience and perspective on our business plans. There are many people across the business world in Guernsey who would have the expertise to be excellent additions to Aurigny’s board and I’d urge anyone interested to apply.”<sup>52</sup>*

**Recommendation 4: The Treasury and Resources shareholder sub-committee should receive advice from a technical aviation expert when required, especially when decisions requiring substantial financial investment are requested.**

It is well known that no single Government Department has lead responsibility for air links; instead responsibilities are spread across a number of departments, and groups. This situation cannot be conducive to clear policy or lines of accountability and responsibility.

- 3.10. Mr Parkinson was of the opinion that efficiency around the Bailiwick’s air route policy was hindered by the number of States’ Departments involved and their diverse interests and added:

*“What needs to happen, though, is an over-arching economic plan which, in the current structure of government needs to come from Policy Council, which sets out the objectives in this area and then we can have a proper States’ debate on how much this is going to cost and are we willing to invest that money.”<sup>53</sup>*

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<sup>51</sup> Hansard – Q276. – The Minister, Treasury and Resources Department

<sup>52</sup> Peter O’Donovan, Aurigny Finance Director – 15<sup>th</sup> September 2015

<sup>53</sup> Hansard – Q78. – Mr Charles Parkinson

3.11. Representing the Guernsey International Business Association (GIBA), Mr Peter Mills (Chairman) told us that while local business representatives absolutely required quality travel links to be able to travel off-Island, the ability for business to efficiently bring clients into the Island via a quality air link service was of critical importance. GIBA had expressed concern that the States did not have an overarching policy framework or strategy in place in respect of air links. It was their view that previously the States had acted reactively to situations whereas a proactive stance was now required.

3.12. Mr Darby described Aurigny as wholly state-owned with the Treasury and Resources Department the appointed shareholder on behalf of the States. More recently the political board of the Treasury and Resources Department had been separated from Aurigny by the introduction of the supervisory sub-committee who set the objectives for the company. He stated that initial concern that the sub-committee might act as a shadow board had not materialised and added that the sub-committee were:

*“...a more knowledgeable, perhaps, sounding board on behalf of T&R and they advise the T&R board as to whether what we are proposing is reasonable, but also they are involved in setting our objectives.”<sup>54</sup>*

3.13. Mr Darby told the Committee that Aurigny looked to the Treasury and Resources Department for all direct guidance on the assumption that the Department was acting as the conduit for the States as a whole. As a Guernsey Airport customer, Aurigny made its own direct representations to the Public Services Department on landing fees :

*“We are very much a separate entity and so, in that regard, we would act independently and just make our own representation.”<sup>55</sup>*

3.14. Aurigny’s objectives were set by Treasury and Resources as shareholder and performance dictated by their requirements<sup>56</sup>:

*“...in terms of who is accountable, clearly, the board of Aurigny is accountable for the delivery of the performance, but we are responding to what the shareholder wants.”<sup>57</sup>*

3.15. Aurigny were *“quite happy with the ownership arrangements”<sup>58</sup>* and any question concerning the ongoing public ownership of Aurigny needed to be addressed to the Government. Aurigny were tied to servicing Gatwick and Alderney, *“That is why we are here*

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<sup>54</sup> Hansard – Q150. – Mr Mark Darby

<sup>55</sup> Hansard – Q153. – Mr Mark Darby

<sup>56</sup> We acknowledge that Treasury and Resources have provided shareholder objectives to Aurigny in the past which the States will be asked to update by resolution of Billet D’État XX 2015 – Treasury and Resources – Cabernet Limited, Recapitalisation (paragraph 4.1 – 4.4)

<sup>57</sup> Hansard – Q159. – Mr Mark Darby

<sup>58</sup> Hansard – Q180. – Mr Malcolm Coupar

*and is why we are in business”<sup>59</sup> and, the only development that might change the longer-term outlook was, “the introduction of some substantial low-cost competition.”<sup>60</sup>*

- 3.16. Mr Hart was not convinced there was an inherent conflict involved in the States owning both the Airport and an airline. It was not unusual for a government to own both airport and airline in small island communities throughout the world.<sup>61</sup>

*“Government ownership of airlines being completely frowned upon is no longer the case, particularly in the flag-carriers. But that is really a tiny smidgen of the European air transport network. We are much more akin to island communities throughout the world, and it is absolutely not unusual for airports and airlines to be owned by the jurisdiction that they serve, because without them where does that jurisdiction go? Again, I take you back to the Isle of Man. What the Isle of Man did, classically as a mistake, was go with “open skies” with no insurance policy. They have no ownership of an airline and therefore, when the perfect storm arrived of Flybe getting into a lot of trouble, all of a sudden they have got 80-odd per cent of their market under the control of an airline that is about to go bust.”<sup>62</sup>*

- 3.17. On the question of how Aurigny’s relationship with the Treasury and Resources Department was conducted, Mr Hart told us that he would have welcomed the introduction of a Treasury and Resources sub-committee when he was Managing Director of Aurigny.

- 3.18. It was clear from Public Services written submission that the Department thought that an overarching strategy for air links was lacking; that the States approach was too reactive; and that Commerce and Employment should be the lead department in any review of policy. It thought that the Commerce and Employment Department divided their dual responsibility - for promoting air links along with route licensing – well. However, Public Services acknowledged consideration was being given to whether Aurigny and Airport should be brought together under one States Committee under the proposed SRC arrangements. Current SRC proposals suggested a new Trading Board which would hold responsibility for Aurigny and oversight of Guernsey Airport, replacing the Treasury and Resources sub-committee.

*“So, where currently there exists a situation where the Sub-committee of Treasury & Resources executes the shareholder responsibility in that Department on behalf of the States, and the Public Services Department maintain and run the Airport, if the States Review Committee proposals go through, those two entities would be together under the same umbrella. We are not yet sure how that would work. I personally think it holds great opportunities for Guernsey, which have to be carefully managed with Aurigny. You may want*

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<sup>59</sup> Hansard – Q181. – Mr Mark Darby

<sup>60</sup> Hansard – Q181. – Mr Mark Darby

<sup>61</sup> This has been reflected in Billet D’État XX 2015, Treasury and Resources Department – Cabernet Limited, Recapitalisation

<sup>62</sup> Hansard – Q200. – Mr Malcolm Hart

*to look at the purpose of Aurigny in a strategically different way, and it may well turn out as an enabler for Guernsey, whereas currently it works hard to maintain its lifeline links only.”*<sup>63</sup>

- 3.19. Commerce and Employment was mandated to lead on external transport links but this required liaison with the Public Services Department to ensure the Airport could facilitate any new aircraft movements. The External Transport Group (ETG) was effectively two sub-groups from these two Departments which met to formulate recommendations but held no decision making powers. The ETG, Commerce and Employment and Public Services Departments worked together effectively but ultimate responsibility remained with Commerce and Employment.

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<sup>63</sup> Hansard – Q241. – The Minister, Public Services Department



## 4. Making Policy Connected

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- 4.1. It became clear to us at an early stage of the review that a coherent, overarching government policy relating to security of strategic air links does not exist. Responsibility for security of strategic air links is spread between several Government Departments which hinders a joined-up approach and could lead to conflict. This needs to change as a priority and should be reviewed as part of the States Review Committee proposals. Government policy regarding air links has not changed since the purchase of Aurigny in 2003 which seems incongruous. Policy aims must be clear, aligned and balanced with a lead Government Department taking overall responsibility and working with other Government Departments, Treasury and Resources shareholder sub-committee and the Aurigny board.

**Recommendation 5: An overarching government policy relating to strategic air links must be established.**

- 4.2. Mr Parkinson thought a wider economic development plan for the Islands was needed with explicit and detailed objectives and the route to its achievement; the States needed to change its way of thinking:

*“...start the other way around, say what are our economic objectives and what do we need to have in the way of air services, including the Airport, to deliver those objectives, and recognise where there has to be a subsidy that there is a subsidy? But that kind of issue has never been debated by the States. We have never discussed how much we should invest in our air routes or the airports in Alderney as well as Guernsey to service those links.”<sup>64</sup>*

- 4.3. He saw the efficiency of the Bailiwick’s air routes as hindered by the number of States’ departments involved and added:

*“What needs to happen, though, is an over-arching economic plan which, in the current structure of government needs to come from Policy Council, which sets out the objectives in this area and then we can have a proper States’ debate on how much this is going to cost and are we willing to invest that money. At the moment what happens is we are told Alderney Airport loses £500,000 a year. Nobody has authorised that or approved it. It just happens and PSD just loses the money and whatever subsidy goes into Guernsey Airport, I do not know what that is, but again it just happens and it’s lost somewhere in PSD’s budget. The cost to the taxpayer, which is largely hidden in Aurigny because we simply allow them to go on borrowing money from banks and writing ever larger guarantees, but Aurigny actually costs*

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<sup>64</sup> Hansard – Q77. – Mr Charles Parkinson



*the taxpayer money and we need to recognise that and have a discussion about how much we are going to invest in this and for what purposes.”<sup>65</sup>*

- 4.4. Mr Mills reinforced the message that GIBA wished to work with the Government to find solutions to areas of weakness:

*“I think that we can work together to identify some of the economic areas that will be of benefit. I certainly think we can work also in conjunction with Chamber (of Commerce), for example, and Tourism, to work out how we can work jointly between what areas are good for business, what areas are good for tourism. There may be other alternatives as well. Condor, as an example, is now owned by a fund, etc. There may be ways that we can actually try and get the finance industry to potentially invest and help in that regard.”<sup>66 67</sup>*

- 4.5. The responsibilities for air link promotional policy and air route licensing policy sit within the Commerce and Employment Department. The Department took measures to separate the two processes and in Guernsey Airport Consultative Committee’s (GACC) opinion it managed the split well, although this presented the Department with a host of challenges. GACC believed that the way in which the performance of a strategic air route was measured should be questioned:

*“...is it the physical count of people who are actually travelling on the flight; is it a schedule or the frequency of flights, which gives people the opportunity to travel, even if they choose not to do so; is it the number of carriers that the Island has, the marketing bandwidth of those carriers; is it actually the range of aircraft types, for example, which you may be able to travel on?”<sup>68</sup>*

- 4.6. This question had been faced by successive governments for years. GACC had stated in their written submission that Islanders could travel with relative ease for an Island community of 64,000 people and that this in itself was a measure of success<sup>69</sup>. However measures to address the affordability of flights and numbers of travellers were also important:

*“... for an Island community of 64,000 [sic] people to be able to connect to two flights a day to Manchester year round, two flights to Birmingham year round, six flights a day to Gatwick...we are well served by the existing links. Is that a measure of some success, I think, is the point that the Committee was making in terms of how we measure it. Do we measure it purely on passenger numbers, which is the traditional measure, or do we measure it on the ability for locals and visitors to be able to connect on a very wide range of networks, 364 days a year?”<sup>70</sup>*

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<sup>65</sup> Hansard – Q78. – Mr Charles Parkinson

<sup>66</sup> Hansard – Q122. – Mr Peter Mills

<sup>67</sup> Condor Ferries Limited is owned by the Macquarie European Infrastructure Fund II (MEIF II)

<sup>68</sup> Hansard – Q138. – Mr Colin Le Ray, Secretary to GACC

<sup>69</sup> This was also acknowledged by Blue Islands in their consultation submission

<sup>70</sup> Hansard – Q138. Mr Colin Le Ray, Secretary to GACC

4.7. Blue Islands suggested that the States should consider developing a set of appropriate benchmarks and key performance indicators by which to compare the Islands air links to similar island communities.<sup>71</sup>

4.8. Guernsey Airport's landing charges are made up of a fixed and variable charge<sup>72</sup>. This means the greater the passenger load, the greater is the Airline's ability to spread the fixed charge. On balance this approach has proved the most appropriate for the Airport; where the aim has been to encourage better load factor, facilitate new routes or encourage fleet upgrades on existing routes. The Airport did vary charges according to distance of travel so that closer destinations received a lower charge. This policy has benefitted Alderney in particular; we were told that it *"recognises, to a certain degree"*<sup>73</sup> an obligation to facilitate inter-island travel:

*"The fixed charge relates to the aircraft and it is based on the fully laden weight of the aircraft, so whether it is travelling with one passenger or 113 it will pay the same fixed charge. On top of that we then levy a variable charge, which is based on the number of passengers that it carries. So, typically, if we took the most common aircraft type of Guernsey, which is an ATR, that will pay something in the region of, I think, £200 for the fixed aircraft, then if it had say 70 people on board that would be about another £300, and so the total cost of landing the aircraft is £553 [sic]. The fixed charge regime was intended to encourage better load capacity of aircraft which had a beneficial effect on new routes and fleet upgrades on existing routes where the Airport would take a hit on the fixed charge but retain the variable which is all around trying to encourage new traffic or more traffic on existing routes."*<sup>74</sup>

4.9. The Public Services Departments' purpose is to provide the Airport infrastructure together with technical and administrative services to an acceptable standard. They must ensure that policies, facilities and services at the Airport are commensurate with the requirements of the Island in respect of Air Transport Services, General Aviation and standards set by National and International Aviation Authorities.<sup>75</sup> Guernsey Airport's mission statement includes their government set objective that they must ensure the Airport produces an annual return on income of not less than 5%.

*"To provide the Airport infrastructure together with technical & administrative services to an acceptable standard to enable the safe & expeditious movement of commercial & private aircraft, passengers & cargo to, from & at the Airport on the most cost effective basis & to ensure that the operation of the Airport produces an annual post depreciation return on income of not less than 5%."*<sup>76</sup>

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<sup>71</sup> Blue Islands consultation submission

<sup>72</sup> The Public Services Department

<sup>73</sup> Hansard – Q232. – Mr Colin Le Ray, Airport Director

<sup>74</sup> Hansard – Q233. – Mr Colin Le Ray, Airport Director

<sup>75</sup> Guernsey Airport Annual Report, 2014

<sup>76</sup> Guernsey Airport Mission Statement - Guernsey Airport Annual Report, 2014

The Guernsey Airport 2014 annual report showed that its actual operating income was slightly over budget at £11.8m, an increase of 0.8% from 2013. There was a 0.44% increase in passenger movements compared to the previous year. The Public Services Department is also responsible for running Alderney Airport. The States of Guernsey Accounts show that in 2014 the Department made an operating loss of £774k in relation to this requirement.<sup>77</sup>

- 4.10. It was Public Services' view that all airlines had to be treated by the Airport in a comparable manner:

*"I do not believe that the potential ownership or the fragility of an airline, whether it be national or local, should be taken into account. We have a published tariff of charges and, for us; it is the tariff which applies."*<sup>78</sup>

However, if a particular airline was willing to take a risk on a new route or aircraft upgrade then the Board was quite prepared to burden themselves with additional risk and give the airline a favourable landing rate.

*"On occasion the Airport does vary its landing fees, depending on new routes that it wishes to facilitate....we would look at our landing fees in the light of this for a fixed period to help that new route develop... Zurich and Stuttgart have started this summer as charter operations and they are enjoying a rebate on that basis."*<sup>79</sup>

- 4.11. Commerce and Employment stated that they had a close working relationship with Public Services for air route development and security of aviation links. Although this is no doubt the intention, it appears to the Committee that the lack of an aligned policy direction and clear aims makes it hard to know if it is happening or not. We would like to see sufficient clarity of purpose so that we know that all departments are working together towards a common aim.

*"I think we have to work much more vigilantly to ensure that the governance is appropriate and that no conflict is around the air route licensing panel and the work that we do. Obviously, that priority sits with Commerce & Employment. We believe that we manage that appropriately. We have written to the States Review Committee... and the Board asked for that to be directed to say that we believe that having both under the mandate was not the way forward for any future machinery of government. But again, we have managed that. The decision-making around the air route licensing panel is done at arm's length from the Commerce & Employment Board. In this instance, neither the Minister nor I would ever see any correspondence with regard to air route licensing. It would only be those political Members who sit on air route licensing and one secretary who works for that Board, who then governs that process with the applications and any representation made. So we do manage it effectively. Occasionally it has been challenging. We have taken advice to make*

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<sup>77</sup> Billet d'État Number XV 2015 – The States of Guernsey Accounts 2014 - The Public Services Department made an operating loss of £774k running Alderney Airport

<sup>78</sup> Hansard – Q235. – Mr Colin Le Ray, Airport Director

<sup>79</sup> Hansard – Q236. – Mr Adrian Lewis

*sure that the governance is followed, and I think that is probably where that has been food for thought that we have needed to ensure that we follow the process appropriately.”<sup>80</sup>*

- 4.12. A recommendation had been made by the States in 2009/2010 that Commerce and Employment’s responsibility for air route licensing be transferred to the Office of Utility Regulation (OUR) but this had not occurred due to insufficient funding being available. The Commerce and Employment Chief Officer agreed that a structural change remained advisable and confirmed they had passed this suggestion to the States Review Committee for consideration under the future government structure.

*“I do not believe anything (air license application) has been turned down in the last three or four years, and I think probably we are looking at that now as part of our review in what is appropriate and what suggestions we can make. But certainly I do not think licensing should sit with the Department that is promoting new routes. I do not think that is sensible.”<sup>81</sup>*

- 4.13. Placing Aurigny and the Airport into a new Trading Supervisory Board (TSB) under the States Review Committee proposals could cause potential conflict but it was difficult to comment without knowing the structure and governance arrangements for how the trading entity would operate:

*“...but I think on a day-to-day basis Aurigny would be run as a separate company and you would only have your shareholder to give overall strategic shareholding direction, so I do not imagine that conflict would occur, but it would be down to how that was set up.”<sup>82</sup>*

**Recommendation 6: A suitable governance structure should be established for Aurigny and the Airport under the structure proposed by the States Review Committee.**

The Commerce and Employment Minister believed that the External Transport Group was expedient; it actually helped to provide joined-up government, as well as facilitating timely decision-making:

*“What we can do with ETG is basically have Ministers, Commerce & Employment – at the moment it is both Deputy Ministers – and then whatever officers are appropriate for the context of that Board. We can get a fairly good steer on what would be acceptable by both the C&E and the PSD Boards, so actually I do not think there is anything that we have decided on or recommended to the PSD Board or the C&E Board of a policy or strategic nature which has been rejected. So I actually think it is one of those groups, forums, whatever you want to call it, that actually helps grease the wheels of government and enables meetings to take place in a much more focussed fashion. We report back to our Boards. Both the C&E and PSD Boards, as far as I am aware, think that it works particularly well, and trying to get diaries for*

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<sup>80</sup> Hansard – Q264. – Mr Jason Moriarty

<sup>81</sup> Hansard – Q265. – Minister, Commerce and Employment Department

<sup>82</sup> Hansard – Q266. – Mr Jason Moriarty

*four Boards... sometimes we have been looking at months ahead. I know: we have tried it before.”<sup>83</sup>*

He dismissed the suggestion that there may be mileage in giving the ETG “**more teeth**”<sup>84</sup>:

*“No. I think you are looking for a problem where there isn’t one. Normally what happens after an ETG, particularly on an urgent matter, is that that would be brought to the next Board of either PSD or C&E, which is never more than a week away, or could be circulated by e-mail on a particularly urgent matter, and Members could then be briefed individually by their Minister as well, should it be particularly urgent... From time to time we do have to deal with some much more urgent and pressing issues, but it is one of those committees or forums that I can say in this term I think has been one of the most effective, and I think most members of ETG would agree with that and the boards.”<sup>85</sup>*

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<sup>83</sup> Hansard – Q267. – Minister, Commerce and Employment Department

<sup>84</sup> The Minister, Commerce and Employment Department

<sup>85</sup> Hansard – Q268. – Minister, Commerce and Employment Department

## 5. Aurigny

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### Ownership of Aurigny

- 5.1. As a result of the Committee's questioning at the public hearings we now have clear statements from Ministers concerned with security of strategic air links and ownership of Aurigny<sup>86</sup> that the Government should continue to own the Airline for the medium to long term future.
- 5.2. It is by its ownership of Aurigny and the operation of the six pairs of landing slots that Guernsey retains control of the link to Gatwick. The landing slots are an extremely valuable and sought after commodity, with ownership only being assured by their constant and consistent operation on a year-round basis. The evidence the Committee obtained confirmed that the Gatwick link is vital to serve the finance industry, diverse business, tourism and leisure travel. The maintenance of the link is therefore vital for the economic stability and growth of the Island.

**Recommendation 7: Ownership of Aurigny is advantageous to the Island and Aurigny should remain in public ownership as agreed by the Ministers of the Treasury and Resources and Commerce and Employment Departments.**

**Recommendation 8: The Government should direct the appropriate committee established by the States Review Committee proposals to examine the opportunities for Aurigny to make greater provision for its social role.**

- 5.3. Government ownership of Aurigny presents many opportunities for the Island. The Airline should be used as an economic enabler, a tool to further stimulate business and tourism. Ownership of the Airline also provides the Government with an enhanced opportunity for social sustainability. In October 2013 the Treasury & Resources Department presented a report - Securing Strategic Air Links to London Gatwick Airport to the States Assembly in which it concluded that Aurigny's *"raison d'être" is to serve the Bailiwick as an economic enabler for the Islands.*"<sup>87</sup>

*"As airlines and air transport become progressively more deregulated throughout the world, the Department is conscious that its proposals for the Gatwick route go against current and established practice. It also acknowledges the benefits that deregulated markets can bring and appreciates the concerns that some may have if Aurigny becomes the sole operator on*

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<sup>86</sup> The Treasury & Resources Department, Commerce & Employment Department and The Public Services Department

<sup>87</sup> Billet d'État Number XXIII, 2013 - "Securing Strategic Air Links to London Gatwick Airport"

*the Gatwick route. However, Aurigny's ownership by the States of Guernsey means that it is not driven solely by commercial considerations.”<sup>88</sup>*

- 5.4. Treasury and Resources told the Committee that the Department was keen to consider what Aurigny should be used for and develop policy accordingly.

*“...through the process of developing a MoU and so on, we are seeking to articulate and set down what our objectives are. Part of the rationale for doing that is that that will help the public debate around actually what is the purpose of the Airline. We see it as a community airline, rather than being a commercial airline. It is there to serve a community purpose.”<sup>89</sup>*

- 5.5. Mr Parkinson also thought that the States needed to be clearer on why it owned Aurigny. One reason was social obligation; the Alderney routes were heavily subsidised and reasonably priced flights to Gatwick also needed to be available to the community. He was uncertain if the fare cap, required by Treasury and Resources, represented a cost to Aurigny but added that:

*“If it does represent a cost to them (Aurigny), then it is part of the social element or social reason for owning Aurigny. We need to be much clearer and understand much better what subsidy we are paying there and why we are doing it.”<sup>90</sup>*

- 5.6. The Committee considers that objectives set for the Islanders' airline should be sufficiently diverse as to enable it to serve the Islanders' needs on all levels. Consideration should therefore be given to whether Aurigny should be operated on an increased community service basis rather than predominantly a commercial one. Opportunities exist to provide flights to serve Islanders' off-island medical needs which may present financial benefits as well as offering increased service guarantees. This is not a new concept for the States; rather it was one of the agreed advantages at the time when Aurigny was purchased for the Island.

*“...the possible acquisition of Aurigny is an opportunity for a strategic investment in a commercial operation that will be of considerable value in protecting the Island's long term social and economic sustainability.”<sup>91</sup>*

- 5.7. Government must now concentrate on ways to best use Aurigny to further the Island's, and indeed the Bailiwick's, economic and social future. GIBA made an interesting observation to us:

*“I think Aurigny are probably doing their best. But I wonder whether their best is good enough for Guernsey.”<sup>92</sup>*

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<sup>88</sup> Billet d'État Number XXIII, 2013 - “Securing Strategic Air Links to London Gatwick Airport”

<sup>89</sup> Hansard – Q279. – The Minister, Treasury and Resources Department

<sup>90</sup> Hansard – Q83. – Mr Charles Parkinson

<sup>91</sup> Billet d'État Number XI, 2003 - “Security of Air Links” - page 1161

<sup>92</sup> Hansard – Q111. – Mr Peter Mills



5.8. There remains an inherent danger that a state-run airline can become inefficient. The Committee acknowledges that steps must be taken to ensure that Aurigny is overseen correctly with clear objectives and performance measures in place<sup>93</sup>. A policy of “try not to lose too much money” is not one we can accept. A move to open subsidies for the Alderney routes to deliver a specified level of service is a step in the right direction. But a comprehensive set of objectives for Aurigny is still needed and should form part of the States Review Committee proposals for the future of the Island’s government.

