

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *for* ECONOMIC DEVELOPMENT

REVIEW OF AIR TRANSPORT LICENSING

The States are asked to decide:-

Whether, after consideration of the Policy Letter entitled "Review of Air Transport Licensing", dated 11th June, 2018, they are of the opinion:-

1. To agree that the Committee *for* Economic Development be authorised to designate certain air transport routes as "lifeline" routes, i.e. those that are deemed essential to an Island of the Bailiwick.
2. To agree that operators and charterers serving routes designated as lifeline routes by the Committee *for* Economic Development should remain under the obligation to hold a Guernsey air transport licence.
3. To note that the Committee proposes that it will designate the following routes to and from Guernsey as lifeline routes:
 - a) Gatwick; and
 - b) Alderney.
4. To agree that operators or charterers serving all routes apart from lifeline routes be exempt from the need to hold a Guernsey air transport licence.
5. To agree that the Air Transport Licensing Policy Statement should be amended to enable the protection of routes designated as lifeline routes through the granting of Public Service Obligations, where necessary.
6. To agree to amend the Air Transport Licensing Policy Statement by adopting the draft amended Policy Statement enclosed at Appendix 1 to this Policy Letter.
7. To direct the Committee *for* Economic Development to review the Air Transport Licensing Policy Statement within a period of five years, and to report back to the States by the end of 2023.

8. To note the Committee *for* Economic Development's policy for providing air route development support for new routes.
9. To note the Committee *for* Economic Development's work to establish a Public Service Obligation – along with any necessary funding arrangement – for air services on the Alderney-Guernsey route.
10. To note that while the Alderney-Southampton route is not subject to Guernsey Air Transport Licensing – and therefore outside of the scope of this review – it may be considered for a Public Service Obligation in combination with the Alderney-Guernsey route, should such a combined approach be possible following the tender process, and subject to agreement between the Policy & Resources Committee and the States of Alderney as to the source of funding for this route.

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ISLAND OF GUERNSEY

COMMITTEE FOR ECONOMIC DEVELOPMENT

REVIEW OF AIR TRANSPORT LICENSING

The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

11th June, 2018

Dear Sir

1. Executive Summary

- 1.1. Air transport licences are required for services between Guernsey and another point in the British Isles¹, where the aircraft is carrying passengers or cargo for hire or reward². Applications for air transport licences must be considered and determined by the Transport Licensing Authority ('the Authority') in accordance with the Air Transport Licencing (Guernsey) Law, 1995 ('the 1995 Law') taking into account the Air Transport Licencing Policy Statement ('Policy Statement') which is the policy approved by resolution of the States of Deliberation ('the States') in relation to Guernsey's air transport services.
- 1.2. At its meeting of 27th November 2013, the States approved a revision to the Policy Statement, recommended by the then Treasury and Resources Department ('T&R'), in order to provide increased long term certainty for Guernsey's London Gatwick air link ('Gatwick').
- 1.3. At that meeting, the States also directed T&R to monitor and review the effect of the revised Policy Statement and to report back to the States in 2017 with recommendations on any further amendments that it may require in light of that review.

¹ Comprising the UK, the Isle of Man and the Channel Islands

² Some aircraft or classes of aircraft may be exempt from the need to obtain such a licence, e.g. emergency flights, technical stops and air taxis.

- 1.4. At the time, this review was to be carried out by T&R but responsibility for this task has since been transferred to the Committee *for* Economic Development ('the Committee').³
- 1.5. The Committee has undertaken a review of the Policy Statement with respect to all routes to ensure that the Policy Statement as currently worded is still fit for purpose. As a result, the Committee is recommending to the States the following changes to the Policy Statement:
- a) routes are designated into two types – lifeline (i.e. essential) routes, and all other routes;
 - b) all routes apart from lifeline routes will become exempt from licensing;
 - c) operators and charterers on lifeline routes will still require air transport licences;
 - d) where necessary, lifeline routes can be protected through the granting of Public Service Obligations ('PSOs') as used in the UK and throughout the EU – along with any required funding;
 - e) funding support for the launch of new routes will be considered in accordance with the terms of the Committee's policy statement on such funding.
- 1.6 Taken together, the Committee's recommendations equate to a 'quasi open skies' approach, whereby a full open skies policy is scaled to reflect the nature of the Island and the unique demands of its economy and population.