5.9. Mr Falla was convinced that due to government instruction Aurigny’s focus was heavily in favour of financial profitability rather than public service. In order to redress the balance he thought that the Airline needed to concentrate on its passenger numbers and growth. Over a period of time this would boost the Bailiwick’s economy and balance the cost of the airline to the taxpayer. The solution lay in the States of Guernsey being more proactive, with the shareholder instructing Aurigny on how it should measure success:

*“We as a Sports Commission do not make any profit, so we are not measured on profit; we are measured on the amount of additional sporting activity and calibre of those sports. You do not only have to measure something with money, there are many other measures available in this world.”<sup>94</sup>*

*“We are looking at pound notes rather than volume... I think it is for the States to decide how best they shape the mandate given to the board of directors of Aurigny.”<sup>95</sup>*

5.10. Careful planning is required in order to resolve the issues regarding travel for cultural and sports events in and out of the Islands. This problem will not resolve itself and its resolution is important for social well-being.

5.11. Mr Mills commented that Aurigny required a different remit rather than a requirement to ‘break-even’. In his view Aurigny had a public service requirement which it currently fulfilled by servicing the Alderney and Jersey routes but there were problems with both the frequency and the pricing of those services. For an organisation which represents business, GIBA did not always adopt a commercial approach when it came to expectations of what level of service Guernsey might reasonably expect. Mr Mills ‘harked-back’ to the capacity available on the Gatwick route when Flybe and Aurigny were in competition and stated that capacity on the Gatwick route was a problem at certain times:

*“The peak capacity problems come during the summer months and particularly Mondays and Fridays as Islanders are trying to get off to go on their holidays or see family in the UK or whatever it might be and you have got businessmen trying to get on and off the Island as well and you are also trying to attract tourists to the Island. Those peak days of Fridays,*

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<sup>93</sup> We acknowledge that Treasury and resources have provided shareholder objectives to Aurigny in the past which the States will be asked to update by resolution of Billet D’État XX 2015 – Treasury and Resources – Cabernet Limited, Recapitalisation (paragraph 4.1 – 4.4)

<sup>94</sup> Hansard – Q93. – Mr Stuart Falla

<sup>95</sup> Hansard – Q97. – Mr Stuart Falla



*Saturday, Sundays and Mondays are a nightmare. Our members have told our clients to largely avoid coming to Guernsey on Mondays and Fridays and try and come midweek.”<sup>96</sup>*

5.12. GACC were adamant that the security of air links was all about balance and in reality:

*“...it is too easy for the Island community to take these air links for granted... this review will be entirely helpful in establishing and informing government policy, because collectively we need to be able to balance – and it is a balance – how we protect what we have and where the opportunities exist to facilitate a nurturing environment in which new air links can develop without destabilising the existing services, and it is how we best strike that balance that I think would be very usefully ascertained by your panel.”<sup>97</sup>*

5.13. Mr Darby stated that Aurigny had become more efficient but the airline business was by its nature uncertain and challenging as costs were largely externally driven:

*“...our costs are not controllable, as such. We have a target to bring down our control room costs further this year and so we are looking at various ways of doing that. I think the biggest opportunities are probably in the way we buy in certain services and we maintain our aircraft – not to cut the costs but just to do it in a more efficient way.”<sup>98</sup>*

5.14. The greatest drawback to Aurigny breaking-even financially was the constraints of the Guernsey air transport market itself:

*“It (the air transport market) has been in the order of around 900,000 passengers for the last 10 years with no change over and above about 50,000.... So we have to live within that confinement.”<sup>99</sup>*

5.15. Complaints to Aurigny that services were worse now than in the past were based on a comparison with services during periods of unsustainable competition, which had led to unrealistic flight frequencies and fares. The Aurigny/Blue Islands ‘codeshare’, for example, though unpopular, was providing a sustainable route<sup>100</sup>. Previously Islanders had benefitted from an unsustainable market due to a competition war between the two operators. The situation had been a false one but, understandably, passengers were dissatisfied when normal market conditions (and higher fares) returned<sup>101</sup>.

*“What we have got now is something that is designed to be sustainable and, in reality, the sporting groups at the weekend are particularly low-yielding; they are not prepared to pay the market rates that are required to provide a sustainable service, in the form that they normally come to us. And that is that we would normally get a request for a group of sports people going to Jersey on Saturday morning, back on Sunday evening, and no corresponding people coming in the other direction if we were to put on an extra service.”<sup>102</sup>*

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<sup>96</sup> Hansard – Q104. – Mr Peter Mills

<sup>97</sup> Hansard – Q149. – Mr Colin Ferbrache

<sup>98</sup> Hansard – Q155 – Mr Mark Darby

<sup>99</sup> Hansard – Q156. – Mr Malcolm Coupar

<sup>100</sup> The load factor on the Guernsey-Jersey route remains circa 70% full capacity overall under the codeshare agreement

<sup>101</sup> Hansard – Q172. – Mr Malcolm Coupar

<sup>102</sup> Hansard – Q174. – Mr Malcolm Coupar

- 5.16. Aurigny had explored the possibility of entering into codeshare/interlining arrangements with national/international carriers but realised that its reservations system would need modifying in order to accommodate this<sup>103</sup>. Specific modifications were required to accommodate each codeshare/interlining arrangement.

*“So we have got some expressions of interest from carriers and we have got developments coming up in our system, which at some point in the, hopefully, not-distant future, would enable us technically to do it. So it is down to us to explore... Once we have got assurance that technically we can do it, we can enter into commercial negotiations with these carriers to see if we can actually reach an agreement that works for us and works for them.”*<sup>104</sup>

However, such arrangements would make Aurigny liable for missed onward connections resulting from technical problems or weather conditions in Guernsey. For a small regional airline the balance of liability might not be in Aurigny’s favour. Nevertheless, we do not consider this option to have been explored sufficiently by Aurigny. There may, for example, be ways of insuring against the risk that would be financially acceptable.

- 5.17. Aurigny were dismissive of any suggestion that the Airline was invisible on the global travel stage. A recent development had been an agreement with the organisation ‘Hahn Air’<sup>105</sup> which enabled travel agents anywhere in the world:

*“...to issue a ticket on Aurigny services. Now, that came into effect around September last year and the best month we have had is March so far, and I think about 330 people took advantage of that system and sold and issued Aurigny tickets in other parts of the world where it would not have been possible to have that before. So that is the first sort of step towards global distribution that we have made and, by doing that, our flight availability is also reflected in the likes of Expedia and other online travel agencies like that around the world.”*<sup>106</sup>

- 5.18. Aurigny stated that their purpose in advertising lay in marketing Guernsey rather than the Airline itself and they worked closely with VisitGuernsey but agreed that more could be done. Management were happy maintaining the level of service and slowly developing new routes:

*“We have a licence application in at the moment for Leeds-Bradford and we will continue to look for other opportunities, but it is always going to be very much tied to what we can do here. We do not have a mandate to go and find a new opportunity out of Newcastle Airport to serve Stockholm or something. That is not what we are here for; we are here just to look after the interests of the Bailiwick and to make sure that it remains properly connected. So that is why we are here.”*<sup>107</sup>

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<sup>103</sup> Billet D’État XX 2015 – Treasury and Resources – Cabernet Limited, Recapitalisation - we acknowledge that Treasury and Resources want to provide such an objective to Aurigny

<sup>104</sup> Hansard – Q178. – Mr Malcolm Coupar

<sup>105</sup> Hahn Air is a German scheduled airline that has specialised in distribution services for other airlines since 1999 – the world's largest company of its kind covering 190 markets and cooperating with 300 air, rail and shuttle partners and 95,000 travel agencies

<sup>106</sup> Hansard – Q178. – Mr Malcolm Coupar

<sup>107</sup> Hansard – Q181. – Mr Mark Darby

**Recommendation 9: New advertising avenues should be explored in order to raise the profile of the Aurigny brand.**

**Recommendation 10: Aurigny should pursue the development of codeshare or interlining agreements with national or international carriers, or joining an existing network alliance.**

5.19. Aurigny actively researched new routes, considered market influences and potential market dilution issues that might occur if new routes were introduced. Its management was puzzled when informed that Jersey had aspirations to become the Channel Islands hub for flights to European destinations, they had not given this concept any consideration and felt it unworkable:

*"I think if the Islanders in Guernsey felt that connecting through Jersey was something they wanted to do, the opportunity has been there for some time, but largely ignored. I mean direct service will always win."*<sup>108</sup>

## Branding

5.20. The Committee can see the advantage that can be gained from a jurisdiction appearing on websites and promotional literature of European/global airlines such as easyJet or British Airways. However, we cannot agree that this advantage, of itself, justifies the introduction of such air link services to Guernsey. Other ways to promote the Bailiwick should be explored and exploited.

5.21. Aurigny's management thought that developments in internet searching techniques had made re-branding an outdated concept. The Airline had already made some changes, however:

*"...we have recently changed or introduced a new strapline where our logo appears in the UK now and instead of having 'Channel Islands' underneath it, it says 'Guernsey' and that gives us a little bit of exposure in airports primarily. So people walking past and reading the check-in desk now can see quite clearly that Aurigny flies to Guernsey and there is a little bit of marketing there. We have put 'Guernsey' on the fuselage of the recently arrived ATR42 that will serve London City as of next week. It also says 'Guernsey' where the other aircrafts say 'Channel Islands'. So we have done a little bit, but I do not think it is a hugely important issue now like it would have been a few years ago."*<sup>109</sup>

5.22. It was GIBA's view that the lack of air links was a hindrance to the finance industry's efforts to encourage business to Guernsey from the Far East. Aurigny needed to join airport facilitation ventures such as Gatwick Connect and investigate interlining

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<sup>108</sup> Hansard – Q183. – Mr Mark Darby

<sup>109</sup> Hansard – Q188. – Mr Mark Darby

agreements in order to promote the Island and enable easier air travel. Mr Mills explained that Guernsey Finance now had to travel much further afield in order to attract new business. Interlining would, therefore, be a significant benefit and businesses would be prepared to pay a small premium for this advantage.

- 5.23. The Panel questioned the Guernsey Chamber of Commerce on the global promotion of Guernsey and Aurigny via network alliance partnerships. An example was provided of Middle East carriers or global alliances such as Air France or British Airways, unable themselves to operate flights to smaller jurisdictions, who instead sign agreements with small regional carriers. Chamber believed that Aurigny had failed to pursue this option:

*“...there are numerous small communities in the world that have benefited from the brand penetration of a larger airline being used by a smaller airline ...and we have seen insufficient evidence that Aurigny has made efforts to go and talk to the wider world, to the other airlines, with a serious intention of trying to raise the Island’s profile on the world stage with a view to offering code share interline services in partnership with another airline... we think there is significant scope there for the local carrier to go and talk to other airlines with a view to co-operation and partnership.”<sup>110</sup>*

*“...air transport and air links are vital to both our social wellbeing and our economic wellbeing and it is important to make sure that they are in place for the next 50 years. What we are trying to do is to get people to come to this Island for tourism, personal reasons and business, rather than just focus on how we get our own population off the Island.”<sup>111</sup>*

- 5.24. The GACC also believed that Aurigny could be better branded for promotion of the Bailiwick and that Aurigny would benefit from developing codeshare or interlining agreements with national or international carriers, or joining an existing network alliance. They were aware of the financial costs but nevertheless viewed it as advantageous:

*“A definite yes... It would help with any onward travel if you have got a codeshare, but of course it has got to be financially viable for the Airline to do that. But, yes, definitely... I think it is a no-brainer, that one.”<sup>112</sup>*

**Recommendation 11:** Consideration should be given to whether the re-branding of Aurigny to include reference to Guernsey in the Airline’s name would be advantageous.

## Communication

- 5.25. We heard of complaints about Aurigny’s poor communications. We cannot tell how justified these are but in their oral evidence we had a sense from Aurigny that they understood that perhaps all was not well:

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<sup>110</sup> Hansard – Q131. – Mr Tim Robins

<sup>111</sup> Hansard – Q132. – Mr Tony Rowbotham

<sup>112</sup> Hansard – Q148. – Mr Colin Ferbrache

*"We are trying to improve our communication. I think, in part, we have not always served our own interests particularly well. We have recently recruited somebody to be our PR Manager. Previously, we outsourced it and we have now brought that role in-house... (the) role is very definitely to improve communication at all levels, both internally and externally; and so far that seems to be working very well."*<sup>113</sup>

In September 2015 Aurigny reported it was setting up drop-in sessions in Alderney to assist communication with local residents regarding the flight timetable, schedules and to answer questions regarding bookings<sup>114</sup>. Earlier in the month the Airline invited people in Guernsey to an inaugural meeting with the purpose of forming an Aurigny Consumer Group.

*"A consumer group will enable us to receive feedback from people who fly with us to help improve our service. Often, very small changes can be made that make a big difference to the passenger experience and that insight often comes from service users. Equally, we hope that the many people who enjoy a positive experience with Aurigny will be represented so that we can feedback that praise to staff."*<sup>115</sup>

5.26. When it comes to consultation, however, the position is more complex. Aurigny sees itself as *"trying to achieve the best commercial outcome consistent with [the shareholder's] overall objectives."*<sup>116</sup> Information was passed to Treasury and Resources for the Department to release.

*"I think there is some information that we will provide that is of general interest. I think if we believe information to be commercially sensitive, then we are quite right to retain that information. Anyway, we do not have to go open book on everything. We are not required to do that and we are still trying to run a business. So we will take each request for information on its merits. But quite often we will channel information back through T&R and they can disseminate...we have not been required to communicate or to consult on operational matters... They (the shareholder) set us our objectives and, as the management team, we are left to deal with it as best we see fit. So we are trying to achieve the best commercial outcome consistent with their overall objectives... it is a very dynamic picture and the patterns of demand seem to shift around quite dramatically and so we are trying to just optimise our overall performance, consistently we are trying to bring our losses down and get to break even."*<sup>117</sup>

This has meant that Aurigny's approach has been one of seeing operational matters as solely for it alone to decide and may have given rise to a suspicion of the idea of consultation. Hence the following statements from Mark Darby:

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<sup>113</sup> Hansard – Q185. – Mr Mark Darby

<sup>114</sup> Guernsey Press – Friday 25<sup>th</sup> September 2015

<sup>115</sup> Mr Mark Darby, CEO of Aurigny

<sup>116</sup> Hansard – Q185. – Mr Mark Darby

<sup>117</sup> Hansard – Q185. – Mr Mark Darby

*"In terms of groups like the Alderney Pressure Group, I do not think we have any specific reason to need to communicate with them."*<sup>118</sup>

And on the Alderney timetable changes:

*"...in the past we have not been required to communicate or to consult on operational matters."*<sup>119</sup>

Aurigny told us they had made efforts to communicate with the Guernsey Sports Commission but claimed that the group had not responded.

5.27. Mr Darby told the Panel that Aurigny did not enter into dialogue with either the States of Alderney or the States of Guernsey regarding changes to service timetables or other operational changes. Mr Coupar explained:

*"...there has never historically been any consultation with the market other than what we would do with corporate bodies that we have as customers, and we would talk to them a bit, like we would with the other routes. And it is only in the last few months, essentially, since we tried to operate the services with just two aircraft... we have what we call 'two lines of flying' so on any given day we only plan to use two aircraft – the third one being set aside for redundancy or back-up purposes. So we changed the timetable to reflect two lines of flying – and that meant a few compromises."*<sup>120</sup>

5.28. Alderney was still a concern, however:

*"... in terms of Alderney, until we end up with the PSO and with a defined level of subsidy and operating a schedule that is agreed – and one of the difficulties at the moment, and I think that the States of Alderney are finding, is actually defining what it is they want, and how do you put it in a framework that basically is not, 'Well, we want as much flying as we want, any time we want it' into something more of a straightjacket where the flying that we do for them is more prescribed and there are different levels of service through the year. But at the moment we are required to be infinitely flexible and have unlimited amounts of capacity and capability just by turning on flights like a tap, and we cannot do that. In a commercial world we cannot do that. We could have a line of aircraft lined up down the runway with spare crews, but that would be hugely expensive."*<sup>121</sup>

Overall they had listened and continued to listen to stakeholders and the States of Alderney:

*"I went to meet the Finance and Policy Committee three weeks ago and had a very long and frank discussion. I said I am happy to put a consultation mechanism in place. We recognise the needs of Alderney are perhaps different to other parts of our network and we need to agree how it is going to work...But there is a cost attached to what they want us to do and how do we resolve that? So there needs to be a resolution or escalation mechanism that will take care of it. Otherwise we just say, 'Well, we think from a commercial point of view this is*

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<sup>118</sup> Hansard – Q185. – Mr Mark Darby

<sup>119</sup> Hansard – Q185. – Mr Mark Darby

<sup>120</sup> Hansard – Q173. – Mr Malcolm Coupar

<sup>121</sup> Hansard – Q185. – Mr Mark Darby

*the way to go. This will minimise our losses whilst balancing the need to provide adequate levels of air service'. But if they disagree with that and say, 'No, we want more', and there is a cost to it, where does that money come from? So somebody has to agree. It has to be a mechanism for agreeing any changes."*<sup>122</sup>

5.29. No doubt Aurigny would say that, as with any other business, they need to know their customers. But where an airline is in a position of monopoly provider the situation is, in our view, slightly different. On Alderney we heard concerns that seemingly minor timetable changes had a disproportionate impact on businesses, made connections to Jersey impossible, and meant that outpatient medical treatment required an overnight stay. The Committee is not advocating that consultees should have a veto, or even become participants in a negotiation with Aurigny on timetable changes. However, Aurigny's monopoly position and, as we have argued elsewhere, social role means that operational changes should not be made in ignorance of their impact; and where those impacts may be disproportionate the decision should be open to some form of appeal beyond Aurigny itself. The Committee does not yet know the terms of the Memorandum of Understanding (MoU) for Alderney but we would be surprised if they do not contain a provision for the States of Alderney to have a role as consultees on timetable changes. The current position was summed up by Aurigny's Commercial Director in the following words:

*"...there has never historically been any consultation with the market other than what we would do with corporate bodies that we have as customers..."*<sup>123</sup>

We believe that to have been an unacceptable state of affairs and trust that the policy will now change.

**Recommendation 12:** There has been lack of communication between Aurigny and the States of Alderney in the past. This is unacceptable. Aurigny should engage with third parties more readily over changes that may affect the Bailiwick.

## Codeshare

5.30. The codeshare between Blue Islands and Aurigny was approved by the Channel Islands Competition and Regulatory Authorities (CICRA) in January 2014 for an initial period of two years. CICRA agreed to the airlines operating to a 'codeshare' on the Guernsey-Jersey route after they applied for an exemption under the competition laws. Under the agreement Aurigny took a fixed block of seats on flights operated by Blue Islands between

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<sup>122</sup> Hansard – Q185. – Mr Mark Darby

<sup>123</sup> Hansard – Q173. – Mr Malcolm Coupar



Guernsey and Jersey using the 46-seat ATR42. Aurigny pay Blue Islands a fixed charge for the seats. CICRA's explanation for the arrangement is:

***"...we (CICRA) ultimately concluded that the interests of the customers would be best-served by allowing the airlines (Blue Islands & Aurigny) to codeshare... in the absence of the codeshare agreement both airlines were content that competition on the Jersey-Guernsey would shortly disappear...the best means of protecting customers is to ensure that competition on the route remains as vigorous as possible."*** <sup>124</sup>

5.31. According to the Guernsey Sports Commission the reservation systems for the 'codeshare' arrangement are a serious barrier to team travel. The reality is that one airline's booking system can show a flight as full when there may still be seats available with the other airline.

***"Whoever decided to say you have got half the plane each must be daft and I hope you are going to speak to them. Whereas every other code share arrangement I know is basically whoever sells them first sells them first."*** <sup>125</sup>

5.32. There had been repeated incidents of sporting clubs unable to book teams on flights due to lack of capacity. Mr Falla described the problems of travel to Jersey as follows:

***"... because the profit imperative has moved... we have moved to larger aircraft because they effectively give a greater return if they have near to capacity than if you were to run, say, aircraft of a smaller size with the same number travelling... I think that because they have moved to those larger aircraft, they are not giving as good a service."*** <sup>126</sup>

5.33. He went on to question the rationale behind splitting an aircraft in half and providing a half to each competing airline:

***"No other codeshare, as far as I understand elsewhere, is operated that way. So why do we put an artificiality into it, whereby we could have whoever is asked first can sell the tickets."*** <sup>127</sup>

5.34. Aurigny's position was that Islanders had previously benefitted from excess capacity and a price war on the Guernsey-Jersey route and that passenger dissatisfaction was inevitable when normal market conditions re-emerged. The situation had been unsustainable, however, and Aurigny told us that,

***"...what we have got now is something that is designed to be sustainable..."*** <sup>128</sup>

5.35. Aurigny gave us their explanation of what they described as a compromise to provide a sustainable inter-island service and maintain competition on the route<sup>129</sup>. The

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<sup>124</sup> CICRA media release, 10<sup>th</sup> January 2014

<sup>125</sup> Hansard – Q89. – Mr Stuart Falla

<sup>126</sup> Hansard – Q89. – Mr Stuart Falla

<sup>127</sup> Hansard – Q98. – Mr Stuart Falla

<sup>128</sup> Hansard – Q174 – Mr Malcolm Coupar



arrangement is blocked space code share agreement, where a percentage of seats on each flight are Aurigny's and a percentage are Blue Islands'. The competition rules do not allow the airlines to talk to each other and this means that if one airline's seats are sold the customer will not be redirected to the other company, instead the customer will have to raise a new booking inquiry with that company. The downside for sporting and other groups is clear for all to see with seats few and far between<sup>130</sup>. For Aurigny, Mr Darby justified the arrangement as having *"truly meant that competition could continue"*<sup>131</sup> and thought that most customers who used the route were well aware of what they needed to do — to juggle between websites to find seats.

5.36. Mr Hart was highly critical of this codeshare arrangement, so are we:

*"...the deal for Blue Islands to be operator and a codeshare would never have been done in my day. I thought it was a terrible deal... people are not getting the service they need, neither from a business perspective nor from a social perspective. Clubs cannot get back and forth, people cannot get where they want to be when they want to be there. That is no good for business."*<sup>132</sup>

This is a case of pursuing a competitive model at the expense of the travelling public who, as Mr Hart said, *"...are not getting the service they need."*<sup>133</sup> It really is not good enough for Mr Darby to say that everyone who knows the route knows what to do; what they in fact seem to do is harangue Mr Hart and tell him, *"I cannot get a seat to Jersey, the service has gone completely."*<sup>134</sup> Commerce and Employment agreed that the system was *"extremely clunky"*<sup>135</sup> and although Mr Moriarty told the Committee that the airlines 'will consider and be able to potentially put on additional flights for special events' [our emphasis], we did not feel reassured. This arrangement appears to us to have applied a competition model to a thin route to the detriment of passengers. As Mr Hart put it, *"the decision was not taking into account the best interests of the Islanders in the round."*<sup>136</sup> That decision needs now to be revisited; in the meantime at the very least we should expect the introduction of a single booking system for the Guernsey-Jersey services.

**Recommendation 13:** The codeshare arrangement between Aurigny and Blue Islands is not working well for customers and the current arrangements should be revised. The codeshare is approaching the end of its initial trial period in January 2016 which presents an ideal opportunity for a review.

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<sup>129</sup> Hansard – Q175. – Mr Malcolm Coupar

<sup>130</sup> Hansard – Q89. – Mr Stuart Falla

<sup>131</sup> Hansard – Q176. – Mr Mark Darby

<sup>132</sup> Hansard – Q203. – Mr Malcolm Hart

<sup>133</sup> Hansard – Q203. – Mr Malcolm Hart

<sup>134</sup> Hansard – Q203. – Mr Malcolm Hart

<sup>135</sup> Hansard – Q253. – The Minister, Commerce and Employment Department

<sup>136</sup> Hansard – Q203. – Mr Malcolm Hart

## Financial Accounts

5.37. The fact that Aurigny's financial accounts are not published in full probably stems from the time when it was a commercial company. The consensus among our witnesses was that with the Airline now in public ownership, more detailed financial information should be publically available. Mr Parkinson stated that the accounts are not 'full-form' which was probably because Aurigny was originally a private company and largely still operated as one<sup>137</sup>. Mr Hart thought that Aurigny's accounts should be published because it was a wholly government owned asset.

*"If an airline – and it is a contentious thing – is owned by a jurisdiction, a community and a government, absolutely. In the past, what I would have objected to, and would still object to, is confidential information, by route, being made aware to my competitors by being put in the public domain. When they do not have to publish their figures, why should Aurigny ...If you are owned by the Government and there is taxpayers' money being put in to keep this business going, then I think you have a duty to be as open as you can be from a financial point of view..."*<sup>138</sup>

5.38. As far as Aurigny was concerned, the Airline's financial accounts were audited by KPMG and *"properly audited as part of the States' internal processes."*<sup>139</sup> Any decision to publish full financial accounts rested with the Treasury and Resources Department.

5.39. The Treasury and Resources Minister had not considered publishing Aurigny's full financial accounts but added:

*"I have no particular concerns about the publication of financial information around Aurigny. I think there was a view perhaps in the past that there was commercial sensitivity around publishing results, particularly, I suppose, when there was competition on the key route, i.e. the Gatwick route. I do not believe those issues, if they did exist, are as current now as perhaps they might have been. So certainly we are considering, or we will consider – as, again, from the undertaking to the Assembly in April – the publication of the information, but in exactly what level of detail and what form... we have not gone into that level of detail. We have not had that dialogue in any depth with the company at this stage."*<sup>140</sup>

5.40. The Minister therefore acknowledged that the situation had changed and Aurigny was not the commercial carrier it once was. The Committee believes there are fewer barriers now to publication of Aurigny's financial accounts and welcomes the Ministers' willingness to consider publication is greater detail, provided commercially sensitive information is not thereby released to Aurigny's competitors.

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<sup>137</sup> Mr Charles Parkinson

<sup>138</sup> Hansard – Q219. – Mr Malcolm Hart

<sup>139</sup> Hansard – Q184. – Mr Mark Darby

<sup>140</sup> Hansard – Q298. – The Minister, Treasury and Resources Department

**Recommendation 14:** Aurigny's financial accounts should be published in greater detail. The Government should publish additional information relating to the overall governance of Aurigny to promote transparency and clarity of the current business model.

## 6. Alderney

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*“The issue of securing strategic air links is far and away the most important problem facing the States as we seek to regenerate the Island’s seriously damaged economy.”<sup>141</sup>*

### Introduction

- 6.1. Alderney relies heavily on air transport for essential services including emergency medical transportation and education as well as business, leisure, sporting, tourism and freight services. This issue becomes even more pressing when one considers that due to the unpredictable tidal waters around Alderney there is no reliable, year-round ferry service between the islands. Alderney’s difficulties are well-known; the Island is suffering depopulation and economic decline and secure air links are crucial to encourage new energy and growth in the Island. For these reasons the Committee devoted a significant part of our inquiry to the problems faced by Alderney.

**Recommendation 15:** The link between Guernsey and Alderney is a lifeline route and the Guernsey Government has an obligation to maintain the link to an agreed standard.

### Background

- 6.2. Following the return of Alderney residents after the Second World War, discussions between the UK Government, the States of Alderney and the States of Guernsey led to what is now known as the ‘1948 Agreement’. This agreement places responsibility for the provision of the airfield (inter alia) firmly in the hands of the States of Guernsey.
- 6.3. The 1995 Review of the Agreement led to the consolidation of the Guernsey and Alderney accounts. As recently as January 2014 the States of Guernsey formally reiterated that “...since 1948 Alderney and Guernsey have been inextricably linked and today there is fiscal union between the islands...” Fiscal union, inter-alia, means in reality that every £1 earned/spent in Alderney has the same effect on the Guernsey Exchequer as every £1 earned/spent in Guernsey. Alderney’s problems are therefore also Guernsey’s problems.
- 6.4. Significant political attention has surrounded Alderney’s spiral of economic decline and de-population. This emerged as the top priority in the Alderney Strategic Plan and the States of Guernsey agreed that government interventions are needed to help stimulate the Alderney economy and start to reverse the de-population trend. It was in response to

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<sup>141</sup> States of Alderney consultation submission and Hansard of 2<sup>nd</sup> March 2015, line 57

such concerns that the Policy Council formed the Alderney Liaison Group (ALG) in early 2013.

- 6.5. The condition of the Alderney Airfield, whether it remains fit for purpose now and in the future, and the servicing of the Alderney air routes has been high on the agenda of the States of Alderney. Aurigny itself has historic ties with Alderney; the Company was originally formed there in 1968, and serviced the Island with several daily flights between Alderney, Guernsey and Southampton as well as delivering emergency medical flight support. The air links, provided until recently by a fleet of Trislander aircraft, are seen as a vital lifeline to the Island.
- 6.6. In 2013 Aurigny announced that the Trislanders were rapidly reaching the end of their useful life. The Treasury and Resources Department gained consent to grant Aurigny a loan agreement allowing the replacement of the fleet and Aurigny initially sourced two second hand Dornier aircraft to replace them; although this arrangement subsequently fell through. The decision to replace the Trislanders with Dorniers led to criticism and disagreement in Alderney, with Islanders voicing concerns about the suitability of the aircraft, frequency of flights, fare pricing and the declining Alderney economy. Alderney residents wanted assurance that the States of Guernsey would ensure that the States-owned airline would provide frequent air links, at a reasonable cost, and reliable in the long-term. Aurigny began a protracted process to secure the Dornier aircraft; meanwhile the resulting delays and uncertainty caused great concern to Alderney residents and visitors alike.

## Alderney Public Hearing

- 6.7. The Scrutiny Panel held a well-attended public hearing on Alderney on 2<sup>nd</sup> March 2015. The Panel heard evidence on behalf of the States of Alderney, evidence from Alderney Representative Louis Jean, the Alderney Chamber of Commerce and Mr Mike Harrison and Mr John Cadoret on behalf of the Alderney Pressure Group who bought along Mr David Shaw, Technical Director Britten-Norman, responsible for the manufacture of Trislanders.
- 6.8. Mr Neil Harvey, representing the States of Alderney stressed the vital importance of air links to the Island.<sup>142</sup> The Economic Development Plan recently agreed with the Policy Council in Guernsey, was aimed at reversing economic and population decline but that the success of the Plan was inextricably linked and dependent on satisfactory air links.<sup>143</sup>

***"It was probably no coincidence that with these twin problems of the availability of seats and the prices at the same time we were seeing a decline in the visitor population and indeed the***

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<sup>142</sup> Hansard – Q2. – Mr Neil Harvey

<sup>143</sup> Hansard – Q16. - Mr Neil Harvey

*resident population. I suspect it is a chicken and egg effect, but there is no doubt that those two things were having a serious impact on the Island and that was a very widely held perception. 'So, yes, I think it is very, very clear to us and it is certainly clear to the States that, although we have an Economic Development Plan which has recently been agreed with Policy Council in Guernsey and has been subject of some initial, and there will be more, public consultation, virtually everything in that plan is dependent upon satisfactory air links...this is no mere commercial undertaking. This is our lifeline to the outside world and I mean that. It is life and death for some people in terms of, particularly, the medivac service, so I think it is absolutely essential that we have confirmation that a service will be provided that is acceptable to the people of this Island and absolutely vital to them.'*"<sup>144</sup>

- 6.9. Two of the most significant businesses in Alderney, the Alderney Gambling Control Commission (AGCC) and the Alderney Commission for Renewable Energy (ACRE), had expressed serious concern regarding the air service. According to Mr Harvey, ACRE have given up attempting to hold meetings in Alderney due to the inability to be able to guarantee flights and the AGCC had claimed that the ineffective air links were really jeopardising their business.

*"So, at a time when we are desperate to grow our economy...we are getting all the right messages from senior ministers in Guernsey, the actions on the ground, not by them but by Aurigny, are just not supporting those efforts. It really is almost heart-breaking to see all the effort that many people here are putting in to try to turn this Island around in difficult circumstances and, yet, at the stroke of a pen somewhere, we will change the schedules or we will wait another three to six, 12 months for the replacement aircraft."*<sup>145</sup>

- 6.10. The Alderney Government wants a binding commitment from the States of Guernsey similar to the arrangements for the Guernsey - Gatwick route. Alderney residents are Bailiwick taxpayers and expect to receive a service equal to that enjoyed by Guernsey on the Guernsey-Gatwick service.

*"...we all are shareholders in Aurigny. We are all taxpayers to the Bailiwick. Why, then, are we seeing a substandard service? Why are we not seeing a service that, by and large, is in line with the service that people of Guernsey expect on the Guernsey-Gatwick route? These are our lifeline routes. We do not have the luxury of ferries, high speed catamarans, short links to other islands with more airlines. I appreciate you are down to Aurigny in air links. But we do not have some of the options available to Guernsey and, yet, we seem to be in a situation where it is acceptable that Alderney has a service that does not really meet our needs."*<sup>146</sup>

- 6.11. Mr Jean highlighted that Alderney tax payers had also contributed to the purchase of Aurigny by the States of Guernsey and therefore had a right to a decent air transport service:

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<sup>144</sup> Hansard – Q13. - Mr Victor Brownlees

<sup>145</sup> Hansard – Q14. - Mr Neil Harvey

<sup>146</sup> Hansard – Q5. - Mr Neil Harvey

*“...when the hand went in to take the money to pay for Aurigny, there were Guernsey and Alderney pounds, a conjoined economy, working together. So Alderney is also involved in this...”*<sup>147</sup>

6.12. Mr Harvey added that the States of Alderney had been trying for around 14 months to obtain a Service Level Agreement (SLA) from the States of Guernsey for the service provided by Aurigny but to date this had not been accomplished. The SLA was intended to establish minimum levels of flight frequency and fare structure prior to the introduction of a formal Public Service Obligation (PSO) agreement with explicit subsidy which would be open to a full tender process. The Treasury and Resources Minister had recommended a SLA be put in place and a second recommendation had been made which instructed the Commerce and Employment Department to investigate the most appropriate type of agreement<sup>148</sup> - to date nothing had been finalised.

*“... we have had no contact from Commerce & Employment as of today.”*<sup>149</sup>

*“I think where we are putting our efforts at the moment and have been for 12 or 14 months is to secure a binding commitment involving the States of Guernsey, particularly probably Treasury & Resources, and Aurigny. It is the sort of agreement that they reached over 12 months ago in terms of the Guernsey-Gatwick route, which set parameters for fares, or at least 60%/65% of fares, punctuality, et cetera. We are seeking a similar sort of agreement with Aurigny, but it has to be backed by the States of Guernsey, clearly, and Aurigny have made that quite clear to us that they will do whatever the States of Guernsey tell them to do.”*<sup>150</sup>

*“Frankly, the people of Alderney do not care what you call it, as long as there is something in place that is binding upon Aurigny and sets out some reasonable terms of engagement with them and provides us with a decent air service.”*<sup>151</sup>

6.13. There was a belief in Alderney that the States of Guernsey was trying simultaneously to run Aurigny as a commercial entity and to serve the community. It was Mr Harvey's view that there was a shroud of secrecy concerning Aurigny's plans:

*“There are plenty of rumours about what the chairman and chief executive of Aurigny have been told to do in terms of their costs and one could well understand that, in the present difficult climate, T&R would be saying to them, ‘Get your losses down.’ That would not be at all unreasonable, but it has to be a sensible approach and it has to tally with other things that the States of Guernsey are supporting, otherwise they are pointing in two different directions at the same time. I think there is probably, maybe not for the first time, a lack of joined up thinking in some respects there. So I think there is plenty of evidence that things could be improved.”*<sup>152</sup>

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<sup>147</sup> Hansard - Q38. - Mr Louis Jean

<sup>148</sup> Service Level Agreement, Public Service Obligation

<sup>149</sup> Hansard - Q10. - Mr Neil Harvey

<sup>150</sup> Hansard - Q9. - Mr Neil Harvey

<sup>151</sup> Hansard - Q9. - Mr Neil Harvey

<sup>152</sup> Hansard - Q24. - Mr Neil Harvey

6.14. Mr Harvey added that Alderney had been ill-served by the lack of alignment in government functions over Aurigny.

*"Instead of looking permanently at how we can reduce costs, where it is appropriate and where a business case is made for it, we should be looking to spend money, to invest money for the future. That is a difficult decision to make, especially when you have one department tasked with cutting costs and another one with growing economies." <sup>153</sup>*

6.15. Mr Harvey explained that Alderney needed the ability to grow its tourist season and therefore needed the air link infrastructure to achieve this:

*"We have a very active Tourism Department that are working their socks off to spread our season, as other tourist destinations are. We are now getting success; we are getting groups of people wanting to come here in the shoulder months, in April and October. But if they find they cannot get a flight, or the flight costs them more than flying across the Atlantic, why would they bother?" <sup>154</sup>*

6.16. The Alderney States Chief Executive, Mr Brownlees, summed up the message from the States of Alderney by calling on the States of Guernsey to:

*"...accept in principle that people in Alderney have, as shareholders in Aurigny and taxpayers to the Bailiwick, a right to a reasonable air service, because it is so fundamental. It is not a nice-to-have, it is absolutely fundamental to life on this Island...Equally, any responsible States (of Guernsey) will say, 'Okay, what is this going to cost us?' That is down to Aurigny to produce some credible numbers on this and then debate can begin." <sup>155</sup>*

6.17. Mr Jean reiterated that Alderney was going through an extremely difficult time with a degenerated air transport service and lack of service level agreement with Aurigny. He explained that the situation was constantly changing:

*"The situation is shifting and changing. I am not for blaming Aurigny. What I want to do is to try to work with Aurigny. But the fact of the matter is, even as we wait to move towards a service level agreement, the boundaries are shifting faster than we can cope with... and my belief is that the changes are being done now because there is not a service level agreement and that is not yet due to be in place, probably until June and July." <sup>156</sup>*

6.18. Mr Jean endorsed the views expressed by the States of Alderney on the Island's economic situation and the state of existing air links. He referred to the objectives that the Treasury and Resources Department had set for Aurigny on the Gatwick route:

*"...Guernsey is discovering the secret of success, together with Aurigny, in the fact that the T&R sub-committee have been directing and influencing Aurigny to give better pricing on their air routes...the sub-committee has actually been pressing to get the air fares down. I am praising both Aurigny and the sub-committee itself: it is a good thing that has been set up –*

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<sup>153</sup> Hansard – Q25. - Mr Neil Harvey

<sup>154</sup> Hansard – Q19. - Mr Neil Harvey

<sup>155</sup> Hansard – Q29. - Mr Neil Harvey

<sup>156</sup> Hansard – Q32. – Mr Louis Jean



*my view is this: Alderney has not yet got that representation through its service level agreement. What we need is more influence on the sub-committee, or perhaps membership of it, so that we can have better lines of communication, both with the politicians in Guernsey and work together to resolve the problems...*

*I actually believe that you, the politicians of Guernsey, have done a successful thing in forming the sub-committee and Aurigny are very happy to co-operate and that is very good...Alderney should be in a similar situation because, at the moment, we do not have any control and the problem with no control is that things are happening without consultation to our own politicians. That is causing us problems. That is where, I believe, as well, that the Guernsey politicians and the sub-committee can actually help Alderney. I think that is extremely important...*

*Alderney itself, this Island, is at the moment very dependent on Aurigny. Extremely dependent...what we need, really, is help to be properly represented on the Aurigny sub-committee and we need help to understand the position of Alderney and it has to be remembered that Alderney is very, very much more dependent on the Airline than, perhaps, Guernsey itself is...*

*At the moment Alderney is struggling to be successful because custom is thin on the ground and that is a fact...statistics show year-on-year decline and that is what needs changing and we need the help to change that and to understand that it is not just about the actual airline, the airfield. It is about the whole community and the whole approach to business here.”<sup>157</sup>*

6.19. Mr Jean was adamant that an open subsidy linked to a service level agreement could not be a temporary time-limited measure<sup>158</sup>, rather, Alderney should be treated in the way that the States of Guernsey treated Aurigny's Gatwick route.

6.20. Timetable changes introduced by Aurigny had been brought in without consultation. Mr Jean implied that the changes had been made in order to establish a new benchmark from which to negotiate a service level agreement. If that were the case then their impact on Alderney's economy was such that the changes amounted to political decisions made by Aurigny's management; that was not an acceptable state of affairs<sup>159</sup>.

*“...the parameters of the service level agreement are shifting even now, as we speak. What has got to be done is a stop has got to be called on it because every week something is changing. We have had children's fares changed so a two-year-old has to pay a full fare. We have had hourly changes on routes and shortening of time in Jersey and in Southampton...It needs to stop right away and then get on with the service level agreement. I think that what is happening is that Aurigny are realising there is going to be a service level agreement and when a service level agreement is there and fixed in place, it is going to be much more difficult for them to be fluid and be able to make those movements and changes.”<sup>160</sup>*

6.21. The Alderney Chamber of Commerce asked for four things: a decent timetable; reliable aircraft; sensible fares; and an airfield that was fit for purpose. Mr Lawrence pointed out

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<sup>157</sup> Hansard – Q32. - Mr Louis Jean

<sup>158</sup> Hansard – Q36. - Mr Louis Jean

<sup>159</sup> Hansard – Q37. - Mr Louis Jean

<sup>160</sup> Hansard – Q38. - Mr Louis Jean

that Guernsey was benefitting from significant recent financial investment in its airfield facilities, which Alderney residents had contributed to through their taxes and stated that:

*“...maybe a little bit in return would be appreciated.”*<sup>161</sup>

6.22. When questioned on what would constitute a ‘decent timetable’ Mr Lawrence stated:

*“Well, the proposed timetable for the coming season is very unsatisfactory... the last flight from Guernsey to Alderney has been brought forward, which now makes it impossible to go to Jersey for the day. I know of one particular business on the Island who has to visit Jersey on a very regular basis. This will mean overnight stops for them, adding to the expense and using up their time. There is just as serious problem with the first plane in the morning from Guernsey to Alderney, which has been brought forward again. It is very unlikely whether the newspapers will be able to get on this first flight... I feel these timetable changes have been put in without any consultation.”*<sup>162</sup>

6.23. The current flight schedule was, in his view, incompatible with business hours and there needed to be far more consultation between Aurigny and Alderney to arrive at a mutually suitable timetable<sup>163</sup>. Aurigny also had a tendency to land two flights at short intervals which the terminal building could not cope with.<sup>164</sup>

## The Dornier Acquisition

6.24. In May 2015 the States of Guernsey Treasury Minister confirmed his Department’s approval to provide an early release of funding for Aurigny to take early delivery of two new Dornier aircraft, the first arriving in late 2015<sup>165</sup>. Currently two second-hand Dorniers have been secured to service the Alderney routes but have suffered frequent problems<sup>166</sup>, leading to delays and cancellations with the service remaining supported by the Trislander.

6.25. The Committee remain unconvinced about the rigor of the aircraft selection process undertaken by Aurigny and were not presented with convincing evidence proving Dornier 228 to have been the correct choice. The Committee was surprised that the Treasury and Resources Department had not taken independent expert advice on this matter.

6.26. Mr Darby has stated that Aurigny completed detailed evaluation and analysis prior to trialling a Dornier 228 aircraft on the Alderney routes in November 2013. It had concluded the Dornier was a suitable replacement for the Trislander and secured the aircraft to service the Alderney routes:

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<sup>161</sup> Hansard – Q40. – Mr Nigel Lawrence

<sup>162</sup> Hansard – Q42. & Q43. – Mr Nigel Lawrence

<sup>163</sup> Alderney Airport operates in restricted opening hours

<sup>164</sup> Hansard – Q51. - Mr Nigel Lawrence

<sup>165</sup> To date one new generation Dornier has been ordered

<sup>166</sup> To date only one Dornier has been in operation

*“Aurigny carried out a detailed evaluation process to determine the best aircraft to replace the Trislander and the Dornier 228 was by far the most appropriate model for both the Airline’s requirements and passenger comfort. It is fast, with a maximum cruising speed of 234 knots (269mph) and will shorten the flight time on all routes; most significantly between Southampton and Alderney. It is purposely designed to take off and land on short runways and has good crosswind capability, making it ideal as an all-weather aircraft for the Alderney routes.”*<sup>167</sup>

Aurigny then entered into a Memorandum of Understanding (MoU) with a Portuguese Operator<sup>168</sup> to purchase two second hand Dornier 228 aircraft. Aurigny required Treasury and Resources to secure the necessary funding and subsequently consent was obtained at the May 2014 States meeting. The delay between the MoU being agreed and the States sanctioning the funding resulted in the Portuguese Operator entering into a different agreement for the aircraft in Madeira. It also resulted in the Trislanders coming up for a major maintenance service, which Aurigny had not intended to carry out because of the cost. The result was that the Alderney routes suffered serious unreliability due to a lack of serviceable Trislanders.

*“It was clearly tight and there were certainly days when – as Trislanders frequently do and part of the reason we want to get rid of them – they conspired to break down at the same time, so we did have some days when it was clearly a challenge. But since then we have kept the Trislanders serviceable and operational. We still fly them. At the moment we have three aircraft that are serviceable. We have acquired one Dornier that is currently being painted and that should be in service in the next few weeks... So, at the moment, we feel we have enough capacity to serve the routes. In strict scheduling terms, we need two aircraft to support the current Alderney route and, as it stands today, we have three.”*<sup>169</sup>

6.27. Mr Darby reiterated that the primary reason for acquiring the Dornier aircraft had always been to service the Alderney routes.

*“It was recognised that we may be able to use the Dornier on other routes, but the primary reason for having them in the fleet is to support the Alderney services.”*<sup>170</sup>

6.28. Mr Hart explained that the Trislanders were old and had approached the replacement stage when he was with Aurigny but he had been unable to see what the alternative was. A good plan had been required to facilitate replacement of the aircraft and in his opinion the current management had failed to achieve this:

*“I have my own view: this rush to get rid of the Trislanders without, it would appear, a good plan being in place has damaged Alderney a lot. It has been very disappointing and should not have been the case.”*<sup>171</sup>

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<sup>167</sup> Mr Mark Darby, CEO Aurigny – 7<sup>th</sup> August 2015

<sup>168</sup> Purchase arranged from the same Portuguese Operator who provided the trial Dornier aircraft

<sup>169</sup> Hansard – Q161. – Mr Mark Darby

<sup>170</sup> Hansard – Q162. – Mr Mark Darby

<sup>171</sup> Hansard – Q220. – Mr Malcolm Hart

*"I suppose I would be the first person to agree that the Trislander should be changed when I was clear that there was a reasonable economic alternative that would do as good a job, and I never got myself to that stage; and frankly, in my own opinion – and this is absolutely my own opinion – the Dornier is not the aeroplane either. It is too old."*<sup>172</sup>

6.29. Malcolm Coupar, Aurigny's commercial director has spoken highly of the Dornier 228:

*"The German designed and built Dornier 228NG offers us the optimum passenger and freight carrying options for the routes it will fly on. Given our commitment to provide a year round Medevac service to the people of Alderney, we're in discussions with RUAG Aviation to ensure this capability is built in. Passenger comfort is important to us and we know the reduced noise of the New Generation Dornier will be appreciated. Equally, passengers will benefit from air conditioning and a spacious feel to the cabin, created by the central aisle and large windows."*<sup>173</sup>

6.30. According to Aurigny the new Generation Dornier 228 has more than 350 improvements on its predecessor. RUAG Aviation (manufacturer) has kept the best of the previous model and made better what was already very good. The new generation model has cutting edge cockpit avionics, improved engines and new, composite, five bladed propellers. Aurigny and RUAG Aviation are working towards a late December 2015 delivery date. The aircraft is being built by RUAG in Germany. Purchasing it new ensures that Aurigny benefits from maximum reliability and technical and engineering backup from the manufacturer<sup>174</sup>.