2. Background and strategic context

- 2.1 The importance of air connectivity for Guernsey's economy and society continues to be recognised by the States of Guernsey. The Policy and Resource Plan Approved by the States on 8th November 2017 has prioritised the development of Guernsey's air and sea links by identifying it as one of its 23 policy priorities:

"It is essential that the island has robust, sustainable, reliable and affordable air and sea links in order to deliver a dynamic and growing economy. This incorporates business travel to/from the island, visitor and local travel to/from the island, and the import/export of freight.

³ This transfer of responsibility was requested by the Policy & Resources Committee and approved by the Committee *for* Economic Development ('C&E') on 21st July 2016. It was made possible by the changes to the structure of Government which separated responsibility for the strategic approach to air links (which continue to rest with the Committee) from the administration of the air transport licensing policy (which now rests with the Transport Licensing Authority).

Connectivity to major UK and international airport hubs is also a key requirement for both business and leisure travellers, and a reliable schedule and frequency of air and sea services is vital if Guernsey is to facilitate and develop its economic development opportunities.”⁴

- 2.2. The Committee for Economic Development’s Policy Plan – as approved by the States of Deliberation in June 2017 – contains the following ‘critical’ objective:

“Provide support to the maintenance and expansion of air and sea links so that Guernsey is well connected with the UK and Europe.”⁵

- 2.3. At its June 2017 meeting, the States of Deliberation further acknowledged the significance of Guernsey’s air links for the Island when it approved the Policy & Resources Committee’s proposal that ‘Strategic Air and Sea Links Infrastructure’ should be included as a pipeline project within the States’ Capital Portfolio.⁶
- 2.4. The Committee has noted the Policy & Resources Committee’s recommendations arising from the Strategic Review of Aurigny, and has considered these as part of its review.

3. Current approach to Air Transport Licensing Policy

- 3.1 Air transport licenses cover the transport of both passengers and freight. Applications for air transport licences must be considered and determined by the Transport Licensing Authority, which must demonstrate that it took the Policy Statement into account when determining an application. The Policy Statement is, therefore, a key lever through which the States can facilitate the maintenance and development of Guernsey’s air connectivity, for the benefit of both Islanders and the economy.
- 3.2 Some of the key provisions of the existing Policy Statement include:
- a) In considering applications, a view will be taken as to the extent to which the proposed service will, or will not, be in the best interests of the users of the Island’s air transport services and thereby also the best interests of the Island;

⁴ States of Guernsey, *The Policy and Resource Plan*, p4, November 2017. Available from: www.gov.gg/policyandresourceplan

⁵The Committee for Economic Development Committee Policy Plan, available from: <https://www.gov.gg/CHttpHandler.ashx?id=107763&p=0>

⁶ See the resolutions arising from Billet d’État No. XII, dated 23rd May, 2017 (Policy and Resource Plan – Phase 2); available from: www.gov.gg/CHttpHandler.ashx?id=108566&p=0

- b) Certain benefits, particularly with regard to cost and consumer choice, can result from appropriate competition between different destinations and/or carriers. Competition could, therefore, be inter-route or intra-route;
- c) Competition is not the sole determining factor, and the potential benefits of lower costs and more consumer choice need to be balanced against the requirement for regulation to safeguard the interests of users and, where appropriate, Island residents;
- d) Generally, the best interests of users, particularly in regard to cost and consumer choice, are enabled by active competition between operators. Where such competition is intra-route, it should be able to stimulate the route in question. However, it should not discourage active, long-term development of that route. Where such competition is inter-route, it should be able to generate lower fares on those routes and offer consumers a choice of route;
- e) There is a particular concern to ensure that scheduled air services are maintained at a sufficient level, throughout the year, to ensure the economic and social sustainability of the Island;

3.3 One of the main aims of the Policy Statement is to maintain and protect the Island's air links with London, with particular reference to hub airports.