6.31. We were told that opinions in Alderney had varied significantly regarding the decision to replace the Trislander with the Dornier. However, for the Alderney Chamber of Commerce the Dornier was welcomed:

*"We obviously want to see new Dorniers as soon as we can...if you are trying to attract business to Alderney and somebody gets down to Southampton Airport and is asked to get into an aeroplane that leaks, makes a hell of a noise - you cannot actually hear yourself speaking - and takes 45 minutes to get here, that is not a very good first impression...we really do feel that Alderney in the 21st Century has got to look professional and the first impact for anybody is actually getting onto a plane that, you know, works. I have to say, having travelled on the Dornier a couple times myself, it is far more comfortable, it is 30 minutes in the air to Southampton as opposed to 45 minutes-plus (by Trislander)."*<sup>175</sup>

6.32. Mr Harvey considered that despite the problems with the introduction of the Dorniers, on balance, they remained a vast improvement over the aged Trislanders. He was convinced that Alderney should not run its own airline:

*"...there is a view held that the States should be taking a more interventionist approach here, that we should be pulling together the people and potentially the money to create its own airline. I do not believe that is the job of the States of Alderney. I think it has been hard*

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<sup>172</sup> Hansard – Q221. – Mr Malcolm Hart

<sup>173</sup> [www.aurigny.com](http://www.aurigny.com)

<sup>174</sup> [www.aurigny.com](http://www.aurigny.com)

<sup>175</sup> Hansard – Q47. – Mr Tony Le Blanc

*enough for the States of Guernsey to almost have it happen to preserve a lifeline. I see no taste for it in the States of Alderney, nor the expertise necessary to be intervening and creating that.”*<sup>176</sup>

## The Southampton Route

6.33. The issue of the Southampton routes was also raised. If taxpayers, overwhelmingly from Guernsey, are being asked to subsidise Alderney’s air links, is it right that the Southampton routes should form part of that subsidised operation? On balance the Committee believes they should. Neil Harvey saw a direct link to the UK as essential if Alderney was to be a serious location for businesses and cited recent concerns voiced to him by the Alderney Gambling Control Commission (AGCC) and the Alderney Commission for Renewable Energy (ACRE):

*“I believe if we are to be a serious location for businesses and we have programmes in preparation to try and attract businesses here, then we have to have that (Southampton) link... several months ago we had a very alarming communication from the chairman of the AGCC, who was seriously concerned about the ability of him and his commissioners to do their work properly, both in terms of visiting clients and to carry out the regulatory and due diligence that they are tasked with undertaking. He was having major, major problems in terms of transport, bearing in mind their clients are scattered around the world... ACRE, the holding commission for renewable energy, who oversee tidal energy, have abandoned trying to hold meetings in Alderney, even though they are mostly based here. They are now having to hold their meetings in Guernsey and in Southampton because they just cannot guarantee the flights and the connections to bring together the people they need to talk to.”*<sup>177</sup>

6.34. There is an argument in favour of trading off the Southampton link for an improved Alderney-Guernsey service. However, Mr Harvey did not believe that a regular shuttle service to Guernsey could replace the Southampton link and explained that using Guernsey as a transit hub meant there were two weather windows for Alderney flights to navigate. Internationally renowned businesses, such as AGCC and ACRE, needed dependable, links and Southampton provided a perfect gateway to London:

*“I think it would be quite damaging to the Island both in the short term and for what it is trying to do in the long term if we lost that Southampton route... we are a very small Island, we pay allegiance, if you like, to Guernsey, a lot of the life of individuals here, in terms of family, friends, health issues, relate to Guernsey, so you cannot get away from that link there, nor would we wish to do so. But the Southampton one is equally important to the economy of the Island.”*<sup>178</sup>

6.35. These considerations are, of course, based on the existing infrastructure and aircraft fleets; in paragraph 6.56 of this report we propose an improvement to the Alderney runway which would potentially permit the use of Aurigny’s ATRs; such a development

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<sup>176</sup> Hansard – Q8. – Mr Neil Harvey

<sup>177</sup> Hansard – Q14. – Mr Neil Harvey

<sup>178</sup> Hansard – Q17. – Mr Neil Harvey

would make the integration of the Southampton routes with the Alderney- Guernsey services a possibility.

### **Subsidy/Memorandum of Understanding (MoU)/Public Service Obligation (PSO)**

6.36. In 2014 the States of Guernsey commissioned Frontier Economics to conduct an economic development study of Alderney<sup>179</sup>; an assessment of economic drivers, scope for future economic development and the potential for improving Alderney Airport to assist in unlocking economic potential. The key issues highlighted for consideration were evident economic and population decline. The report concluded that no clear case could be made to extend the runway at the current time but that it should not be precluded for future consideration. The Report recommended a PSO agreement for the Alderney routes, funding improvements to ensure airport regulatory compliance and improved data on demand for Alderney related air travel.

*“Any PSO for the Alderney Airport routes will clearly need to be developed alongside an economic strategy for Alderney, since future expected economic trends will be a key input into the terms of a PSO...”*

*The need for collaboration between Alderney and Guernsey is central to a number of our recommendations. There appears to be a consensus on the need for action across islands, and there is an urgent need to increase co-operation between the islands and engender a greater sense of trust. Without buy-in from all parties the chance of success is greatly diminished. Opportunities for closer engagement could be identified building on e.g. the Alderney Liaison Group.”*<sup>180</sup>

6.37. Mr Darby stated that Aurigny had a number of social care objectives which included maintaining a lifeline service to Alderney. He stated that the routes had always been;

*“...substantially loss making and continues to be a substantial loss-maker.”*<sup>181</sup>

He agreed, however:

*“...clearly, air links to Alderney are strategic; it is the way to connect the Island and I think, unless there was a cast iron, gold-plated solution, instead of us operating it, then I think it would be putting the whole island community at risk.”*<sup>182</sup>

Mr Darby added that the objectives also included breaking even by 2016, punctuality and various other matters but it was his opinion that social policy was a matter for the States, not Aurigny. Mr Darby thought that the possibility of an independent airline taking over the Alderney routes would be disastrous for the community as a privately owned carrier would not have the financial security that Aurigny enjoyed. He added Aurigny would

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<sup>179</sup> Frontier Economics – Alderney Economic Development Study – August 2014

<sup>180</sup> Frontier Economics – Alderney Economic Development Study – August 2014

<sup>181</sup> Hansard – Q163. – Mr Mark Darby

<sup>182</sup> Hansard – Q164. – Mr Mark Darby



dismantle its Alderney operation very quickly if the routes were awarded to a different carrier because they were so expensive to maintain.

- 6.38. Although there is a generally accepted figure of £900,000 for Aurigny's annual losses on the Alderney services<sup>183</sup>, strictly speaking the routes are not subsidised. This is a consequence of the way the States has chosen to finance the Airline – in effect by an overdraft. Aurigny makes losses on the Alderney routes and the States pays the bill. A move to a direct subsidy is in our view overdue. Under a direct subsidy a sum would be provided for a specified level of service (Public Service Obligation) on the routes and the airline would then be under the financial discipline of operating that service level within its allocated subsidy. The matter is complicated slightly by the European Union's (EU) requirement for competitive tendering for a subsidised route operating under a PSO. However, it was clear from the answers given by Treasury & Resources that Guernsey has reasonable expectation of being able to operate a "light-touch" PSO system if it chose to do so, and that the Southampton and Guernsey routes could be treated as a package for the purpose of any subsidy. The Committee was reassured to hear that EU competition rules are unlikely to get in the way of any move to a direct subsidy for the Alderney routes. The question then remains - how much subsidy is to be paid and for what level of service, and who is to be involved in negotiating the service level agreement?

*"...discussions we have been having are moving towards a light-tough PSO system, which certainly the Law Officers think we can incorporate within our air transport licensing system in Guernsey in such a way that it would also satisfy any concerns around EU competition going into Southampton. I think it is important to remember, though, that whilst you could treat the Alderney-Guernsey route separately, in terms of seeking to package them together under a PSO system that does also afford the opportunity to make sure that anybody who bids for that gets greater economies of scale... although legally you might be able to treat them differently, there might be very good financial and operational reasons why you still want to keep them as a single package."*<sup>184</sup>

- 6.39. Mr Darby confirmed that Aurigny made an annual loss of circa £900,000 in servicing the Alderney routes and dismissed figures submitted by the Alderney Pressure Group that disputed this claim. Aurigny had an objective to break even financially and its other network routes cross-subsidised the Alderney links. He added that it would be preferable to adopt the PSO model and if this went ahead he confirmed that Aurigny would submit a bid to operate the routes.
- 6.40. Mr Darby was dismissive of claims from Alderney witnesses that Aurigny's recent performance over reliability had been poor and referred the Panel to the Airline's punctuality statistics relating to Alderney which showed 86% of flights had been on time,

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<sup>183</sup> Billet d'État Number XV 2015 – The States of Guernsey Accounts 2014 - The Public Services Department made an operating loss of £774k running Alderney Airport

<sup>184</sup> Hansard – Q294. – Mr Alastair Ford

in line with the rest of their operation. He added that flight cancellation figures were also comparable.

*“So we strongly refute the allegation that the service we are offering is poor, but we are trying a PR campaign to try and persuade people that that is the case. We have started sending the States of Alderney regular updates on the actual performance, punctuality, comparing it with the rest of our network, the number of cancellations in a particular month. I have not seen anything in terms of, having given them that information, that that information has then been transmitted onwards; so we have started sending it direct to the Alderney press, The Alderney Journal, and they publish it sometimes and sometimes they do not. It depends whether it suits the argument on the day.”<sup>185</sup>*

6.41. Aurigny did not receive a subsidy from the States to operate the Alderney routes but rather the States acted as guarantor for any losses incurred. Mr Darby went on to clarify the position regarding a potential PSO:

*“...it is not a subsidy and there is an important difference between the two. There is a move by T&R to regularise the position and to actually formally recognise that the Alderney routes require a subsidy. The implication of that is – and it has been bandied around but I am not sure people fully understand the term – PSO, Public Service Obligation, is a technical term introduced by the European Union for creating viable routes or supporting routes that would not otherwise be viable, to remote communities – the Scottish Islands, the Faroe Islands, wherever it might be. So there is a process that is beginning, where there will have to be a public tender for any carrier to bid to operate the Alderney route and specifically the Alderney-Southampton route, as that goes into Europe; and that process is just starting now.”<sup>186</sup>*

6.42. In August 2014 Mr Darby expressed his frustration at how he felt Aurigny had been left to set social economic policy for Alderney:

*“There’s an urgent need for the States of Alderney and (the States of) Guernsey to get together to decide what they want and what they can afford in terms of their service to Alderney. We have been left holding the baby in terms of setting socio- economic policy for Alderney by default. It’s a State’s decision – if they want to fund us doing 50 flights a day from Southampton at £20 return trip that’s in the gift of the States – it’s not our gift. There’s a level of subsidy that we would need to make that possible. This is something that is being actively considered by Treasury and Resources. They are having a good look at it and something will come out of that...”<sup>187</sup>*

6.43. An interim Memorandum of Understanding (MoU) with Aurigny was being developed. This was to secure service levels on the Alderney routes with a long-term aim of arranging a PSO for Alderney with a suitable airline. Mr Darby acknowledged the lack of progress:

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<sup>185</sup> Hansard – Q169. - Mr Mark Darby

<sup>186</sup> Hansard – Q158. - Mr Mark Darby

<sup>187</sup> Guernsey Press – Wednesday 20<sup>th</sup> August 2014



*"I think there has been a discussion between the States of Alderney and the States of Guernsey, but as far as we are aware, there has been no progress. We discussed it. I attended a meeting at the end of October and I think we have seen very little since then."*<sup>188</sup>

- 6.44. Mr Parkinson acknowledged that Aurigny served several purposes including its social obligation, driving commercial activity and supporting tourism and stated there was a strong case for subsidising social routes and making the subsidy explicit.

*"There is a strong case, inevitably, for subsidising the social routes and Aurigny say they are losing, I think they said £900,000 a year on operating into Alderney, and I think we should identify that as an explicit subsidy, that Aurigny should just get a cheque every year for £900,000 to operate services into and from Alderney."*<sup>189</sup>

- 6.45. There was, in his view, additional scope to use Aurigny as an economic development tool and the States could subsidise routes provided there were performance criteria and any subsidy was made explicit. Having identified and publicised routes subject to subsidy, Aurigny should be under instruction to break even.<sup>190</sup>

*"Having identified those routes which we are, for one reason or another, going to subsidise and having identified the subsidy, Aurigny should be under instructions to at least break even. What we have had in the past is, frankly, just a tolerance of persistent losses and the directions to the management of Aurigny have been to try not to lose too much money, more or less, which is actually not a target that anyone would want to manage towards...The problem at the moment is we just allow Aurigny to go on making losses because we know they have to run some routes at a loss and we have not explicitly identified how much that costs us."*<sup>191</sup>

- 6.46. It was his view that the States needed to be clearer on why it owned Aurigny. One reason was social obligation; the Alderney routes were subsidised to an extent and reasonably priced flights to Gatwick needed to be available to the community. He was uncertain if the fare cap represented a cost to Aurigny but added that:

*"If it does represent a cost to them (Aurigny), then it is part of the social element or social reason for owning Aurigny. We need to be much clearer and understand much better what subsidy we are paying there and why we are doing it."*<sup>192</sup>

- 6.47. Aurigny's Commercial Director, Mr Coupar, did not believe that the proposal by Citywing to run an Alderney-Jersey service for the limited numbers of sectors they had suggested would affect Aurigny in a measurable way. However, he added that should the level of service be expanded to include the Alderney-Guernsey and Alderney-Southampton routes then:

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<sup>188</sup> Hansard – Q166. – Mr Mark Darby

<sup>189</sup> Hansard – Q75. – Mr Charles Parkinson

<sup>190</sup> Mr Charles Parkinson

<sup>191</sup> Hansard – Q75. – Mr Charles Parkinson

<sup>192</sup> Hansard – Q.83 – Mr Charles Parkinson

*“...it would have a fairly devastating effect on what are already highly loss-making services.”*  
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Mr Darby added:

*“I think if Citywing did come in then there is no room for two carriers. I mean we are already heavily loss-making on the Alderney route and there would not be any room for two carriers making substantial losses.”* 194

- 6.48. Events surrounding the security of Alderney’s air links over the last eighteen months have attracted significant media and public attention. The bad press has put confidence in Aurigny’s management team at risk in the eyes of Alderney residents.

**Recommendation 16:** The Guernsey Government has an obligation to provide year round, adequate and reliable air links to Alderney. The air link between Guernsey and Alderney is considered a lifeline route with the link to Southampton strategically vital. The best way to secure this service is by means of a Public Service Obligation (PSO) agreement which must be secured as a priority. Once established the PSO must be protected from risk of being undermined by an independent operator running services from Alderney for which a Guernsey air route licence is not required.

## Alderney Airfield

- 6.49. The Government recognises its responsibility for Alderney’s transport links and is working with the States of Alderney to establish a PSO with Aurigny to alleviate some of the issues Alderney has reported in the servicing of its air links. However, at the same time, the physical state of the Alderney Airfield remains yet to be resolved. Remedial works have been completed to improve the drainage of the grass runways and repair to the tarmac runway and pavements but these have only provided a temporary fix.
- 6.50. In January 2014 the States of Guernsey agreed to commission a review of the Alderney Airfield following the success of a Requete initially brought to the States by the late Alderney Representative Paul Arditti<sup>195</sup>. The Requete had called upon the Public Services Department to investigate urgent improvements needed to accommodate larger aircraft and secure the airfields future for the next 25 years. It claimed that to continue without urgent action would mean *“Alderney will just spiral out of existence.”* <sup>196</sup> The resultant TPS report was released in autumn 2014 and concluded, that the Alderney runway could be

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<sup>193</sup> Hansard – Q157 – Mr Malcolm Coupar

<sup>194</sup> Hansard – Q158 – Mr Mark Darby

<sup>195</sup> Requete – The Airfield in Alderney, 31<sup>st</sup> October 2013

<sup>196</sup> The late Alderney Representative Paul Arditti

extended if required but obviously at significant financial cost. The Committee recognises that the question of replacement aircraft to service the Alderney routes is linked to the nature of the airfield on Alderney. The Committee has suggested that a future-proofing option of extending the runway to allow for the integration of ATRs (and other 42 seater aircraft) into the Alderney services has not in our view been adequately evaluated. The less radical options may be tempting but the Committee suspects they will only amount to delaying the inevitable.

*“No one can tell us how much tax (collected from Alderney) will go up for every metre of tarmac laid on the runway. But what is guaranteed is what will happen if we don’t. The spiral of decline will accelerate.”<sup>197</sup>*

- 6.51. In April 2014 the States of Alderney commissioned a report by DRASS Economics which examined Alderney’s economic strategy and development. The report considered that restrictions of current intended airfield developments meant that there was insufficient future capacity to service growth or route development. This report concluded that:

*“...developments that maintain the current length of the runway precludes operation by any other commercial operators. This does not improve potential connectivity and as such makes no contribution to Alderney’s economic development or support the strategy outlined above. Extension could open up Alderney to potential new operators and could readily boost tourism by upwards of 20%... development that maintains the current (runway) length impose a strategic economic risk of dependence on the current operator and its business model and strategy.”<sup>198</sup>*

- 6.52. In May 2014 the Public Services Department commissioned TPS to carry out a feasibility study of specific options for the development of the runways at Alderney Airport<sup>199</sup>. The Report concluded that it would be possible to extend the Alderney runway to accommodate 42 seater aircraft at an estimated cost of £24-33 million. Several witnesses were convinced, however, that an economic case could not be made to upgrade Alderney’s runway and terminal building:

*“It would cost an enormous amount of money to replace their runway or to put in a new terminal building and the economic benefit of doing so would be minuscule. That falls firmly back into the social policy basket of should we do it because that community frankly is at the present dying and do we have to do something like that to try and sustain it?”<sup>200</sup>*

- 6.53. The question of whether to maintain the current airport infrastructure or to invest in a significant upgrade to futureproof the Alderney Airfield and boost the Islands’ diminished economy were discussed during oral evidence gathering sessions. More recently Treasury and Resources attempted to delay the agreed £10M capital projects spend on upgrading Alderney Airfield, along with all States of Guernsey agreed capital project spends, due to

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<sup>197</sup> The late Alderney Representative Paul Arditti

<sup>198</sup> DRASS Economics – Alderney Economic Strategy and Development – Airport Development

<sup>199</sup> TPS Report – Alderney Airport Runway Options Study – August 2014

<sup>200</sup> Hansard – Q85. - Mr Charles Parkinson

lack of available funding, however, this was not supported by the States Assembly at the October meeting.<sup>201</sup>

- 6.54. If the Alderney runway is largely left as it stands then it will leave the Island vulnerable. Mr Harvey, for the States of Alderney, explained the severity of the situation as follows:

*“The main runway is now reaching a point at which the CAA is taking a serious interest in the remedial action because they have been promised remedial action for several years now and I am pleased to say PSD have plans that will start to address the problems with the main runway. They have plans to address the two grass runways, because we do need three runways here. Unfortunately, as of today, there is a NOTAM<sup>202</sup>, a notice to flyers, which says the grass runways are both closed again today. This is very much an on-off situation. TPS, the consultants in airfield design employed by Guernsey, said there was a very clear case for extending and tarmacking the prevailing wind cross-wind runway and Aurigny have said it would help them with their operations. So that is a battle we have to fight with Guernsey, because it costs more money. But it is the result of very, very many years under-investment, very much the same story with Aurigny. So it is not just Aurigny’s fault, it maybe it is Alderney’s fault for not doing more about it or pushing harder on this area.”<sup>203</sup>*

He confirmed that the States of Alderney would be willing to contribute financially to an airfield upgrade/runway extension. The Committee concluded that the States of Guernsey has to take some responsibility for having failed to maintain the airfield to modern standards.

- 6.55. There remains, in the Committee’s view, a case for extending the main runway on Alderney to accept aircraft up to the size of the ATR 42. Although an extension of the main runway would not remove the problem of landing in cross winds, the ability to accept larger aircraft would significantly reduce the vulnerability of air services to weather factors. But the main benefit of such an extension would be the opportunity it would give Aurigny to integrate the Alderney services with their existing fleet without the need to operate smaller aircraft<sup>204</sup>. The T&R Minister pointed to the challenges and costs faced by Aurigny because of its fleet of multiple types of aircraft.

*“...the Airline is subscale in terms of contingent operation. You will be challenged to find another commercial airline of the size of Aurigny with a single jet and multiple types of aircraft. So that poses real challenges in terms of the engineering support and brings with it some disproportionate cost burdens.”<sup>205</sup>*

- 6.56. The synergies for Aurigny from a runway extension would therefore seem obvious. Some compromises would no doubt have to be made by the Islanders and Alderney connections

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<sup>201</sup> Billet d’État No. XXII, Article No.1, 27<sup>th</sup> October 2015, Amendment Alderney Representative Louis Jean, seconded by Deputy MJP Hadley

<sup>202</sup> A notice filed with an aviation authority to alert aircraft pilots of potential hazards along a flight route or at a location that could affect the safety of the flight.

<sup>203</sup> Hansard – Q22. – Mr Neil Harvey

<sup>204</sup> There is potential for a future change of direction by Aurigny by moving away from Dornier operation, acquiring another ATR42 and thereby consolidating its fleet. Alderney’s air connectivity could be future-proofed by allowing larger aircraft to land.

<sup>205</sup> Hansard – Q276. – The Minister, Treasury and Resources Department

might become an add-on leg to an existing Guernsey/UK service. However, flexibility and extra capacity would be major gains. When the option was put to Aurigny it met with a lukewarm response. Mark Darby saw the use of an ATR 42 for Alderney as justifying only one daily service to Southampton and one or perhaps two to Guernsey. However, Aurigny would consider operating an ATR 42 aircraft on the routes if the Alderney runway was extended but if the ability to complete a day return was removed the market would instantly half. It was Aurigny management's opinion that a once a day service would not fulfil the needs of the Alderney population.

*"I think if they extended the runway, yes, it would give us the option of operating an ATR42 in there once a day. I mean, because the demand... you might get one service to Southampton, one to Guernsey, maybe two to Guernsey, but that would probably be about it."* <sup>206</sup>

It was not clear whether his response was based on what might justify a commercially viable service or on what might be offered by Aurigny for the level of subsidy which the Alderney routes are likely to be given.

6.57. Guernsey Government need to know what exactly it is that Alderney residents need. At the moment there are four/five return flights a day from Guernsey to Alderney and two/three Southampton/Alderney returns. Do these flights reflect a desired service frequency or are they operated to provide the capacity which the existing fleet cannot deliver? If Alderney is offered a reduced service of one or two return flights a day to Guernsey but with the certainty of getting a ticket, would that constitute an attractive proposition? At the moment we simply don't know and the failure of the consultants' reviews to address these questions represents a missed opportunity.

6.58. Major capital investments have to be justified and an assertion of 'future proofing' may, on the face of it, seem inadequate. However, the future of these inter-island air links must be secured and if economic investment is to be attracted to Alderney they have to be seen to be secured; there must be trust and confidence. Scouring Europe for a Trislander replacement has not been a spectacle that has brought confidence to Alderney.

6.59. Public Services was considering options for upgrading Alderney airfield in order to provide:

*"...a modern fit-for-purpose landing surface... Alderney is approaching the point at which it requires a resurfacing. That is the project which we are currently looking at...If the top layer surface is wearing away in a variety of locations, then simply to patch up no longer represents the most efficient use of the limited funds available and it becomes the best option to resurface, and that is what we are looking at in this case."* <sup>207</sup>

6.60. Commerce and Employment were advising on Alderney's economic development programme and suitable contractual terms for airline operation and the question of status

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<sup>206</sup> Hansard – Q165. – Mr Mark Darby

<sup>207</sup> Hansard – Q234. – The Minister, Public Services Department

quo verses a public service obligation agreement but not in consideration of a runway extension. The Department had been involved with a commissioned report<sup>208</sup> which had considered the importance of the runway within economic development of Alderney which had highlighted the importance of air transportation and connectivity but equally that this must be reinforced by robust economic development ideas.