3.4 As well as the licensing of air routes, financial start-up support will be considered for new routes. Upon request to the Committee, support may be granted in accordance with the terms of the Committee's policy statement on such funding (this is further discussed in Section 6).

4 Proposed Changes to Air Transport Licensing Policy

4.1 As mentioned earlier, when the Air Transport Licensing Policy Statement was last updated in 2013, the States requested that the effect of the new Policy Statement be monitored and reported back to the States in 2017. While the 2013 update focussed on the Gatwick route, the Committee considered it wise to review the Policy Statement in its entirety and with respect to all routes.⁷

4.2 Consultants Frontier Economics ('Frontier') were asked to advise the Committee on reviewing the Policy Statement. Their work was informed by case studies from a number of jurisdictions, together with its engagement with senior representatives

⁷ While it was the Committee's intention to submit this policy letter in 2017, it was delayed to ensure thorough consultation and engagement with a number of key stakeholders.

from a range of airlines (both local and non-local). The summary of Frontier's report is enclosed in Appendix 3.

- 4.3 With Frontier's recommendations in mind, the Committee is of the view that the Policy Statement should evolve in order to best serve the aspirations of the Policy & Resource Plan with respect to developing Guernsey's air connectivity.
- 4.4 The Committee believes that air routes between Guernsey and the British Isles should fall into two distinct and mutually exclusive categories, each characterised by a different regulatory approach:
- a) **Lifeline routes** are routes that are:
-) Deemed to be *essential* for economic and/or social reasons; and
 -) which would not be sustainable without some degree of government intervention and/or ongoing financial support.

They should therefore remain subject to air transport licensing, in order to ensure that the air service provided meets the needs of the island that they serve.

- b) **All other routes** add a level of additional choice and connectivity for residents. In order to encourage new route development and innovation, and also to reduce the administrative burden on both airlines and the States of Guernsey, these routes should be made exempt from air transport licensing.

Lifeline Routes

- 4.5 The air transport licences issued to operators of lifeline routes will – where appropriate – continue to contain minimum service level criteria, including service frequency, timings and aircraft passenger capacity.
- 4.6 Where a lifeline route is not commercially viable given the minimum service levels and aircraft type expected by the community that it serves, the Committee will have the ability to create a Public Service Obligation (PSO) for that route, supported by some funding as appropriate.
- 4.7 PSOs are used frequently in the European Union for air routes to peripheral regions and islands. They provide a chosen operator – appointed through a competitive tender process – with grant funding and exclusive rights to operate a route, subject to an agreed service level and for a defined period of up to 5 years.

- 4.8 In order to offer prospective bidders as much certainty as possible with respect to:
- (a) whether an air transport licence will be granted to the successful bidder on such routes, and
 - (b) whether additional air transport licences are likely to be granted to other operators on such routes,

the Committee proposes that the Policy Statement be amended to make clear the protection afforded by the Policy Statement to routes designated as lifeline routes. (The amended Policy Statement is appended to this Policy Letter.)

- 4.9 **Recommendation 1: The Committee should designate certain air transport routes as lifeline routes.**
- 4.10 **Recommendation 2: Operators serving lifeline routes should remain under the obligation to hold an air transport licence.**
- 4.11 **Recommendation 3: The Policy Statement should be amended to make clear the protection afforded to designated lifeline routes through a PSO, where necessary.**

All other routes

- 4.12 The Committee is of the view that a new 'open skies' approach should be adopted for all routes that are not lifeline routes (i.e. letting airlines operate services on these routes without the need to apply for an air transport licence).
- 4.13 The Committee believes that this change in policy represents a more proportionate approach to regulating air services. It will also align Guernsey more with the 'open skies' approach adopted by most other countries and jurisdictions (including Jersey and the Isle of Man), and will reduce the administrative burden on airlines.
- 4.14 Ultimately, it is hoped that this approach will facilitate new route development and encourage the creation of innovative solutions to meeting travellers' needs.
- 4.15 **Recommendation 4: Operators serving routes that are not designated as lifeline routes should be exempted from the requirement to apply for a Guernsey air transport licence.**

5 Air route classification

- 5.1 The Committee proposes that the following routes should be classified as lifeline routes: Guernsey-Gatwick and Guernsey-Alderney.
- 5.2 This route classification will be reviewed within 5 years, or earlier if significant changes in market conditions require an earlier review. The Committee will consult key stakeholders before making any changes to either this route classification structure or the list of routes contained within each category.