*"My Board was unanimous and we wrote to Policy Council, who I think, from memory, were unanimous around PSO, as were the Alderney Liaison Group, because I think with the PSO it is a contractually, legally binding agreement which will give certainty to the residents of Alderney. In terms of what the appropriateness is or is not of the current runway infrastructure that is part of a wider question for Alderney and PSD."*<sup>209</sup>

**Recommendation 17:** The option of extending the main runway in Alderney should be reappraised. The potential for integration of ATR 42 aircraft (and similar) should be examined in more detail with due regard paid to the economic sustainability of the Island.

## Alderney Pressure Group (APG)

6.61. The APG had been formed by around 40 second home owners in Alderney who held concerns over the dependability of flights between Alderney and Southampton and presented their proposal that an independent airline take over the Alderney routes. The APG not only rejected the Aurigny estimate of a £900,000 annual loss on the routes, they asserted that with a Trislander fleet they could turn the operation round and run the routes at a £200,000 annual profit.

6.62. The APG saw the Dornier as operationally and financially the wrong aircraft to service the Alderney routes; their alternative proposal was to secure five new Trislander aircraft.

*"What we need is five new Trislanders, programmed to replace the old, admittedly ageing fleet, and to be equipped with modern equipment."*<sup>210</sup>

6.63. These were not the views of outsiders but of those with relevant practical knowledge of the industry. Mr Cadoret had been Aurigny's Director of Operations until 2000. So his rejection of Aurigny's claim that the Alderney routes made an annual loss of £900,000 could not be dismissed out of hand:

*"...the Airline has increased its load factors, increased the fares dramatically, particularly in the last few years; I just do not see it possible to lose that sort of money (£900,000) on the*

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<sup>208</sup> Frontier Economics— Alderney Economic Development Study – August 2014

<sup>209</sup> Hansard – Q271. – The Minister, Commerce and Employment Department

<sup>210</sup> Hansard – Q54. – Alderney Pressure Group

*Alderney route. I am convinced that the whole proposal to put Dorniers on the route, and we were told it would only improve the situation by £100,000 a year, was flawed, inaccurate, incomplete, misleading and should not have been presented to the States of Guernsey on 28th May in the Billet...a full, open honest appraisal of all suitable types of aircraft... (including) the new Trislander (is required)."*<sup>211</sup>

- 6.64. Communication between the APG and Aurigny had initially been good and there was sympathy for Aurigny's Chief Executive, because he had been handed such a difficult task, one of finding, *"a one-size fits all solution to the very different needs of Guernsey and Alderney."*<sup>212</sup>

*"Aurigny, of course, began as an Alderney company, serving Southampton-Alderney and Alderney-Guernsey, and it ran profitably for 30 years. Guernsey, for its own very good reason, bought it in 2003, in order to secure the Guernsey-Gatwick routes. Absolutely appropriate that they should have done so, but, since then, Aurigny has developed in two directions. Mainly to serve the greater needs of Guernsey for multiple destinations in the UK, which Alderney does not need."*<sup>213</sup>

- 6.65. Mr Cadoret had written to the Treasury and Resources Minister requesting that the purchase of the Dornier aircraft fleet be put on hold pending further investigation. The APG had prepared a business plan to run an Alderney-based airline servicing the routes using Trislanders and was convinced that the airline could be run profitably<sup>214</sup>. Mr Harrison added that the plan to introduce five new Trislanders was more resilient than the current plan for three Dornier aircraft. The APG expected their operation to be profitable within two or three years and were incredulous that Aurigny had not entered discussions with Britten-Norman on the possibility of company supplying new Trislanders<sup>215</sup>. As for the aged design of the Trislander, Britten-Norman had employed an independent advisor to explore how the aircraft might be modernised:

*"...that independent advisor told Britten-Norman that they could not improve on the design of the aircraft for the routes that it was built specifically and designed to service."*<sup>216</sup>

- 6.66. The APG could see no reason for their proposed Alderney-based airline to fail.

*"... we do not see that there is any real reason why it (the airline) should fail, why a new venture with new aircraft on a mature route should fail. And that failure could be argued for any service into any community, couldn't it, Guernsey included."*<sup>217</sup>

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<sup>211</sup> Hansard – Q54. – Alderney Pressure Group

<sup>212</sup> Hansard – Q54. – Alderney Pressure Group

<sup>213</sup> Hansard – Q54. – Alderney Pressure Group

<sup>214</sup> Hansard – Q60. – Alderney Pressure Group

<sup>215</sup> Hansard – Q63. – Alderney Pressure Group

<sup>216</sup> Hansard – Q66. – Alderney Pressure Group

<sup>217</sup> Hansard – Q67. – Alderney Pressure Group



6.67. Indeed they were so confident of success that they were not seeking an open subsidy for a service level agreement. Far from needing a subsidy, the problem, in their view, lay in the lack of financial transparency on Aurigny's services:

*"We do not feel it (a SLA) would be necessary with a properly run company operating the service level Alderney requires if there was an open relationship between the operator and the Island. Right now, there is not an open relationship. There is no real, meaningful communication between the Airline and the Island that it serves and it bears the name of the Island. If there was, there would not be a need of a service level agreement."*<sup>218</sup>

Mr Cadoret added:

*"...frankly, I was surprised to find out during the course of this discussion we have been involved with, how little information of a financial nature the States of Guernsey get out of Aurigny. That, frankly, surprises me, and you cannot have a service level agreement, you cannot start talking about subsidies unless you have a full, open, knowledge of the Airline's finances. You appear to have scant, almost no information at all on that front, according to the Hansard record of 28th May, you have virtually no knowledge of what their financial state is and that staggers me, frankly. Until that is rectified, you are never going to get a good, open relationship between the islands and the airline that services them."*<sup>219</sup>

6.68. We did not hear any other support for this claim or indeed for their proposal for an independent airline to service Alderney. Mr Hart described the APG's proposal initially as *"intriguing"* and when asked to elaborate added, *"completely unworkable, in my humble opinion."*<sup>220</sup> On the figures themselves, he thought that the loss for an independent company would be *"probably a good deal north of £900,000."*<sup>221</sup> While the States of Alderney said that they would talk to *"any private initiative that came along with a sound plan,"*<sup>222</sup> it did not appear that the APG's proposal fell into that category.

**Recommendation 18: While the option of an independent airline to service the Alderney routes cannot be ruled out, the best option for Alderney is to have its air links provided by Aurigny on the basis of an open subsidy for an agreed level of service.**

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<sup>218</sup> Hansard – Q68. – Alderney Pressure Group

<sup>219</sup> Hansard – Q68. – Alderney Pressure Group

<sup>220</sup> Hansard – Q222. – Mr Malcolm Hart

<sup>221</sup> Hansard – Q223. – Mr Malcolm Hart

<sup>222</sup> Hansard – Q8. – Mr Neil Harvey



## 7. Air Route Licensing v Open Skies

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- 7.1. Historically, competition on the prime routes to Gatwick, Southampton and Jersey created a false level of public expectation. Price wars resulted in cheaper fares to the public but the reality to the competing airlines was an unsustainable, loss-making venture. Therefore the Committee believes that it is wrong to 'hark-back' to a perceived golden age where fares and frequency of flights were unsustainable.
- 7.2. If Guernsey was to choose the path of open competition the end result could place the Island in a similar undesirable position to that of the Isle of Man where flight frequency is significantly reduced following price wars between competing airlines and subsequent withdrawal of service.

**Recommendation 19: A blanket 'open skies' policy is not suitable for Guernsey. With a population of circa 63,000, the market is considered too thin to support such an approach. To do so would inevitably put Guernsey's relatively stable and diverse air links at risk.**

**Recommendation 20: The vitally important routes to Gatwick, Alderney and Jersey should be protected with objectives and performance measures overseen via the Treasury and Resources sub-committee. In the future responsibility for this important area must be overseen by the relevant committee established under the States Review Committee recommendations.**

- 7.3. Mr Parkinson acknowledged the debate surrounding an 'open skies' policy and stated that Guernsey's licensing system was quite unusual now in aviation policy. Guernsey's routes, however, were much thinner than Jersey's and unlikely to sustain competition:

*"So I think in Guernsey's case there is a much stronger argument for retention of a licensing system. I do not think it is an absolutely clear cut argument. I do not think it is a foregone conclusion that we have to have it, but probably on the balance of probabilities it serves us better."* <sup>223</sup>

- 7.4. He did not see licences as a contentious issue on routes where there was no competition; protection should only be given to strategically vital routes that could not sustain more than one carrier. He had seen no evidence to suggest that the current licensing regime had discouraged any potential carrier from submitting an application to fly to Guernsey.

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<sup>223</sup> Hansard – Q72. – Mr Charles Parkinson

*"I think it would be better if we made it clear that they did not need one (licence), just in case that is inhibiting anybody, but there is really no evidence that I am aware of that people are out there trying to open new routes to the Island and being put off by our licensing system... On the strategically vital routes that we should list somewhere, there is a case for retaining a licensing system, but outside of that I think we should just deregulate it."* <sup>224</sup>

- 7.5. Mr Mills accepted that to his knowledge the air route licensing system had not been greatly used but was nevertheless seen as a barrier to new carriers. However, this was strongly disputed by Mr Hart who stated that no serious operator would be discouraged from servicing Guernsey because they were required to submit a licence application. GIBA agreed that there may be certain key strategic routes that required protection but thought other routes should be opened up to a free market. In their view Guernsey required additional new routes to and from the Island:

*"That would be not only good for the business community but for the Islanders that want to get to different parts of the UK or the Continent but also for people, tourists to come to the Island. More options for them too."* <sup>225</sup>

- 7.6. GIBA believed in 'open skies', more competition and a policy of attracting new carriers, in other words, the Jersey approach. If the licensing policy was to be retained by Guernsey then it should only be applied to routes where it was considered essential. The development of new routes had been identified as important in the Guernsey Finance survey and the wish-list had included London City, London Heathrow, Amsterdam and Paris. Continental links would avoid Air Passenger Duty<sup>226</sup> (APD) in the UK and allow for additional European travel and importantly allow access to global jurisdictions via two large hub airports.
- 7.7. However, while GIBA believes the Gatwick route can sustain competition and Mr Parkinson told us the case was "arguable", unfortunately the history of competition on the Gatwick route tells us a different story; one of excess capacity and unsustainable fares, which have created public expectations of fare levels and seat availability which are hard to meet. Historically, competition on routes and expansion into Europe through scheduled services has proved unsustainable.

- 7.8. GIBA favoured the increased capacity and reasonable fares that low-cost carriers offer:

*"...look at what happened over the course of the last 10 years in the airline industry, you will have seen that most of the jurisdictions have increased their capacity, even those that are a thin market. That is because the low-cost carriers have come in. The likes of easyJet, Ryanair*

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<sup>224</sup> Hansard – Q74. – Mr Charles Parkinson

<sup>225</sup> Hansard – Q102. – Mr Peter Mills

<sup>226</sup> Air Passenger Duty (APD) is an excise duty which is charged on the carriage of passengers flying from a United Kingdom or Isle of Man airport on an aircraft that has an authorised take-off weight of more than ten tonnes or more than twenty seats for passengers. The duty is not payable by inbound international passengers who are booked to continue their journey (to an international destination) within 24 hours of their scheduled time of arrival in the UK.

*have completely changed the model so that you can get to various parts of the Continent... a businessman can fly down to Monaco for about £100 return. The same is not to be said in Guernsey. We are struggling. Our financial services businesses are strong. We are as strong as many other jurisdictions that are much better served in terms of airlines than we are.”*<sup>227</sup>

- 7.9. GIBA’s opinion was that carriers could be encouraged to service the Bailiwick under an ‘open skies’ approach at the same time as Aurigny was flying as a public service operator. GIBA also claimed that a partial ‘open skies’ policy applicable to a number of routes would be beneficial to the Bailiwick:

*“I did caveat that by saying that there may be a need and it needs to be evaluated, but certainly on some of our routes that we would still potentially have a licensing regime. Maybe Gatwick could be an example. I would say that needs, definitely, some thought.”*<sup>228</sup>

- 7.10. In the Committee’s view GIBA were too willing to accept the impressions and wishes of their members without sufficient analysis of their veracity or credibility. There were too many suggestions of flight connections for which the market is thin to say the least.

- 7.11. However, GIBA may have a point when it comes to the facilities at Guernsey Airport.<sup>229</sup> The disparity between the available space landside and airside is a reasonable criticism. Flights from Guernsey are subject to delays because of the weather and the lack of provision airside for passengers who may be delayed is perhaps not the best way to promote the Island.

- 7.12. The Guernsey Chamber of Commerce suggested in their written submission that they saw the ‘open skies’ policy in Jersey as a huge success. They acknowledged the importance of preserving the Gatwick link whether serviced by Aurigny or a different airline but suggested that an ‘open skies’ policy would allow, *“...other airlines to come in without the issues of bureaucracy.”*<sup>230</sup>

- 7.13. They believed that the question of identifying strategic routes had not been answered let alone the questions of if, or how, they should be protected:

*“Assuming you do need to protect them and that is uncertain in itself because I hear comments today about subsidies being mooted on the Gatwick route. I am not quite sure whether there is evidence out there to suggest that that is actually true.”*<sup>231</sup>

- 7.14. The Guernsey Airport Consultative Committee (GACC) held a very different view regarding the air licensing policy. For them the current policy provided a necessary protection to

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<sup>227</sup> Hansard – Q107. – Mr Peter Mills

<sup>228</sup> Hansard – Q117. – Mr Peter Mills

<sup>229</sup> GIBA – consultation response

<sup>230</sup> Hansard – Q126. – Mr Tony Rowbotham

<sup>231</sup> Hansard – Q126. – Mr Tony Rowbotham

secure year-round services for the Bailiwick<sup>232</sup>; they believed that the application process needed speeding up, however.

- 7.15. Operation of the air route licensing system was perceived as difficult to understand and time-consuming. In particular airlines thought that the process needed to be more dynamic with more transparency as to how a decision was made:

*“So where airlines have to respond quite dynamically to changes in the market and to fleet availability and to extra capacity, for example, where aircraft are concerned, it becomes quite difficult to effectively be subject to a process which makes that dynamic nature more difficult to implement.”<sup>233</sup>*

- 7.16. But GACC acknowledged that the licensing decisions could, under certain circumstances, be subject to judicial challenge and that this had a bearing on the process itself:

*“...the current process for hearing those representations and, for example, advertising new routes and giving a period of time for consultation, is geared around the potential for judicial review of any licensing decisions by the panel. So I think at the moment the process is the way it is because of that concern. I think, because of that reason, it would be difficult for us to sit here and come up with some suggestions as to how that process could be specifically streamlined without taking into due consideration how the Law is phrased and what the challenges are associated with that.”<sup>234</sup>*

- 7.17. GACC had submitted that an *“open skies’ policy is by no means a panacea for all evils.”<sup>235</sup>* They accepted that ‘open skies’ policy had become the common approach to the way in which jurisdictions operated their air services but in their view:

*“The challenge I think for us, as an Island community... is how do we come up with sustainable air services year round that at least afford the ability for individuals to travel – I will not say wherever they want, whenever they want, but almost to that degree – at an affordable price, and how do we best protect that? Because the alternative is the risk that we end up with increased services in the summer months, for example, when the seats can be sold, and skeleton services in the winter months, where simply it is not viable for airlines to operate empty seats. The massive change that we have seen in the market from March 2014 was about making air services more sustainable and we have a lot fuller, larger aircraft travelling around the skies to and from the Island than we did in 2013. So whether you look at the consolidation on Gatwick or whether you look at the consolidation on inter-island, it really has been about trying to make things more sustainable on an on-going basis.”<sup>236</sup>*

- 7.18. While there may be opportunity for additional routes especially over the summer months, on balance GACC considered that:

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<sup>232</sup> Hansard – Q141. – Mr Colin Le Ray, Secretary to GACC

<sup>233</sup> Hansard – Q135. – Mr Colin Le Ray, Secretary to GACC

<sup>234</sup> Hansard – Q136. – Mr Colin Le Ray, Secretary to GACC

<sup>235</sup> GACC consultation response

<sup>236</sup> Hansard – Q140. – Mr Colin Le Ray, Secretary to GACC

*“...overall we are still well-served on the number of services that we do get for the population size. You see a lot of airlines over the years that have tried some of these other routes and they have not lasted very long in doing that.”<sup>237</sup>*

- 7.19. The challenge in introducing a new route was to add value without diluting the market for existing routes:

*“We have talked about a fixed population, a fixed propensity to travel, driven by lots of different factors within the Island and, in evaluating any new route opportunities...the challenge is demonstrating that actually it adds incremental business to the Island, to the Airport, to the carriers, rather than necessarily redistributing the people from elsewhere.”<sup>238</sup>*

- 7.20. Aurigny were in favour of the air route licensing policy and stated that to their mind an ‘open skies’ policy was not right for the Bailiwick. However, greater attention was needed in the application of the licensing policy. Aurigny claimed that in recent times there had been three occasions when the proper application of the licensing system could have avoided excessive competition:

*“...the markets I am talking about would be Gatwick to Guernsey, first of all, and Gatwick to Jersey, and Alderney to Guernsey as well. All of which have gone through periods where there have been unsustainable levels of capacity which in turn lead to unsustainable fare levels. None of them have... significantly grown the markets, by the way, but ultimately all of them have ended up in a situation where there has been a significant change in the market and not always to the benefit of the community.”<sup>239</sup>*

- 7.21. Mr Hart was strongly in favour of retention of the air route licensing system and spoke from an informed position. He suggested that the airline industry in general had been overregulated in the past due to overzealous control by the Civil Aviation Authority (CAA) but more recently Europe had undergone a complete liberalisation of the air transport laws. However, he considered this unsuitable for Guernsey. The licensing regime should, therefore, be maintained as the alternative, since ‘open skies’, would not work for a small community.

*“For a jurisdiction of 60,000-odd souls to have the alternative, which is the open skies philosophy, where anybody can come and go at any time of the year, depending on what they see as opportunities, I think just does not work for a very small community....*

*I still believe passionately that an island of 60,000-odd people – and a Bailiwick, of course; remembering Alderney – has to have some control over its air transport infrastructure. It is too fragile a flower... If I have got a message to deliver today it is about the fragility of air services to the Island. The margins in regional aviation are tiny... That is why small airlines tend to come and go.”<sup>240</sup>*

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<sup>237</sup> Hansard – Q143. – Mr Colin Ferbrache

<sup>238</sup> Hansard – Q143. – Mr Colin Le Ray, Secretary to GACC

<sup>239</sup> Hansard – Q160. – Mr Malcolm Coupar

<sup>240</sup> Hansard – Q189. – Mr Malcolm Hart

Mr Hart added that the Government needed to concentrate on continuity of services to the Island rather than, *“what serves the Island’s best interests for the next six months.”*<sup>241</sup> With this philosophy in mind he believed that the Island would be well served.

- 7.22. Mr Hart did not consider that the licensing system had obstructed any airline from flying to Guernsey:

*“I just do not believe that is the case. Anybody who came here who had an idea of a new service or a new route or to develop one of the non-lifeline routes should quite rightly get a licence. I just know that, having been in the industry for so long and knowing how it works, nobody is going to be put off by sending in a licence application – nobody.”*<sup>242</sup>

- 7.23. Blue Islands supported the licensing regime in its written response and acknowledged that the States needs to, *“protect the longevity and sustainability of existing routes.”*<sup>243</sup>

In their view the Isle of Man had suffered from the predatory activity of large UK operators and its management warned the States to take heed of the impact that ‘open skies’ could have on the Bailiwick. Blue Islands did however point out that:

*“The licensing regime must seek to find a balance between maintaining existing services and allowing for the sustainable development of new routes and alternative carriers.”*<sup>244</sup>

Blue Islands stated that the licensing process was frustratingly slow and provided the example of the occasion they had applied to operate a service to Bristol which they had abandoned due to the slow deliberation time of the licensing process<sup>245</sup>. In their view it was important that this process was streamlined to ensure that decisions could be made expeditiously.

- 7.24. When responsibility for air route licensing had been given to the Commerce and Employment Department in 2004 it had provided cause for consternation but, the licensing policy itself;

*“...would never stop an operator who was hungry, who saw an opportunity, who saw it was going to add value to his business by taking on a route, (such an operator) would not be put off by sending in a licence application.”*<sup>246</sup>

The licensing policy needed to be as un-bureaucratic as possible. The fact that three Government Departments were involved in air link policy was not seen by Mr Hart as a problem although having a single department responsible could be an improvement.

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<sup>241</sup> Hansard – Q189. – Mr Malcolm Hart

<sup>242</sup> Hansard – Q190. – Mr Malcolm Hart

<sup>243</sup> Blue Islands’ written submission

<sup>244</sup> Blue Islands’ written submission

<sup>245</sup> Blue Islands stated that the process had taken 8 months without a decision being made

<sup>246</sup> Hansard – Q191. – Mr Malcolm Hart

7.25. For Mr Hart even the size of Jersey's market – twice that of Guernsey's - did not give him confidence in its ability to sustain an 'open skies' approach. Jersey continued to be at the mercy of British Airways and easyJet for its strategic air link to Gatwick, which he thought was a cause for concern and could potentially leave Jersey high and dry:

*"I do not know if Jersey is big enough to sustain an 'open skies' policy with the size of its market. My own view probably is that it is not and they are at the risk of the market, but particularly I draw you to the Isle of Man as a comparison for Guernsey, and that is what can happen. If you go 'open skies', you do not own your own airline, and the next minute you are completely in trouble, and that is what has happened to the Isle of Man."*<sup>247</sup>

The decision to adopt 'open skies' in the Isle of Man had been a political one and initially seen as a means of resolving an issue until the policy itself created a far larger problem. 'Open skies' competition on the Isle of Man routes created an unsustainable market which, while initially attractive to the public, ultimately led to a price war which forced out competition. Subsequently, the incumbent airline reduced its flight frequency and operated at inconvenient times.

7.26. The Public Services Minister considered that an 'open skies' policy could amount to a *"nuclear option"*<sup>248</sup> in terms of the damage it might cause to the year-round service currently enjoyed by Islanders and which the air transport licence regime sought to protect.