Gatwick

- 5.3 Gatwick is Guernsey's most travelled air route and accounts for over one third of Guernsey flights (37% of total passenger movements). It supports significant resident travel (64% of the route's passengers are residents) and enables frequent business travel to London. It is the second most important destination for non-urgent medical trips funded by Social Security (1,124 movements in 2016), and is also important for leisure travel by both residents and visitors.
- 5.4 Overall, Gatwick is essential for Guernsey's economic prosperity, important for residents' social wellbeing and useful for their healthcare needs. This makes the Gatwick route a lifeline route for Guernsey.
- 5.5 In the Treasury and Resources Department's (T&R) 2013 Policy letter, the States approved the proposal that a number of key performance indicators (KPIs) for the Gatwick route should be established, in order to track Aurigny's performance as the sole operator of this crucial route. The KPIs relate to seat capacity, service reliability and affordable fares.
- 5.6 A review of these Gatwick route KPIs since 2014 is included in Appendix 1. This review concludes that, so far, the States' aim to maintain and protect the Island's air links to London Gatwick through the current Policy Statement with respect to that route has been achieved.
- 5.7 Consequently, the committee has concluded that the current air transport licensing policy for the Gatwick route does not need to be amended and should continue as it is for the time being.
- 5.8 Another review of the Policy Statement with respect to the Gatwick route should be undertaken by the Committee within five years in order to ensure that this remains the best approach for the Island.

- 5.9 **Recommendation 5: The Policy Statement with respect to the Gatwick route does not need to be further amended at this time. This should be reviewed within a period of five years by the Committee for Economic Development, and presented to the States of Deliberation by the end of 2023.**

Alderney

- 5.10 Alderney has one scheduled air route to Guernsey licenced under the Guernsey licencing regime. This route carried 30,870 passengers in 2017 – representing a 16% decline since 2013.
- 5.11 Alderney’s Guernsey air route represents an important social link for Alderney’s residents. It is also essential for ensuring that Islanders have access to those medical services that are not available on Alderney. (In 2017, 2,669 passengers used the route to attend scheduled medical appointments in Guernsey. In addition, there were 55 unscheduled charter transfers for patients needing urgent medical care.)⁸
- 5.12 This route is understood to be substantially loss-making for Aurigny. Given the Island’s population and service level requirements, it does not appear to hold the potential to be profitable. Consequently, the Committee recommends that the Alderney-Guernsey route be provided through a Public Service Obligation, to ensure value for money, as well as greater transparency and accountability than the current Memorandum of Understanding allows. Any required funding for the PSO will be provided through General Revenue.
- 5.13 It is intended that the PSO will comprise two elements:
- a) **A scheduled passenger service** for regular travellers and Islanders attending scheduled medical appointments; and
 - b) **A patient charter transfer** for patients needing urgent medical care.
- 5.14 Alderney also has a scheduled route to Southampton which is understood to be an important economic enabler for Alderney, as the route of choice for visitors to the Island. It is also a valued direct link back to the UK for many of its residents carrying 23,692 passengers in 2017– a 10% decline since 2013.
- 5.15 It is important to note, however, that, unlike the Alderney-Guernsey route, the Alderney-Southampton route is outside of the scope of Guernsey’s Air Transport Licensing policy. Nevertheless, the Committee will consider including this route in the PSO, as there are likely to be economies of scale arising from the operation of

⁸ Source: Committee for Health and Social Care.

two routes versus a single one. Dialogue will need to take place between P&R and the States of Alderney regarding their respective contributions for the funding for this route.

- 5.16 Engagement with the States of Alderney, the Policy & Resources Committee, the Committee *for* Health and Social care, and the Committee *for* Employment and Social Security is ongoing regarding the terms of the PSO. Assuming States approval of a PSO for the Alderney-Guernsey route, the Committee *for* Economic Development will be in a position to issue the PSO to market shortly after this decision is made. The Committee would then aim to appoint a preferred operator during the second half of 2018, in time for a spring / summer 2019 service launch.
- 5.17 **Recommendation 6: A Public Service Obligation (PSO) should be established on the Alderney-Guernsey route.**
- 5.18 **Recommendation 7: Although it is not subject to Guernsey Air Transport Licensing, the Alderney-Southampton route will also be considered for inclusion in the scope of the PSO. This will be subject to agreement between the Policy & Resources Committee and the States of Alderney with respect to the source of funding for this route.**

Southampton

- 5.19 Southampton is Guernsey's second most travelled route (after Gatwick), with 117,599 passenger movements in 2017. It carries over three quarters of non-urgent medical trips funded by Social Security, owing to Guernsey's relationship with the Wessex region for medical care (6,593 movements, 77% of all non-urgent medical trips in 2016), and is therefore of high importance for Guernsey residents' healthcare needs. Southampton is also the main airport for emergency (non-scheduled) charter medical flights (representing 70% of all emergency medical flights in 2016). Over half of Southampton passengers are residents, and it carries the most connecting passengers after Gatwick (8,072 in Q2-Q4 2017). Southampton is also important for leisure travel by both visitors and residents.
- 5.20 At the suggestion of the Committee for Health and Social Care and for Employment and Social Security, the Committee considered Southampton for inclusion in the lifeline category.
- 5.21 Unlike Gatwick, Southampton airport is not significantly slot-constrained. Furthermore, given the size of the route and its long history, there is no evidence to suggest that it is not commercially viable. Therefore, in the event that the current incumbent ceased serving the route, it is highly likely that one or more alternative operators could be found to ensure service continuity, either on the same route or

using an alternative nearby airport (e.g. to Bournemouth). Consequently, it would be difficult to justify any protection from competition for the incumbent operator through licensing at this time. Moreover, competition would provide increased choice and (in all likelihood) lower prices for travellers.

5.22 In addition, the year-round services currently provided by the incumbent by far exceed the minimum number of daily rotations that are stipulated in the extant licence. Therefore, there is no rationale for retaining the current formal minimum service requirements – which would apply to both the incumbent and any potential competitors – through licensing on this route.

5.23 Nevertheless, the Committee will review the performance of the route on an ongoing basis, and the option to add Southampton to the list of lifeline routes remains available if appropriate in the future.

6 Air Route Development Support Policy

6.1 The Committee is of the view that funding should be considered in certain cases to support routes which otherwise would not be started and/or sustained. Such funding will be in addition to any discounts provided by STSB on airport fees and charges for new routes.

6.2 Lifeline routes requiring a PSO may receive an annual level of grant funding, subject to the terms of the contract agreed with the chosen operator which would normally cover a period of up to 5 years.

6.3 As for all other routes requiring start-up funding support, the Committee will consider providing this via the Future Guernsey Economic Fund, subject to a positive economic cost-benefit analysis, and in accordance with the terms of the Committee's policy statement on such funding.⁹ Routes which have the potential to significantly contribute to the Island's economy and connectivity will be prioritised.

6.4 Guernsey-Heathrow is one route which the Committee would be particularly keen to see launched. In 2016, the UK Government approved a third runway at Heathrow airport, with an emphasis on more direct flights to UK destinations. In its Bringing Britain Closer document published in September 2017, Heathrow Airport expressed its commitment to supporting UK domestic connectivity, and identified Guernsey as one of a number of potential new destinations on its indicative route development

⁹ The Committee's policy with respect to air route development support can be found here: <https://www.gov.gg/article/160441/Support-for-new-air-routes>

map.¹⁰ Heathrow would provide a valuable additional London link and would complement the Gatwick route by offering significant additional choice for onward long haul connectivity (over 90 new cities and over 30 new countries), which would benefit – among others – Guernsey’s financial services sector.

6.5 Recommendation 8: The States are asked to note the Committee’s policy for considering the provision of air route development support for new routes.