7.27. Public Services strove to facilitate and nurture an environment in which new air links could develop without destabilising existing services; but there were:

*"...essentially tensions of sustainability, competition and connectivity."*<sup>249</sup>

The Minister added:

*"The place of open skies, the ownership arrangements of the Airport and Aurigny and the economic sustainability of these as an enabler of the local economy, as well as lower air fares, are all worthwhile considerations. The Department believes that a reasonable outcome will be a balance of a combination of issues, rather than what we see as the potentially more nuclear option, such as moving to complete 'open skies' with the inherent risks such a move would carry for the Island's year-round connectivity."*<sup>250</sup>

7.28. Commerce and Employment agreed that a two or three-tier approach to air route licensing rather than a blanket approach might be a consideration. The Commerce and Employment Chief Officer said:

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<sup>247</sup> Hansard – Q196. – Mr Malcolm Hart

<sup>248</sup> Hansard – Q248. – The Minister, Public Services Department

<sup>249</sup> Hansard – Q248. – The Minister, Public Services Department

<sup>250</sup> Hansard – Q248. – The Minister, Public Services Department



*“...if you are looking at what defines that strategic connectivity ...the future air route licensing potentially should only be on some of the more marginal routes rather than on what would be the primary routes, and, as the Minister mentioned before, looking at a lighter touch where there is competition or there is greater vulnerability on some of those routes and whereby what we would term ‘cherry picking’ in the shoulder months would not be a good thing to ensure year-round sustainability of that route, which is really important. So it may be that that may be a way to go. It really depends on the analysis of where, but it is a consideration looking at it as a two-tier or three-tier approach rather than a blanket approach.”<sup>251</sup>*

*“I think we have to work much more vigilantly to ensure that the governance is appropriate and that no conflict is around the air route licensing panel and the work that we do. Obviously, that priority sits with Commerce & Employment. We believe that we manage that appropriately. We have written to the States Review Committee... and the Board asked for that to be directed to say that we believe that having both under the mandate was not the way forward for any future machinery of government. But again, we have managed that. The decision-making around the air route licensing panel is done at arm’s length from the Commerce & Employment Board. In this instance, neither the Minister nor I would ever see any correspondence with regard to air route licensing. It would only be those political Members who sit on air route licensing and one secretary who works for that Board, who then governs that process with the applications and any representation made. So we do manage it effectively. Occasionally it has been challenging. We have taken advice to make sure that the governance is followed, and I think that is probably where that has been food for thought that we have needed to ensure that we follow the process appropriately.”<sup>252</sup>*

7.29. Historically, competition on prime routes such as Gatwick, Southampton and Jersey appears to have created an unrealistic level of public expectation. At the time such price wars delivered cheaper fares to the general public but the reality for the competing airlines was an unsustainable, loss-making venture resulting in damage to all. Therefore we maintain that there was no golden age where fares and frequency of flights were sustainable. The Committee found no evidence to show that the licensing regime precludes airlines wishing to fly to Guernsey except perhaps the occasional seasonal ‘cherry-picker’ that could potentially do more harm than good to the industry. In fact we were also told that the licensing regime should be used more robustly. If Guernsey was to choose the path of ‘open skies’ the end result could place the Island in a similar position to that of the Isle of Man, where services have been withdrawn and flight frequencies significantly reduced following price wars between competing airlines.

**Recommendation 21:** An air route licensing regime for Guernsey should be maintained.

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<sup>251</sup> Hansard – Q272. - Mr Jason Moriarty

<sup>252</sup> Hansard – Q264. - Mr Jason Moriarty



## 8. Business Promotion/Economic Generation

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- 8.1. The Committee believes that government ownership of Aurigny presents many opportunities for the Island. The Airline should be used as an economic enabler, a tool by which to further stimulate business and tourism. The Government must now concentrate on ways to best use Aurigny to further the Island's, and indeed the Bailiwick's, economic and social future.
- 8.2. Mr Parkinson wanted a wider economic development plan for the Islands with explicit details of objectives and signposts to measure its achievement. The States needed to change its way of thinking and:

*"...start the other way around, say what are our economic objectives and what do we need to have in the way of air services, including the Airport, to deliver those objectives, and recognise where there has to be a subsidy that there is a subsidy? But that kind of issue has never been debated by the States. We have never discussed how much we should invest in our air routes or the airports in Alderney as well as Guernsey to service those links."*<sup>253</sup>

- 8.3. The States could achieve successful and sustainable expansion and growth through subsidy in the context of a wider economic plan. He illustrated this by description of the potential for establishing a Guernsey university to attract students from the Far East:

*"...it would be much easier to implement that strategy if anybody arriving from the Far East did not have to cross London, from Heathrow to Gatwick, to get here. So, if you could create an air route that got them here without that dislocation, that minor but nevertheless possibly significant barrier, then that would enable or facilitate the development of a university... you could create that link for example by laying on a service to, say, Frankfurt, which would connect with services coming from the Far East, with Cathay Pacific, with Emirates, Singapore Airlines and so on. In that context, if you have got an overall economic plan which says we want to do this, you might say we are going to subsidise an Aurigny service to Frankfurt. I think if you have got an overall economic plan and this would help do it, you can sit back and say okay it is going to cost whatever it is, half a million, £1 million a year to do it, the university is going to bring in say £40 million a year in fees, maybe it is worth doing. That is a rational decision which needs to be debated."*<sup>254</sup>

- 8.4. Subsidies should be tied to time limited performance targets. Guernsey would never establish itself as a hub airport; it was not on the road to anywhere. Any route development needed, therefore, to be tied to realistic economic development for activity that actually occurred in the Island. Experience demonstrated that triangular routes simply did not work; carriers treated Guernsey as 'the poor relation' compared to Jersey, with the result that it was Jersey rather than Guernsey that obtained the benefit.

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<sup>253</sup> Hansard – Q77. – Mr Charles Parkinson

<sup>254</sup> Hansard – Q79. – Mr Charles Parkinson

- 8.5. Mr Mills for GIBA was also opposed to the current triangulated routes and warned of the risk that Guernsey ran of losing business to Jersey:

*“There are actually two routes that are triangulations at the moment, there is Birmingham and Exeter. The scenario we have, though, is that we also used to have triangulation to Switzerland, which used to work very well. That was then changed when Blue Islands took it over, from being a triangulation to fly into Jersey, get off the plane, go back through security, get on a new plane to Guernsey, which does not work. If we end up in the scenario where Jersey acts as a hub to Guernsey, I can tell you where the business will go. It will not come to Guernsey, it will stop at Jersey. That is not a good scenario for us.”<sup>255</sup>*

- 8.6. The Guernsey Sports Commission believed that the Government and Aurigny should be attempting to increase the numbers of people travelling, whether for economic, social or sporting/hobby reasons. The Commission was critical of the lack of statistical data on the extent of the sports market. Sport had never been included as a category in any ‘purpose of travel’ questionnaire and there was no measure of what sport related travel contributed to the economy. Mr Falla stated that discussions held with Aurigny and Blue Islands had highlighted to him that both airlines had little interest in expanding this market with both blaming the high cost of landing fees in the Islands.

**Recommendation 22: Data relating to sport/cultural travel should be collected.**

- 8.7. The business model the Government asked Aurigny to follow did not assess numbers of people travelling, but rather, *“They are only interested in the bottom line and I think that is wrong, if we are effectively a monopoly operator.”<sup>256</sup>* Mr Falla stated that in order to redress the balance the Airline needed to concentrate on passenger numbers and growth over a period of time which would balance cost of the Airline to the taxpayer by boosting the Bailiwick’s overall economy.

*“...then I am sure the tourist industry would be very happy because their numbers would be growing. I am sure the business community would be happy in the sense that more people are opting to come to Guernsey to do business and I know the sporting fraternity would be and I am sure that visiting friends would be and all the rest of it. The whole community would see there is more travelling taking place at a cost. What I think, I am fairly certain that the Airport is not breaking even currently, that it is running at a loss. I know that there are various incentives to airlines to come and operate in the Island - none of which are being taken up, currently. Therefore it would be a cost to the taxpayer. If the cost is measured against the volumes of traffic that are coming to the Island, then you balance the two against each other. We are just spending quite a lot of money on getting cruise liners to come in and*

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<sup>255</sup> Hansard – Q112. – Mr Peter Mills

<sup>256</sup> Hansard – Q88. – Mr Stuart Falla

*spend three-pence. The majority that come on airlines are going to spend quite a bit more than that.”<sup>257</sup>*

The solution lay in the States of Guernsey being more proactive with the shareholder instructing how Aurigny should measure success:

*“We as a Sports Commission do not make any profit, so we are not measured on profit; we are measured on the amount of additional sporting activity and calibre of those sports. You do not only have to measure something with money, there are many other measures available in this world.”<sup>258</sup>*

The Government was measuring Aurigny by the wrong criteria:

*“We are looking at pound notes rather than volume... I think it is for the States to decide how best they shape the mandate given to the board of directors of Aurigny.”<sup>259</sup>*

8.8. GIBA focused on the essential nature of air links to the Guernsey’s finance industry and expressed members’ concern about the difficulty of travelling to and from the Island. GIBA’s evidence had been collated from the Guernsey Finance Survey and discussions at regular GIBA meetings. Financial Services’ business was being lost due to perceived poor air links with some clients preferring to move to Jersey. GIBA stated members had entered dialogue with the Commerce and Employment Department as business had been - and continued to be - lost from the Bailiwick<sup>260</sup>.

8.9. The inter-island air link between Guernsey and Jersey was also inadequate for business needs:

*“...people are finding getting to Jersey that they need to sometimes book Blue Islands out and Aurigny back, or vice versa, because there is no actual code share. It is not a code share; it is actually half an aircraft that is divided”<sup>261</sup>.*

8.10. Significantly while local business representatives absolutely required high quality air links to travel off-island themselves, the ability for business to bring clients into the Island via a quality air link service was of critical importance.

8.11. The fact that Guernsey was now served by a small number of carriers was of serious concern to GIBA, who believed that additional carriers needed to be encouraged. From their perspective it was difficult for clients to discover how to fly to Guernsey; this compared badly with Jersey, which was advertised as a destination in high profile reservations systems of British Airways and easyJet.

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<sup>257</sup> Hansard – Q93. - Mr Stuart Falla

<sup>258</sup> Hansard – Q93. - Mr Stuart Falla

<sup>259</sup> Hansard – Q97. - Mr Stuart Falla

<sup>260</sup> Hansard – Q116. - Mr Peter Mills

<sup>261</sup> Hansard – Q100. - Mr Peter Mills

8.12. Capacity on the Gatwick route was considered a problem at certain times and highlighted as a hindrance to business:

*“The peak capacity problems come during the summer months and particularly Mondays and Fridays as Islanders are trying to get off to go on their holidays or see family in the UK or whatever it might be and you have got businessmen trying to get on and off the Island as well and you are also trying to attract tourists to the Island. Those peak days of Fridays, Saturday, Sundays and Mondays are a nightmare. Our members have told our clients to largely avoid coming to Guernsey on Mondays and Fridays and try and come midweek.”* <sup>262</sup>

8.13. GIBA hoped that a runway extension would open up the opportunity for low cost carriers such as easyJet to service the Island<sup>263</sup>. Business was increasingly cost conscious and preferred to use low cost carriers to business class travel. GIBA’s wish-list in terms of airlines servicing Guernsey amounted to reliability, onward travel connectivity, code sharing, interlining, affordable fare structures and frequency of flights on all strategic routes.<sup>264</sup>

*“(Pricing)...is another area where we would want to see some potential controls, particularly if it was Aurigny, to make sure that we were at least competitive with some of our nearest competitor jurisdictions.”* <sup>265</sup>

8.14. The Guernsey Chamber of Commerce highlighted the importance of examining how people travelled to Guernsey. They stated that conversations had focused on how Guernsey residents leave the Island when what was needed was to encourage incoming visitors.

*“...we think it is highly important to examine how people get to this Island. What we should be worried about is the economic vitality of this Island for the next 50 years. These conversations have been very much focused on people getting off the Island but, actually, what we want to encourage is people to come to the Island and that is through tourism or into the business sector.”* <sup>266</sup>

8.15. Chamber contrasted Guernsey’s situation with the variety of routes operated into and out of Jersey. These included Belfast, Dusseldorf, Edinburgh, Glasgow, Liverpool, Newcastle and Stuttgart; such services were run on a limited basis and were as a result profitable. There seemed to be a high expectation placed on Aurigny to create new routes but then also to operate them frequently which was simply impractical. It was acknowledged that aircraft needed to be constantly flying for the parent company to achieve a reasonable chance of profitable operation.

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<sup>262</sup> Hansard – Q104. - Mr Peter Mills

<sup>263</sup> Hansard – Q113. - Mr Peter Mills

<sup>264</sup> Hansard – Q115. - Mr Peter Mills

<sup>265</sup> Hansard – Q114. - Mr Peter Mills

<sup>266</sup> Hansard – Q123. - Mr Tony Rowbotham

- 8.16. Chamber's opinion was that low-cost carriers brought additional high profile marketing to Jersey. In contrast Aurigny did not offer similar advertising advantages and consequently Guernsey lacked global presence:

*"One of the benefits...is that easyJet magazine and easyJet website have got some of the highest views and readings throughout Europe. We all read it. We all travel on easyJet don't we? Occasionally you pull it out when you are bored and you look at it. And that lists Jersey... There is no concept of how to get to Guernsey without having some form of link. What we are suggesting is there ought to be the opportunity to go out and find out whether there are airlines that we could link up with."*<sup>267</sup>

- 8.17. Guernsey Tourism facilities were sufficient to cope with an increase in new business and tourist numbers. Full capacity had not been reached in the previous year and VisitGuernsey's strategy was looking at a rise in budget tourism. Mr Rowbotham added that tourism was expected to grow in 2015 and 2016:

*"But to do that we need to have a competitive, sustainable situation with the airports and the links to the Island."*<sup>268</sup>

- 8.18. We believe the Government has a golden opportunity to enhance the tourism industry in the Islands with the array of tools it holds. The value of the tourism industry and the ability to boost it must not be underestimated as if handled correctly it will have a positive impact on many aspects of the Bailiwick's economy.

- 8.19. Mr Hart set out the importance of the tourism market for enabling Aurigny to continue flying throughout the year:

*"The value of tourism – that bulge that one gets from June, July, August and the first half of September – pays for the rest of the year. If you do not get that bulge you have had it, and I do not think the general population of Guernsey actually gets the fact that they can go to Gatwick on 21st November, which is a totally dead time – it is before Christmas, there is no half term, the numbers are dreadful - and they can still get to Gatwick six times a day and they can still get to Southampton five times a day. That is all down to the June, July, August and September effect of the tourism market coming in. Tourism is hugely important for Guernsey and I really cannot stress, in my view, how important that is."*<sup>269</sup>

- 8.20. Chamber's view was that growth in tourism in Jersey's tourism was linked to low cost travel:

*"I think you are seeing growth, certainly in air passenger numbers in Jersey, and you are seeing that the private sector is investing in tourism facilities. We have seen over the last few years the Radisson being built and the Royal Yacht and now you are seeing a Premier Inn being constructed over there. One of the reasons they are doing that is that they are seeing*

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<sup>267</sup> Hansard – Q127. - Mr Tony Rowbotham

<sup>268</sup> Hansard – Q129. - Mr Luke Wheadon

<sup>269</sup> Hansard – Q209. – Mr Malcolm Hart

*growth in air travel and they are seeing growth in the low cost air travel - people being able to get there for the weekend relatively inexpensively.”<sup>270</sup>*

- 8.21. GACC were clear that a major challenge for the Island was how to deliver sustainable year round air links for individuals to travel with relative ease and, once provided, how to protect that provision. The alternative was not attractive:

*“...the alternative is the risk that we end up with increased services in the summer months, for example, when the seats can be sold, and skeleton services in the winter months, where simply it is not viable for airlines to operate empty seats. The massive change that we have seen in the market from March 2014 was about making air services more sustainable and we have a lot fuller, larger aircraft travelling around the skies to and from the Island than we did in 2013. So whether you look at the consolidation on Gatwick or whether you look at the consolidation on inter-island, it really has been about trying to make things more sustainable on an on-going basis.”<sup>271</sup>*

GACC’s view was that while there may be opportunity for additional routes especially over the summer months:

*“...on balance, that overall we are still well-served on the number of services that we do get for the population size. You see a lot of airlines over the years that have tried some of these other routes and they have not lasted very long in doing that.”<sup>272</sup>*

The challenge in introducing a new route was to add provision without diluting the market for existing routes:

*“We have talked about a fixed population, a fixed propensity to travel, driven by lots of different factors within the Island and, in evaluating any new route opportunities...the challenge is demonstrating that actually it adds incremental business to the Island, to the Airport, to the carriers, rather than necessarily redistributing the people from elsewhere.”<sup>273</sup>*

- 8.22. The Committee asked GACC whether they agreed with the Chamber of Commerce’s view that the Island should focus on inbound passengers rather than the relatively thin market that Guernsey’s small population offers:

*“...that is not unreasonable...but the best mechanism for making a new route succeed is to make sure that it is well supported at both ends of the route. So laying on a new service for locals will have some margin for success – probably a greater margin for poaching passengers from existing routes. Whereas, if you can get a new route that encourages locals to travel to a new destination, but also you can put some effort into encouraging visiting traffic to support that route, by opening new markets with tour operators or destination holidays from other continents, then clearly that has the greatest probability of success for that route because it then becomes supported at both ends.”<sup>274</sup>*

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<sup>270</sup> Hansard – Q130. - Mr Tony Rowbotham

<sup>271</sup> Hansard – Q140. - Mr Colin Le Ray, Secretary to GACC

<sup>272</sup> Hansard – Q143. – Mr Colin Ferbrache

<sup>273</sup> Hansard – Q143. – Mr Colin Ferbrache

<sup>274</sup> Hansard – Q145. - Mr Colin Le Ray, Secretary to GACC

However, one fact was obvious; more inbound passengers needed to be encouraged for the benefit of “Guernsey Limited”:

*“Jersey is seeing certainly, I think, flocks of greater (numbers of) people...basically Jersey in the last year... has gone up 3%. I think if you go on to the easyJet website and you see, ‘Which destination should I go? Where shall I go for my weekend this weekend?’ and Jersey comes up, but Guernsey does not. Then potentially you are attracting those sorts of people, so you are bringing people into the Island and I think it is the market to go to sustain the routes. I do not think you do it just from our local people going out.”*<sup>275</sup>

8.23. The whole question was one of balance; the Island needed to nurture and protect its advantageous position while developing air links for the future:

*“...it is too easy for the Island community to take these air links for granted. The Committee is of the view that this review will be entirely helpful in establishing and informing government policy, because collectively we need to be able to balance – and it is a balance – how we protect what we have and where the opportunities exist to facilitate a nurturing environment in which new air links can develop without destabilising the existing services, and it is how we best strike that balance that I think would be very usefully ascertained by your panel.”*<sup>276</sup>

8.24. Aurigny were happy maintaining the current level of service while slowly developing new routes:

*“We have a licence application in at the moment for Leeds-Bradford and we will continue to look for other opportunities, but it is always going to be very much tied to what we can do here. We do not have a mandate to go and find a new opportunity out of Newcastle Airport to serve Stockholm or something. That is not what we are here for; we are here just to look after the interests of the Bailiwick and to make sure that it remains properly connected. So that is why we are here.”*<sup>277</sup>

8.25. New routes from Guernsey to Europe were not a long-term prospect in his view. In the past Guernsey residents had chosen to try on a new service once or twice but then looked for something different.

*“The issue was that people in Guernsey had been to Amsterdam once and they did not want to go back, and I would get questions like, ‘Well, can you go somewhere else now, because I’ve been to Amsterdam?’ That does not quite work.”*<sup>278</sup>

Instead of ‘dreaming’ about new markets, Mr Hart thought the answer lay in developing the market on Guernsey’s doorstep – London and the south-east of England.

*“Exploit the key markets that we have already got. Starting off a new one from Leeds or Humberside is not going to add value on a year-round basis to this Island.”*<sup>279</sup>

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<sup>275</sup> Hansard – Q145. - Mr Colin Ferbrache

<sup>276</sup> Hansard – Q149. - Mr Colin Le Ray, Secretary to GACC

<sup>277</sup> Hansard – Q181. - Mr Mark Darby

<sup>278</sup> Hansard – Q209. - Mr Malcolm Hart

<sup>279</sup> Hansard – Q209. - Mr Malcolm Hart



- 8.26. He reiterated the importance of the Gatwick link and thought that adding another rotation to that route would produce more tourism and business for the Island than any new route:

*"...so there are six pairs of slots at Gatwick, and if there was a seventh my expectation would be a seventh at Gatwick would produce a lot more tourism and business for the Island than once a day from Leeds. That is where my money would lie. If I were a betting man then that is where I would put my money if that were the case."*<sup>280</sup>

He was dismissive of aspirations for the return of a London Heathrow link:

*"Heathrow is a pipedream for these islands anyway. It is too expensive and the runways are so stretched that small aeroplanes of 150 seats and below are just totally uneconomic."*<sup>281</sup>

- 8.27. Mr Hart believed government-funded route subsidies would result in successful expansion and growth but the concept was a new one for Guernsey. Along with Mr Parkinson he thought that route subsidies should be linked to performance targets.

*"You are talking about a fairly left-wing view here, which is not my experience of what we have in Guernsey, so I would be interested if that ever got to fruition."*<sup>282</sup>

Visitor numbers to Guernsey had been stable at around 900,000 for the previous decade or more and it was felt that route subsidies could increase this number by 10-20k but the additional spend to increase the numbers *"probably makes it uneconomic for the Island to contemplate."*<sup>283</sup>

- 8.28. It was his view that availability of cheap fares could be managed by an airline to its overall advantage; it was how the Airline chose to allocate different fares available on a particular route that was the key factor:

*"So they could say, 'Yes, we'll cap our fare at such and such, but instead of making cheaper fares available we'll make less of those available and make them more available in the medium range,' so that the net revenue effects on the Airline are nil and it does not make any difference, but you have ticked the box...anybody who wants to regulate fares has to get a lot more sophisticated than saying 'cap your fares at that'. Anybody can get round that system if they put their mind to it."*<sup>284</sup>

- 8.29. In 2002 the Public Services Department had completed detailed work with external route network specialists and a six figure sum allocated for route redevelopment opportunities.

*"The key message we got back was that the sum that we had set aside would not be sufficient, nor would it be sufficient over a long enough period of time, and bearing in mind this was the best part of 12 years ago, I think the view was that we would need a minimum of*

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<sup>280</sup> Hansard – Q213. - Mr Malcolm Hart

<sup>281</sup> Hansard – Q212. - Mr Malcolm Hart

<sup>282</sup> Hansard – Q210. - Mr Malcolm Hart

<sup>283</sup> Hansard – Q210. - Mr Malcolm Hart

<sup>284</sup> Hansard – Q214. - Mr Malcolm Hart



*£2 million to £3 million over three years to develop a route that was of sufficient frequency and of sufficient interest to become largely self-sustaining in the third year of operation.”*<sup>285</sup>

A Paris route operated by Flybe had received subsidy for one summer season but the Airline had decided to withdraw the service when the aircraft could generate more profitable business elsewhere. The Airport Director said:

*“...you have to be very careful that you are targeting your route development funds in an appropriate manner that generates additional traffic and it just simply does not dilute other routes.”*<sup>286</sup>

8.30. Variables in respect of the Guernsey transport market were attributed to residents' propensity to travel and visitor numbers:

*“...the probability is that if you were to lower fares you would encourage people to travel more often – certainly residents. So there is a correlation between profits, reductions in fares on the part of airlines, and our general propensity to travel. The other factor is visitor numbers and visitor numbers in terms of generating additional new traffic, either through charter operations or through scheduled services at the peak months... certainly the development in the shoulder months is one area which I know the Air Route Strategy is going to seek to develop. So can we extend the season beyond June to September in order to fill the vacant bed nights that exist either side of that in an effort to drive up the numbers still further?”*<sup>287</sup>

8.31. Potential new routes such as Dublin and certain European destinations had been identified through recent surveys and were currently being explored as part of the ETG for future direct services from Guernsey.

*“Dublin is another opportunity and certain routes into Europe have been identified...the idea of a direct service is something which has some attractions to residents – not necessarily that it will cost less, although it probably should be theory, but actually so that the connection times are greatly improved. There are connections through Dublin, of course, to America for business travel... The other element of it is to then use tour operators in Dublin, or north of the border or in Europe to generate resident travel in the other direction, so to try and get the route to stand the greatest chance of success is about trying to develop markets at both ends, i.e. for residents' travel as well as business travel.”*<sup>288</sup>

8.32. The Commerce and Employment Minister agreed that for the size of its population Guernsey was well served by its air links but stated there was always room for improvement and the Department was working with the business and tourism industries to identify new opportunities. Public expectation of airline service was high but this was to be expected in any service based industry and it was difficult to cope with demand at peak travel times.

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<sup>285</sup> Hansard – Q242. – Mr Colin Le Ray, Airport Director

<sup>286</sup> Hansard – Q242. – Mr Colin Le Ray, Airport Director

<sup>287</sup> Hansard – Q243. – Mr Colin Le Ray, Airport Director

<sup>288</sup> Hansard – Q244. – Mr Colin Le Ray, Airport Director

8.33. The Tourism Strategy within the Economic Development Strategy set out the key deliverables to increase the number of visitors by 2025.

*"If you look at the economic development framework, then strategic and security of aviation links, in terms of all transportation links to the Island, is of crucial importance...the ETG and the work between PSD and C&E is paramount."*<sup>289</sup>

8.34. Many opportunities were being explored regarding both the UK and European air route markets but the Department was also mindful that new routes should not destabilise existing ones.

*"...if you start to open up one route, could that then impinge on already established routes? These are all the things we have to be cognisant of. If we were to subsidise or give some sort of benefit to a new route, what could the market impact be on a nearby airport in the same region perhaps? That piece of work is being done at the moment and we have already identified several targets, both within the UK and within Europe as well."*<sup>290</sup>

*"In terms of the Tourism Strategy, I think it is important to say that when you are looking at the potential for new routes, and also looking at the security and the delivery of existing services, you have to take the tourism and the aims of objectives of that increase and you have to put it alongside your resident population who travel, which makes up 53% of our travel, and also your business travel, which obviously is resident and inbound. Because of the size of our resident population, the three different aspects need to be taken together to look at what is viable in terms of potential new opportunities... All of those different aspects have to be taken in the round in order to see what will potentially be viable in terms of growth."*<sup>291</sup>

8.35. The Tourism Strategy<sup>292</sup> sets out a broad action plan to evaluate new and stronger route connections to the Island (UK and Europe); encourage competitive fares on all routes to the Island; maximize potential with the Aurigny jet and questions whether the runway length should be lengthened in order to attract airlines with wider reach and larger jets.

8.36. The Commerce and Employment Minister's view was that interlining agreements were of limited value when weighted against their potential cost to Aurigny, but services such as 'Gatwick Connect' did hold advantages for the traveller. The Minister criticised the charging of Air Passenger Duty<sup>293</sup> of Bailiwick residents by the UK Government; this was an area in which he was vigorously pursuing change.

*"I think one of the reasons why we have not pursued that (interlining) more vigorously is because of the way that people tend to now book themselves online. One of the things, actually, that does frustrate me a little bit about Aurigny is their website is not mobile enabled, so if you try and book a ticket on your iPad or mobile phone it is nigh-on impossible."*

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<sup>289</sup> Hansard – Q251. – Mr Jason Moriarty

<sup>290</sup> Hansard – Q252. – The Minister, Commerce and Employment Department

<sup>291</sup> Hansard – Q252. – Mr Jason Moriarty

<sup>292</sup> Guernsey Tourism Strategic Plan 2015-2025

<sup>293</sup> Air Passenger Duty (APD) is an excise duty which is charged on the carriage of passengers flying from a United Kingdom or Isle of Man airport on an aircraft that has an authorised take-off weight of more than ten tonnes or more than twenty seats for passengers. The duty is not payable by inbound international passengers who are booked to continue their journey (to an international destination) within 24 hours of their scheduled time of arrival in the UK.

*I think the interlining is much more important from an Airline Passenger Duty point of view; that is where there is a real saving for passengers, both incoming and for our own citizens, and that is where we are losing a huge amount of money.”<sup>294</sup>*

8.37. Commerce and Employment were revisiting the policy regarding the payment of financial subsidies to encourage air route development.

*“We are looking at whether there is potential to pump prime new routes, but again I think we have to be very careful that what we do not do is just damage an existing route, but we are looking at that. There are actually now the funds available through the Economic Development Fund (EDF) and we have made it known to Treasury that we may well want to use some of that money to help with some new route development. So the answer to that is yes.”<sup>295</sup>*

The financial subsidy would be paid from the Economic Development Fund but a clear business case had to be made:

*“...it has been made very clear that the business case would have to be extremely robust to show how that could generate additional incomes into the Island, albeit from existing or new business relationships, through inbound tourism, to show how that growth would take place. So it would not be necessarily from additional marketing. We would have to have a very clear case as to, in addition to the routes that are already serving Guernsey, how this would add considerable value from an economic development perspective.”<sup>296</sup>*

8.38. Route security and the Gatwick landing slots were of paramount importance. The Commerce and Employment Minister stated:

*“It is the most important piece of route security that we have... I know that other jurisdictions envy that, because over the next 10 years the pressure on those southern airports, Gatwick and Heathrow, is going to be massive. The Davies Report<sup>297</sup> still has not been published... then the government will have to make a decision whether it is Gatwick or Heathrow. Even so, there will not be a spade in the ground before 2025, from my understanding of meetings with both Heathrow and Gatwick. The ETG have met with both of those – Gatwick on several occasions; and Heathrow, we spent a day there discussing it. Heathrow is already full. The only way to get another slot is to buy an airline or hope someone pulls out and you are first in the queue. Unless you want a slot at three o’clock in the afternoon in the winter, Gatwick is pretty much full as well. Airlines over the next 10 years operating out of those airports could decide to move from one route to a more profitable route because they have nothing else to do, so the fact that we own our slots is something that should give both the public and the business community a huge amount of confidence, because they cannot be taken away. If it was an airline that was serving us, they may well choose not to fly to Guernsey...So I think that is a huge advantage that we have over jurisdictions, that security.”<sup>298</sup>*

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<sup>294</sup> Hansard – Q255. - The Minister, Commerce and Employment Department

<sup>295</sup> Hansard – Q256. - The Minister, Commerce and Employment Department

<sup>296</sup> Hansard – Q256. - Mr Jason Moriarty

<sup>297</sup> The Airports Commission: Final Report – July 2015 - <https://www.gov.uk/government/organisations/airports-commission>

<sup>298</sup> Hansard – Q262. - The Minister, Commerce and Employment Department

8.39. The Treasury and Resources Minister concluded that the Department's objective for the remainder of the current political term was to ensure Aurigny was recapitalised<sup>299</sup> to allow the Airline to evolve on a sound financial footing to cope with developments in PSO and ensure transparency:

*"We can then have a much more informed debate about the role of the Airline as a community airline and to what extent we want to use it – whether it is for flying patients to Exeter, or to open up a new route to Frankfurt or wherever it happens to be...I think we see ourselves as helping, in our role as shareholder, to position the business so that it is in the right capital structure and enables us to have that sensible dialogue."*<sup>300</sup>

## London City

8.40. We have been told that the introduction of the London City service was in direct response to requests from the local business community<sup>301</sup>. In GIBA's view the addition of the London City service has been a great success and enabled much easier access into London. GIBA dismissed any suggestion of a slow take-up on the route with the justification that it was hard to educate overseas clients to use new routes and it would be better if Aurigny appeared on high profile booking systems. GIBA members had been told to "use or lose" the City route; some members found the route beneficial particularly those *"who have international connections are starting to come in from the Continent, inter-city."*<sup>302</sup> However GIBA members had experienced some unreliability with the service.

*"GIBA is of the view that we should have the opportunity for Commerce & Employment... to basically look at new routes and then to go out appropriately to ask those different carriers whether they would like to do that route, subsidise them for a set period, over two years for example...and then say basically then, 'you try and make it commercially viable'. If they do not, they are potentially pulled off the route. That is a much better way of perhaps using funding than constantly pouring money into one particular airline."*<sup>303</sup>

8.41. The Chamber of Commerce believed that any evaluation of the London City route needed to take account the overall benefits to Guernsey. Even if the load factor was marginal, business travellers using the connection could bring substantial economic wealth into the Island.

*"I think you have got to look slightly more broadly at it and what the purpose of that route is and what the purpose of the Airline is."*<sup>304</sup>

8.42. The ETG had questioned Aurigny about the slow uptake of the London City service. The Airline's response had been that the route was on target but needed to be consistently

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<sup>299</sup> This has been reflected in Billet D'État XX 2015, The Treasury and Resources Department – Cabernet Limited, Recapitalisation

<sup>300</sup> Hansard – Q300. – The Minister, Treasury and Resources Department

<sup>301</sup> Billet D'État XX 2015, page 3080

<sup>302</sup> Hansard – Q191. – Mr Malcolm Hart

<sup>303</sup> Hansard – Q109. – Mr Peter Mills

<sup>304</sup> Hansard – Q128. – Mr Tony Rowbotham

well used by business in order for it to be retained. Adverse feedback had been around flight times.

*“London City was highlighted by the business community as a crucial development. I think it is excellent for the business of the Island, the financial services and wider. If you look at London City in collaboration with the other London connectivity that we do have, I think it is enviable for a jurisdiction the size of us from a business perspective and I think it is a great asset to our Island business.”*<sup>305</sup>

Commerce and Employment admitted that there was evidence to show that the London City route had diluted the Gatwick and Southampton markets.

- 8.43. However, Aurigny painted a more positive picture regarding uptake on the London City route and traffic on its other London routes. In a press release in April 2015 the management claimed that it had *“consolidated its success on its London routes”*<sup>306</sup> with passenger volumes up 4% for the first quarter of 2015. Aurigny claimed that London City was performing well, with passenger numbers exceeding expectation.

*“London City is a key choice for business travellers wanting direct access to the finance quarter of the Capital and our load factors prove local professionals recognise this. We expect London City to grow in popularity both with the business market and the leisure market as the airport provides good transport options to the nearby City, then onwards to the west end. There are also a wide range of connecting flights to many destinations across Europe and even New York. With short connecting times and day return opportunities to and from major European cities, Aurigny’s London City services are good for business and good for Guernsey.”*

And:

*“Importantly, the success of our newest London route isn’t impacting on our flagship Guernsey to London Gatwick service. Passenger numbers in March increased, confirming the fact that we, as a single airline, are carrying more people than when this service was operated by both Aurigny and Flybe. There was a time when the Southampton route offered the majority of low price fares but that is now being fulfilled by Aurigny’s London Gatwick route and it is drawing people back to our Airline. Aurigny’s London Stansted service has grown by 29% in the first quarter. This again proves our diverse London destination airport offering is attracting flyers. Malcolm Coupar says: “Our performance into London this year shows that passengers appreciate and will choose an airline that gets them to an airport within close proximity of the Capital without the need for a long overland journey”*<sup>307</sup>

- 8.44. Air connectivity has vital relevance for the local economy to flourish and grow and in the Committee’s view the States has been right to secure Aurigny for the benefit of the Bailiwick and prioritise the Gatwick route. The Island needs its own direct link to London. Guernsey, served as an add-on to Jersey-London services, would put the Island at a huge disadvantage. Guernsey needs to take stock of the strategic relevance of air links for the

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<sup>305</sup> Hansard – Q261. – Mr Jason Moriarty

<sup>306</sup> [www.aurigny.com](http://www.aurigny.com)

<sup>307</sup> Mr Malcolm Coupar, Commercial Director Aurigny

economy and needs to embrace air connectivity by promoting and supporting this sector. Government needs to look at things differently and to change the way it works; this must happen quickly and the changes in policy need to be effective.

**Recommendation 23:** Gatwick remains the most strategically important air link for Guernsey and should be protected.

**Recommendation 24:** Aurigny should be used as an economic enabler, a tool by which to further stimulate business and tourism.

**Recommendation 25:** There is opportunity to develop potential new routes via the operation of a time-limited route subsidy system.

## 9. Cultural and Sporting Activities

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- 9.1. Air links have a significant impact on the cultural and sporting activities of those living within the Bailiwick. The ability to easily engage in cultural and sporting events is important to the very fabric of our island life and cannot be allowed to fade away. Sporting and cultural provision helps bolster Guernsey's image as a place where business men and women want to live, work and thereby contribute to the Island's economy; it should therefore be a concern that is promptly addressed within government.
- 9.2. Ownership of Aurigny provides the Government with an opportunity for social sustainability. Reduction in the frequency and availability of flights, increased cost and Aurigny/Blue Islands codeshare agreement all appear to have had a negative impact on the ability of residents to enjoy social, cultural and sporting related inter-island travel, in particular, and to a more limited extent travel to the UK for the same purposes.
- 9.3. Cultural and sport related activities are an important feature of any society but in a small island community they assume a particular importance. The Bailiwick prides itself on being an international business centre and the highly-skilled staff, needed to maintain Guernsey's pre-eminence in financial and other services, have to be attracted to live in the Channel Islands. If they are to remain here then they will be looking for a high standard of living that includes easy access to sporting and cultural activities both on and off Island. The States recently debated the potential for a university on the Island; it too will have to attract and retain highly-qualified staff. In addition, the encouragement of sporting activity is an important aspect of the Islands' Social Policy Plan. The States Review Committee proposals place responsibility for culture and sport with the Committee for Education, Sport and Culture – they must quickly grasp this issue and provide the level of government attention the matter deserves.
- 9.4. The Guernsey Sports Commission reported there had been repeated incidents of sporting clubs unable to book team travel away due to lack of capacity. Mr Falla described travel to Jersey as an illustrative example:

*“...one of the problems, because the profit imperative has moved, is that we have moved to larger aircraft because they effectively give a greater return if they have near to capacity than if you were to run, say, aircraft of a smaller size with the same number travelling... I think that because they have moved to those larger aircraft, they are not giving as good a service.”*<sup>308</sup>

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<sup>308</sup> Hansard – Q89. – Mr Stuart Falla



9.5. The Committee was told that the codeshare arrangement between Blue Islands and Aurigny posed particular difficulties for team travel as the reservations systems for both airlines did not communicate with each other (*see paragraph 8.6, page 84*).

9.6. Mr Falla stated that in his opinion resolving the issues experienced by travelling sports teams started with the shareholder:

*“...because I think any board of directors respond to the challenges that the shareholders lay on them. In most commercial enterprises that is a profit imperative, shall we say. Here, because they (Aurigny) have become a public service, and my contention is that is what they have become and I believe they have the wrong success criteria laid upon them; to not make a loss.”*<sup>309</sup>

9.7. Mr Falla acknowledged that while there were special arrangements in place with airlines for sports clubs regarding advanced booking and discounted fares, in reality most club secretaries were volunteers working in their own time and could not always take advantage of the arrangements.

*“There are many examples where we are asked at the Sports Commission can we help with fares for a particular event because they are so expensive.”*<sup>310</sup>

9.8. GACC agreed that the Government should also measure the social benefits of any air route policy in terms of the quality of life of Islanders, facilitating participation in sports, cultural pursuits and the like and were aware of the problems of travelling at weekends. In their view the situation whereby Flybe had been limited to 10% of inter-island seats and the code-share arrangements between Blue Islands and Aurigny needed to be reconsidered:

*“...on the sporting side it is a specific requirement to travel on weekends, generally. Of course, you do have this situation where some of the flights actually reduce in numbers, for instance, on a Saturday out of Guernsey. So I think that you want to encourage more inter-island seats being available.”*<sup>311</sup>

9.9. The Committee also noted that the services offered by Condor Ferries do little to alleviate any short-fall with inter-island travel<sup>312</sup>. Recent disruption to sea links between the Channel Islands and to the UK has added to the problem.

9.10. Aurigny told us that they had suggested to the sports commissions of both islands that they coordinate island sporting events in such a way that any additional flights laid on by Aurigny would be full in both directions – this suggestion had not been acted upon.

*“We have seen no evidence of any communications having taken place between the different sporting factions, and none of them have come to us and said, ‘Yes, we have done this and we*

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<sup>309</sup> Hansard – Q92. – Mr Stuart Falla

<sup>310</sup> Hansard – Q96. – Mr Stuart Falla

<sup>311</sup> Hansard – Q139. – Mr Colin Ferbrache

<sup>312</sup> This issue may be alleviated in 2016 as Condor recently announced that a day-return trip would be operated by the Liberation between Guernsey/Jersey.



*are now ready to tell you what our timetable looks like for the coming season. Can you do these extra flights?’ - so we have made fairly good efforts to try and resolve this problem, but the support we need from the sporting community has not been there.”<sup>313</sup>*

Aurigny’s efforts to communicate with the Guernsey Sports Commission had not, in its view, been reciprocated.

9.11. Mr Hart acknowledged the travel difficulties reported by the Guernsey Sports Commission:

*“...the deal for Blue Islands to be operator and a codeshare would never have been done in my day. I thought it was a terrible deal... people are not getting the service they need, neither from a business perspective nor from a social perspective. Clubs cannot get back and forth, people cannot get where they want to be when they want to be there. That is no good for business.”<sup>314</sup>*

9.12. We believe that air links play a crucial role in delivering some key priorities of government, in particular jobs and economic growth but they also impact directly on the cultural, social and sporting activities of those living within the Bailiwick. The Government owns Aurigny and has confirmed during oral evidence sessions that it will continue to do so in the medium to long term. Ownership of Aurigny provides an opportunity for the Airline to be run more as a social enterprise and the Committee believes that there is a socially desirable advantage in achieving this. The Government needs to have the courage of its convictions and use taxpayers’ money to fund the Islanders Airline to allow it to operate in this way. The reported problems faced by travelling sport/cultural teams can be alleviated if there is the political will to see Aurigny also as a social facilitator for island life.

**Recommendation 26:** The frequency and capacity relating to inter-island travel, primarily between Guernsey and Jersey, needs to be reconsidered, especially at peak travel times. The operation of this route should fall within Aurigny’s social obligations.

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<sup>313</sup> Hansard – Q175. – Mr Malcolm Coupar

<sup>314</sup> Hansard – Q202. – Mr Malcolm Hart

## 10. Guernsey Airport Runway

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- 10.1. This theme kept reoccurring throughout the review; it is not a new consideration but it certainly drew out a wide range of opinions. The topic has been contentious in both Guernsey and Alderney; certainly any extension would amount to substantial financial investment.
- 10.2. The majority of witnesses considered that a runway extension in Guernsey was not justifiable under present circumstances. When the question of whether to extend the runway at Guernsey Airport was put out to consultation the message came back *“that there was nobody out there who wanted a longer runway.”*<sup>315</sup> It is certainly the case that with their existing fleets, the current operators do not need a longer runway. Aurigny bought the Embraer to suit the existing runway and told us they were unlikely to have bought a larger plane had a runway extension been an option - *“Where would we go with them”*<sup>316</sup> was Mark Darby’s comment. Indeed, for Aurigny, a longer runway with larger aircraft may well have resulted in a reduced frequency of flights to Gatwick.
- 10.3. The argument for a runway extension has therefore been made by those, such as the Chamber of Commerce and GIBA, who hope that with a longer runway new operators with larger aircraft may be attracted to start services. Chamber saw a runway extension providing the opportunity for carriers to come in with seasonal and weekend flights and cited Jersey as an example. EasyJet has been mentioned in this context. However, it remains unclear whether the runway length was a contributory deciding factor for easyJet and indeed whether it ever intended to offer a year-round service that would have met the conditions of the licensing system for the Gatwick route.
- 10.4. Mr Parkinson stated that previously no carrier, existing or potential, had required an extension:

*“Of course, Flybe, Blue Islands and Aurigny did not need a longer runway because they were not operating any planes that would require it. The argument was always about if you put one in, would easyJet bring in an Airbus A319 or something like that?”*<sup>317</sup>

If there was clear evidence that other operators wished to operate new routes to Guernsey with larger aircraft then the runway question should be considered very carefully. Currently it remained unclear that any such operators existed.

*“Unless somebody can talk to route operators who would like to bring large planes to Guernsey, I do not think the case for expensively extending the runway can be made.”*<sup>318</sup>

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<sup>315</sup> Hansard – Q85. – Mr Charles Parkinson

<sup>316</sup> Hansard –Q179 – Mr Mark Darby

<sup>317</sup> Hansard – Q85. – Mr Charles Parkinson

- 10.5. GIBA's view was the Government needed to provide every opportunity for additional carriers to service Guernsey in order to enable business and a runway extension in Guernsey would open up the opportunity for low cost carriers such as easyJet to visit the Island.

*"Therefore we need to basically give ourselves the flexibility and the options to allow as many potential carriers to come here and that is what government should be doing. They should be an enabler to enable carriers' business to happen...I understand the difficulties. I live in Forest myself. Personally there will be downsides to extending a runway, but economically we could end up shooting ourselves in the foot if we cannot actually get those carriers here."*<sup>319</sup>

- 10.6. To GIBA the suggestion that extending the runway and allowing large carriers into Guernsey would put the Island at longer-term risk of loss of flight frequency and choice as had occurred in the Isle of Man was dismissed out of hand. GIBA suggested that infrastructure improvements such as extending the runway and upgrading the Instrument Landing System (ILS) would be cost effective and amount to wise spending of public funds.

- 10.7. Chamber's view was the current length of the Guernsey's runway limited the Island in any discussions with large low-cost carriers and added that improving infrastructure would be preferable to secure future air link provision:

*"If you look at the way the airline business has changed over the last 10 to 20 years, what we do not know is who are going to be the airlines out there in the future. Lengthening the runways and infrastructure - infrastructure to my mind is certainly there for 50 years, if not 100 years - so whilst we cannot answer the question of who will be the dominant low-cost carriers in Europe in 20 years' time, the one thing we can say is they will not be coming to Guernsey unless we have a runway that is capable of taking the planes that the major manufacturers are going to be producing."*<sup>320</sup>

- 10.8. GACC agreed that it could see the benefits of a runway extension in Guernsey both for safety reasons and commercially allowing access to larger aircraft.

*"I think any runway extension gives you safety in any type of operation and, therefore, an aircraft has got bigger margins if you have got a longer runway, even if you do not actually need the full length. But, of course, what it would enable is aircraft of greater capacity. I think the workhorse of the regional airlines in Europe is basically the Boeing 737 and if that can operate into Guernsey economically, with a reasonable or full load, then of course it is an immense benefit, even if you just bring them in occasionally – you have that flexibility."*<sup>321</sup>

It was pointed out that landing fees can have an impact on the profitability of landing larger aircraft but overall GACC believed a runway extension would be beneficial:

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<sup>318</sup> Hansard – Q85. – Mr Charles Parkinson

<sup>319</sup> Hansard – Q113. – Mr Peter Mills

<sup>320</sup> Hansard – Q123. – Mr Tony Rowbotham

<sup>321</sup> Hansard – Q144. – Mr Colin Ferbrache

*"We still do not know what the situation would be with, possibly, Gatwick, with the landing fees. I mean they end up charging aircraft a fixed fee of a certain size, irrespective of whether you are operating an aircraft with less seats in it, so it becomes very expensive to operate. So if you have an aircraft with a greater capacity, then obviously you have got the capability to make it more financially viable. So I think, on balance, that we would go for a runway extension."*<sup>322</sup>

However, in previous years the operational airlines had been against a longer runway in Guernsey:

*"...from memory, primarily on the basis that somebody has to pay for it; some will have to pay significant sums and that would likely impact on the airlines, which is reasonable. If you could magic up an extension for nothing, everyone would be in favour of it, but we know that is not the case."*<sup>323</sup>

10.9. For Aurigny a longer runway in Guernsey would increase the safety margin but equally the Embraer was perfectly able to operate safely using the current runway. However, had a longer runway been in place prior to Aurigny's purchase of new aircraft, it did not automatically follow that their aircraft choice would have been different:

*"Would we get bigger aircraft? Where would we go with them ... if the runway had been substantially longer and it had allowed us to buy an A320 or a 737, I am not sure we would have changed our decision. I think we were still trying to scale the size of aircraft to the markets that we serve, bearing in mind the frequency. It is the same argument with Alderney. Yes, a bigger runway, but if you get bigger aircraft then you just go less frequently, unless the market is going to expand. So, yes, we might only go to Gatwick four times a day instead of six, but with a bigger aircraft; but I am not sure that would actually be enhancing the service or the strategic air links to Guernsey."*<sup>324</sup>

10.10. Mr Hart disputed any suggestion that the runway in Guernsey should be extended:

*"I have never been sold on the fact that a longer runway would materially change the quality and the value of the operations to the Island, and I am on record as saying, when I was in the job, 'Don't spend my taxpayer's money lengthening the runway, because it's a waste of time,' and I still believe that to be the case."*<sup>325</sup>

Equally he believed that easyJet had decided against Guernsey operations for different reasons:

*"EasyJet have a finite amount of slots at Gatwick, they go into markets that they are going to make money on, and I do not believe that they saw Guernsey as a real market which they could sustain and make money on year-round... They could come in on a July, August and*

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<sup>322</sup> Hansard – Q144. – Mr Colin Ferbrache

<sup>323</sup> Hansard – Q144. – Mr Dudley Jehan

<sup>324</sup> Hansard – Q179. – Mr Mark Darby

<sup>325</sup> Hansard – Q204. – Mr Malcolm Hart

*September basis, but I doubt very much whether they would be here in February and November.”<sup>326</sup>*

- 10.11. Commerce and Employment stated that easyJet had completed their initial assessment regarding the suitability of Guernsey Airport for their aircraft and had begun the route transport licensing process:

*“The reason they withdrew, I think, related to concerns, which were flagged at a very late stage for easyJet, in respect of the potential for the States to look at putting a solus agreement<sup>327</sup>, effectively a preferred operator, on the Gatwick route. As soon as easyJet were made aware of that, as far as they were concerned that created a degree of uncertainty for them and they decided to withdraw their route licence application.”<sup>328</sup>*

- 10.12. Mr Hart believed that futureproofing the Gatwick service could not, in his view, be cited as a reason to extend the runway either:

*“No, because the aeroplane Aurigny has is the Embraer 195 – 132 seats. That is a pretty big capacity for an island of 60,000 souls. It is a lot of capacity and it manages in the year quite nicely...The cost of the runway lengthening I think is immaterial and I think it is a red herring... I do not see that as being a major off-putter for somebody who is sitting there thinking, ‘I wish I could fly to Guernsey and I wish the runway was longer.’ I do not see that level of demand in the industry of 2015. It is not there...”<sup>329</sup>*

- 10.13. Public Services stated that Guernsey Airport had received significant investment over the previous decade and was considered *“extremely fit for purpose.”*<sup>330</sup> The York Aviation Report<sup>331</sup> had concluded that currently there was no need to extend the runway:

*“In the future, if there is a drift towards larger aircraft with heavier payloads, it may be that we have to look at that sometime in the future, but currently the business case for an extended runway could not be made.”<sup>332</sup>*

- 10.14. In 2012 the Commerce and Employment board had written to the Public Services Department and suggested that it might be prudent to lay foundations to extend the runway while Lagan had their infrastructure in place. The Minister added that a new review of the type of aircraft that could land in Guernsey was underway which would take into account what aircraft types were precluded and the economic implications:

*“...that is a piece of work that we are now doing, and certainly I know GIBA and a lot of other organisations have views on that, so part of our review, which will be out in the autumn, will be looking at the appropriateness of the runway.”<sup>333</sup>*

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<sup>326</sup> Hansard – Q205. – Mr Malcolm Hart

<sup>327</sup> Solus agreement is an agreement where one party is linked only to the other party, especially an agreement where a retailer buys all his stock from a single supplier.

<sup>328</sup> Hansard – Q229. – Mr Colin Le Ray, Airport Director

<sup>329</sup> Hansard – Q206. – Mr Malcolm Hart

<sup>330</sup> Hansard – Q226. – The Minister, Public Services Department

<sup>331</sup> London Assembly Transport Committee – Technical Advice & Support for Investigation into Airport Capacity – April 2013

<sup>332</sup> Hansard – Q227. – The Minister, Public Services Department

10.15. Treasury and Resources had not given any particular consideration to an extension to the Guernsey Airport runway:

*"It is not an issue which the Treasury Board have given a great deal of consideration to, but I am very conscious that easyJet were on record in the media as having cited the limitations of the runway as being one of the factors that may have prevented them actually getting through their licence application. Clearly, we are also conscious that when Aurigny were looking at the options for the jet they were very limited in their options, given the length of the runway. So I suppose it quite clearly is an issue, but in terms of how to address that, that is not something that we have given much consideration to."*<sup>334</sup>

### **Guernsey Airport – Instrument Landing System (ILS)<sup>335</sup>**

10.16. If a runway extension cannot be justified, the question is; are there other improvements to Guernsey's Airport which could be worthwhile and which would reduce vulnerability to fog? At present Guernsey operates the lowest CAT I level of instrument landing system and we were told by the Public Services Department that an upgrade to CAT II would bring an improvement of only 42 hours flying time over a year and that the cost would therefore be disproportionate:

*"...what we generally find in Guernsey is under certain weather conditions we are completely clamped. We are down to the deck, which is effectively what CAT III instrument landing systems would provide you with some resilience against. We generally are moving from clear visibility with no restrictions to completely on the deck. The 42 hours is usually a transition between no fog and thick fog. So we don't then spend a lot of time in CAT II conditions. We spend a lot of time in CAT I and very little time, thankfully, in CAT III. We spend very little time in between, and that is partly because of our altitude and partly most of the time we are actually in cloud rather than fog. So with the cloud sitting over the top of the Island – hill fog, effectively – that narrows that window down to just being a transitional phase rather than necessarily a pattern that we sit in for a long period of time."*<sup>336</sup>

10.17. An upgrade to Category II required the amount of sterile land and airspace around the Airport to be increased at substantial cost for what would amount to a marginal improvement in the landing ability of aircraft in poor weather conditions.

*"So we could go ahead and spend a considerable sum of money – and I would anticipate that would be in the millions – to gain approximately 42 additional hours of flying in an average working year. So I will be hugely surprised if the economics of that would justify the expenditure."*<sup>337</sup>

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<sup>333</sup> Hansard – Q268. – The Minister, Commerce and Employment Department

<sup>334</sup> Hansard – Q299. – The Minister, Treasury and Resources Department

<sup>335</sup> <http://instrument.landingsystem.com/>

<sup>336</sup> Hansard – Q228. – Mr Colin Le Ray, Airport Director

<sup>337</sup> Hansard – Q228. – Mr Colin Le Ray, Airport Director

10.18. Unfortunately it does not seem possible to convert the lost hours into an estimated number of delayed flights<sup>338</sup>. We have no reason to doubt the Public Services Departments' assessment but without any sense of how the 42 lost hours translates into an impact on flights, it is difficult to assess the economic case for an upgrade of the ILS. The Committee suggests, therefore, that further work is done to ascertain whether an ILS upgrade is worthwhile. In the longer term, Malcolm Hart held out the hope that technological advances in the form of 'head-up displays'<sup>339</sup> for pilots would supersede the discussion about CAT I, II and III<sup>340</sup>. The Committee hopes he is right.

*"Anything that could be done to help the fog travails of the Island should be very welcome and I think technology will do that. We will get to head-up displays for pilots in the fullness of time. I firmly believe that that will be the case, but technology is just not there yet... I am not totally competent to comment to why we cannot have CAT 3 and CAT 3B in Guernsey, but I believe it is the topography of the land, the closeness of the runway to the sea and the beams that would have to go up would make it very difficult, if not impossible, for that to be the case. Therefore, the old technology of CAT 1, CAT 2 and CAT 3 has to be put to one side and it has to be head-up displays and it has to be a whole new philosophy of navigation and landing... I am absolutely sure we will get there and Guernsey will get there as well – but it will not be in the next couple of years."*<sup>341</sup>

10.19. Aurigny believed that the States of Guernsey should concentrate future airport investment on upgrading the ILS rather than an extension to the runway.

*"I think of greater importance to us is not extending the runway, but it is improving the level of equipment on the runway... So if there was to be investment and if we had a choice, if we had a bucket of money that you have to spend somewhere, I would not be putting it into an extended runway; I would be putting it into improving the instrument landing capability... I think it would require serious work. I think probably less serious work than extending the runway. Or we could have both. But, no, I think Category 2 is something that would be of greater use to us on a year-round basis, and for other operators obviously."*<sup>342</sup>

10.20. GACC Members later suggested that an upgrade to the ILS would be advantageous:

*"...having the capability to land in worse weather would actually help the airlines and certainly if you get down to a Cat 2 situation ...it would be quite expensive in actually achieving it... I know the Airport is looking into it... Where our current minimum visibility is 550 metres and you go down to 300 metres, 350, and 150 decision height, there are a lot of occasions where the aircraft could get in, where they do not at the moment. So it is well worth stating that that would be a great step forward."*<sup>343</sup>

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<sup>338</sup> Hansard – Q230. – Mr Colin Le Ray, Airport Director

<sup>339</sup> A head-up display or heads-up display - also known as a HUD - is any transparent display that presents data without requiring users to look away from their usual viewpoints. The origin of the name stems from a pilot being able to view information with the head positioned "up" and looking forward, instead of angled down looking at lower instruments.

<sup>340</sup> Hansard – Q207. – Mr Malcolm Hart

<sup>341</sup> Hansard – Q207. – Mr Malcolm Hart

<sup>342</sup> Hansard – Q188. – Mr Mark Darby

<sup>343</sup> Hansard – Q149. – Mr Colin Ferbrache



10.21. The Commerce and Employment Minister confirmed that the Guernsey Airport ILS formed part of a review being undertaken by his Department.

**Recommendation 27: No strong economic case can be made to extend Guernsey Airport runway at this time. There may, however, be merit in putting in place measures to protect certain areas of land from further development in the event that runway development becomes viable in the future. Additional investigation could be undertaken to scope an upgrade to the ILS system at Guernsey Airport.**



## 11. Conclusion and Recommendations

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### Conclusion

- I. The Committee believes that this review provides a roadmap detailing how examinations of government policy will be undertaken in the future. This has been a highly worthwhile inquiry and one that, we believe, demonstrates the benefits of a scrutiny system in addressing areas for improvement in the coordination of government policy. The opportunity for detailed questioning of stakeholders and Ministers at public hearings has given the Committee the material on which to produce this evidence-based report. Equally important was the chance it gave the Committee to extract information and to put it in the public domain. The Panel's questioning of witnesses meant that departments' policies were subject to challenge in a way that would have been difficult if not impossible to achieve within the States Assembly.
- II. The Report has drawn some general conclusions. The first is that Guernsey enjoys a significant level of air connectivity for its size. More services are always welcome provided they do not undermine the stability of the connections we already have in place. However, some suggestions for new services were in the Committee's view unrealistic and our emphasis has therefore been to safeguard the 'strategic' and 'lifeline' routes. Guernsey has the advantage of having its state-owned airline, Aurigny, and through it a guarantee of the continuation of the Gatwick slots. The importance of this security of future provision cannot be under estimated.
- III. Thanks to the inquiry we now have clear statements from Ministers on the need for continued public ownership of Aurigny. The question then becomes: "is Guernsey making the best use of the valuable asset it has in Aurigny?" The Committee believes that currently it does not and therefore recommends that in future the States extend the social role that is already enshrined in government policy.
- IV. This means affordable services with sufficient capacity to meet demand to support both the economic and sporting and cultural links of the Islands. The furtherance of sporting and cultural links is not a luxury; rather they are essential to the maintenance of the social fabric and part of the reason why the Islands remain a special place. They are also essential if Guernsey is to attract and retain the highly skilled people whom the Bailiwick of Guernsey needs to maintain prosperity. The Islands have to continue to be an attractive place to live and air links have a major part to play in making them so. Therefore, public ownership of Aurigny should be embraced for the opportunities it allows and not seen as a temporary expedient and a regrettable necessity.

- V. Ownership of Aurigny is just one of the levers which the States' has to influence the development and maintenance of air routes. We want to see these levers used in a more coordinated way for Guernsey's benefit. Responsibility for air links will of necessity continue to be split between departments; the split itself is not the problem, the lack of a leadership and direction is. The SRC proposals will, we hope, provide an opportunity to rectify this issue.
- VI. Much has been made of the air route licensing policy. We see its continuation as essential for the protection of Guernsey's strategic and lifeline routes. An 'open skies' policy is a luxury Guernsey cannot afford, if it wishes to retain the high frequency, year-round services it currently enjoys. In addition the Committee remains unconvinced of the validity of the economic arguments that have been put forward by some contributors in favour of extending the runway at Guernsey Airport.
- VII. The Committee has given the Alderney routes much of our attention. The maintenance of Alderney's population and the growth of its economy require it to have a subsidised air service: there is no 'commercial' alternative. But the subsidy needs to be explicit, and to be paid in exchange for a level of service negotiated with the States of Alderney; the present approach of just writing off Aurigny's losses is no longer acceptable.
- VIII. A subsidy, however, does not mean inefficiency; it is simply the recognition of the size and needs of the market. There are mixed feelings on Alderney about the Trislander aircraft's replacement. The Committee hopes the Dornier will be a success, but we would expect its introduction to be completed expediently in order to allay public concern. In the longer term the Committee believes that the extension of Alderney's runway, to allow the full integration of the Alderney services with Aurigny's fleet, should be examined in more detail with due regard being paid to the future economic sustainability of the Island. Any decisions of this kind must ensure the longer-term sustainability of air links for the Island.

## Recommendations

**Recommendation 1:** A clear lead Government Department must be established with responsibility for security of strategic air links.

**Recommendation 2:** There remains an inherent danger that a state-run airline can become inefficient. Aurigny must be given a comprehensive set of objectives with clear performance measures in place under the structure proposed by the States Review Committee.

**Recommendation 3:** Ownership of Aurigny should provide the Government with an enhanced opportunity for social sustainability and its objectives should be diversified to serve Islanders' overall requirements. Aurigny should be operated to fulfil both community service and commercial objectives in tandem.

**Recommendation 4:** The Treasury and Resources shareholder sub-committee should receive advice from a technical aviation expert when required, especially when decisions requiring substantial financial investment are requested.

**Recommendation 5:** An overarching government policy relating to strategic air links must be established.

**Recommendation 6:** A suitable governance structure should be established for Aurigny and the Airport under the structure proposed by the States Review Committee.

**Recommendation 7:** Ownership of Aurigny is advantageous to the Island and Aurigny should remain in public ownership as agreed by the Ministers of the Treasury and Resources and Commerce and Employment Departments.

**Recommendation 8:** The Government should direct the appropriate committee established by the States Review Committee proposals to examine the opportunities for Aurigny to make greater provision for its social role.

**Recommendation 9:** New advertising avenues should be explored in order to raise the profile of the Aurigny brand.

**Recommendation 10:** Aurigny should pursue the development of codeshare or interlining agreements with national or international carriers, or joining an existing network alliance.

**Recommendation 11:** Consideration should be given to whether the re-branding of Aurigny to include reference to Guernsey in the Airline's name would be advantageous.

**Recommendation 12:** There has been lack of communication between Aurigny and the States of Alderney in the past. This is unacceptable. Aurigny should engage with third parties more readily over changes that may affect the Bailiwick.

**Recommendation 13:** The codeshare arrangement between Aurigny and Blue Islands is not working well for customers and the current arrangements should be revised. The codeshare is approaching the end of its initial trial period in January 2016 which presents an ideal opportunity for a review.

**Recommendation 14:** Aurigny's financial accounts should be published in greater detail. The Government should publish additional information relating to the overall governance of Aurigny to promote transparency and clarity of the current business model.

**Recommendation 15:** The link between Guernsey and Alderney is a lifeline route and the Guernsey Government has an obligation to maintain the link to an agreed standard.

**Recommendation 16:** The Guernsey Government has an obligation to provide year round, adequate and reliable air links to Alderney. The air link between Guernsey and Alderney is considered a lifeline route with the link to Southampton strategically vital. The best way to secure this service is by means of a Public Service Obligation (PSO) agreement which must be secured as a priority. Once established the PSO must be protected from risk of being undermined by an independent operator running services from Alderney for which a Guernsey air route licence is not required.

**Recommendation 17:** The option of extending the main runway in Alderney should be reappraised. The potential for integration of ATR 42 aircraft (and similar) should be examined in more detail with due regard paid to the economic sustainability of the Island.

**Recommendation 18:** While the option of an independent airline to service the Alderney routes cannot be ruled out, the best option for Alderney is to have its air links provided by Aurigny on the basis of an open subsidy for an agreed level of service.

**Recommendation 19:** A blanket 'open skies' policy is not suitable for Guernsey. With a population of circa 63,000, the market is considered too thin to support such an approach. To do so would inevitably put Guernsey's relatively stable and diverse air links at risk.

**Recommendation 20:** The vitally important routes to Gatwick, Alderney and Jersey should be protected with objectives and performance measures overseen via the Treasury and Resources sub-committee. In the future, responsibility for this important area must be overseen by the relevant committee established under the States Review Committee recommendations.

**Recommendation 21:** An air route licensing regime for Guernsey should be maintained.

**Recommendation 22:** The collection of data relating to sport/cultural travel should be collected.

**Recommendation 23:** Gatwick remains the most strategically important air link for Guernsey and should be protected.

**Recommendation 24:** Aurigny should be used as an economic enabler, a tool by which to further stimulate business and tourism.

**Recommendation 25:** There is opportunity to develop potential new routes via the operation of a time-limited route subsidy system.

**Recommendation 26:** The frequency and capacity relating to inter-island travel, primarily between Guernsey and Jersey, needs to be reconsidered especially at peak travel times. The operation of this route should fall within Aurigny's social obligations.

**Recommendation 27:** No strong economic case can be made to extend Guernsey Airport runway at this time. There may, however, be merit in putting in place measures to protect certain areas of land from further development in the event that runway development becomes viable in the future. Additional investigation could be undertaken to scope an upgrade to the ILS system at Guernsey Airport.

## Appendix 1 – Terms of Reference for the Review

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### Security of Strategic Air Links

#### Background

The air links from Guernsey and Alderney are an essential lifeline connecting the Islands to the UK, Jersey, France and the wider world, supporting business, tourism and local travel within the Bailiwick.

The Scrutiny Committee will consider the security of strategic air links, investigate current policy and its effectiveness, and clarify and assess the responsibilities and accountabilities of the various states departments involved.

#### Review Objective

To evaluate the ways in which the current policy of the States of Guernsey ensures the security of strategic air links.

#### Review Scope

The Panel will specifically consider the following areas as part of its review:

1. How the States of Guernsey seeks to ensure the security of its air links, and the effectiveness of current policy.
2. Whether clearly defined functions, roles and accountabilities in relation to the security of air links are allocated to the various states departments involved in aviation matters and how a joined-up approach is ensured by the current policy framework.
3. How the States of Guernsey ensures that air link policy continues to meet the needs of Guernsey and Alderney and to clarify how the effectiveness of this policy is measured moving forward.
4. Any other or ancillary issues relating to this policy area that may arise during the course of the review that the Committee may identify as being worthy of further consideration.

## Appendix 2 – Scrutiny Committee Mandate

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### SCRUTINY COMMITTEE

Constituted with effect from 1st May, 2004 by Resolution of the States of 31st October 2003.

#### CONSTITUTION

A Chairman, who shall be a sitting member of the States.

Eight members, who shall be sitting members of the States.

#### MANDATE

- (a) Through a process of political scrutiny, to subject Departments and Committees to regular reviews with particular emphasis on:
  - (i) Determining the effectiveness of the policies of, and services provided by, Departments and Committees;
  - (ii) Assessing the performance of Departments and Committees in implementing policies and services;
  - (iii) Identifying areas of policy or service delivery that might be inadequately or inappropriately addressed;
  - (iv) Identifying new areas of policy or service delivery that may require implementation;
  - (v) Determining how well a new policy or service or project has been implemented including the development processes and whether the desired outcomes were achieved;
  - (vi) Promoting changes in policies and services where evidence persuades the Committee that these require amendment;
  - (vii) Holding reviews into such issues and matters of public importance that the Committee may determine from time to time.
- (b) To liaise with the Public Accounts Committee to ensure there is appropriate co-ordination of the entire scrutiny process.
- (c) To develop, present to the States for approval as appropriate, and implement policies on the above matters which contribute to the achievement of strategic and corporate objectives.
- (d) To exercise the powers and duties conferred on it by extant legislation and States resolutions.
- (e) To be accountable to the States for the management and safeguarding of public funds and other resources entrusted to the Committee.



## Appendix 3 – Key Documents Reviewed

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Date
Air Transport Licensing (Guernsey) Law, 1995
The Air Transport Licensing (Alderney) Law, 1996
Billet D'État XI 2003 – Security of Air Links
Air Transport Licensing (Guernsey Law), 1995 – Policy Statement September 2004
Billet D'État XVI 2009 – Air Transport Licensing
Billet D'État XXIV Vol 2, 2009 – York Aviation Report – Airport Development
Commerce and Employment – Background Paper 2009 – Air Routes
Billet D'État V 2012 Vol 2, 2012 – York Aviation Report – Commercialisation of Guernsey Airport Operations
Billet D'État XXIII 2013– Securing Strategic Air Links
Guernsey Finance - Air Route Survey 2013
Air Transport Licensing (Guernsey) Law, 1995 – Policy Statement 27 <sup>th</sup> November 2013
Requete – The Airfield in Alderney, 31 <sup>st</sup> October 2013
Billet D'État X 2014 – Aurigny Air Services – Aircraft Acquisitions for Alderney
Billet D'État XXVI 2014 – The Airport and Economic Development in Alderney
CICRA – Proposed codeshare and joint service arrangements – Case C1018GJ, 2014
Commerce and Employment – Air Route Survey 2014
States of Alderney Strategic Plan 2014
Frontier Economics – Alderney Economic Development Study, August 2014
TPS – Alderney Airport – Runway Options Study, August 2014
DRASS Economics – Alderney Economic Strategy and Development – Airport Development, 2014
Guernsey Tourism Strategic Plan 2015

## Appendix 4 – Public Hearings: Hansard Transcripts

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Hansard	Link
Hansard Transcript – 2 <sup>nd</sup> March 2015	<a href="http://www.gov.gg/CHttpHandler.ashx?id=99064&amp;p=0">http://www.gov.gg/CHttpHandler.ashx?id=99064&amp;p=0</a>
Hansard Transcript – 22 <sup>nd</sup> April 2015	<a href="http://www.gov.gg/CHttpHandler.ashx?id=99066&amp;p=0">http://www.gov.gg/CHttpHandler.ashx?id=99066&amp;p=0</a>
Hansard Transcript – 5 <sup>th</sup> June 2015	<a href="http://www.gov.gg/CHttpHandler.ashx?id=99065&amp;p=0">http://www.gov.gg/CHttpHandler.ashx?id=99065&amp;p=0</a>

## Appendix 5 – Panel Membership

Name	Role
Deputy Paul R. Le Pelley	Panel Chair
Deputy Peter A. Sherbourne	
Deputy Barry J.E. Paint	
Deputy Lester C. Queripel	
Deputy Arrun M. Wilkie	

### Name

Airports Commission
Aurigny Air Services Limited
Blue Islands
Deputy John Gollop
Guernsey Airport Consultative Committee
Mr Charles Parkinson - Former Minister Treasury and Resources Department
Mr John Hollis
Mr John Olsen
Mr Malcolm Hart - Former Chief Executive Officer, Aurigny Air Services Limited
Mr Tim Robins
Mr Tony Grange
Ogier Legal
Southampton Airport
St Andrews Constables
St Saviours Douzaine
The Alderney Chamber of Commerce
The Alderney Pressure Group
The Association of Guernsey Travel Agents
The Commerce and Employment Department – Air Route Licensing
The Commerce and Employment Department – Promotion & Provision of Air Links
The Director of Civil Aviation
The Education Department
The Guernsey Chamber of Commerce
The Guernsey Financial Services Commission
The Guernsey International Business Association
The Guernsey International Legal Association
The Guernsey Sports Commission
The Health and Social Services Department
The Housing Department
The Policy Council - External Relations Group
The Public Services Department
The Social Security Department
The States of Alderney
The Treasury and Resources Department
Torteval Constables

<sup>344</sup> A general Call for Evidence was launched in October 2014

<sup>345</sup> Individual Call for Evidence letter sent

## Appendix 7 – Call for Evidence<sup>346</sup> - Non-Respondents<sup>347</sup>

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Name

**Bontour**

**British Airways (BA)**

**Channel Islands Competition and Regulatory Authorities (CICRA)**

**Co-operative Travelmaker**

**easyJet**

**Flybe**

**Guernsey Climate Action Network**

**Guernsey Hotel and Tourism Association**

**Hot Mango Travel**

**Just the Flight**

**National Trust of Guernsey**

**Sark Tourism**

**Specsavers**

**Sustainable Aviation Council**

**Trafalgar Travel Limited**

**Travel Solutions**

**Wayfarers Travel**

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<sup>346</sup> A general Call for Evidence was launched in October 2014

<sup>347</sup> Individual Call for Evidence letter sent

## **Scrutiny Committee**

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