7 Conclusions

7.1 Through its recommended changes to the Policy Statement together with the Air Route Development Support Policy, the Committee *for* Economic Development proposes to evolve the States’ approach to air transport licensing and air route development, in order to ensure that Guernsey is best placed to fulfil its air link connectivity aspirations, as detailed in the Policy & Resource Plan.

8 Propositions

8.1 The Propositions have been submitted to Her Majesty’s Procureur for advice on any legal or constitutional implications.

9 Committee Support for Proposition(s)

9.1 In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that the Propositions were supported by a majority of the Committee.

9.2 Deputy Parkinson, the President of the Committee *for* Economic Development, opted not to participate in the decision on the Policy Letter and Propositions in order to ensure that there would be no perception of a conflict of interests, given his role at the time as the President of the States’ Trading Supervisory Board.

9.3 Deputy Mooney has confirmed that he does not support the propositions which, in Deputy Mooney’s view, grants protection to Aurigny on the Gatwick route.

¹⁰ See p 7 of *Bringing Britain Closer*, Heathrow Airport, 2017. Available from: <https://your.heathrow.com/wp-content/uploads/2017/09/Bringing-Britain-Closer-FINAL.pdf>

Yours faithfully

Charles Parkinson
President

Andrea Dudley-Owen
Vice-President

Joseph Mooney
David De Lisle
Dawn Tindall

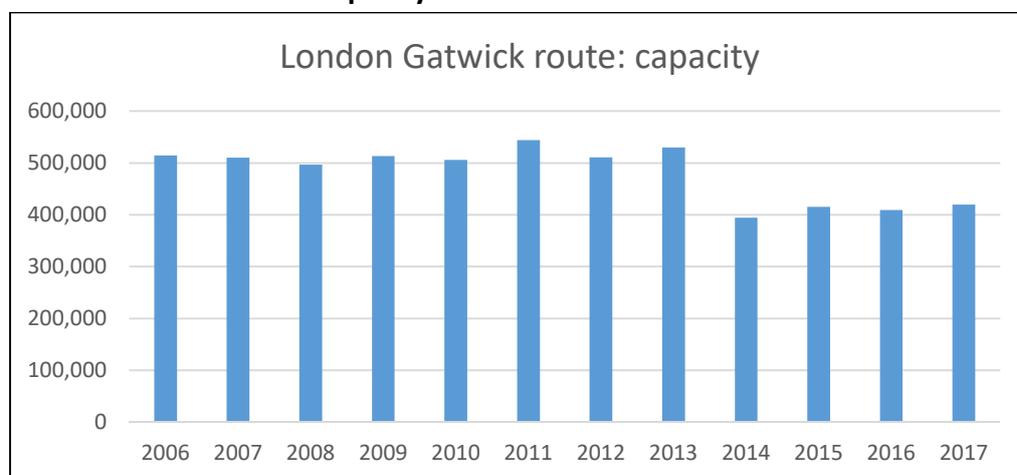
APPENDIX 1 - Review of the performance of the London Gatwick route

- i. In the Treasury and Resources Department's (T&R) 2013 Policy letter, the States approved the proposal that a number of key performance indicators (KPIs) for the Gatwick route should be established, in order to track Aurigny's performance as the sole operator of this crucial route. The KPIs relate to seat capacity, service reliability and affordable fares.

KPI 1: Seat capacity, passengers and load factors

- ii. Chart 1 depicts the total seat capacity on the Gatwick route over the past decade. There was a notable step change in capacity in the years following Flybe's exit from the route in April 2014. While Aurigny's purchase of the Embraer 195 jet allowed it to increase its capacity on the route within the constraints of its slot allocation, this is still short of its former level in a dual provider setting.¹¹ Capacity fell from around 530,000 by approximately 107,000 seats (or 21%) in 2014, and has remained stable since, at around 410,000 seats (the average for 2014-17). This is in accordance with the capacity levels which T&R anticipated could be provided by Aurigny in its aforementioned 2013 policy letter.

Chart 1: Gatwick route capacity¹²

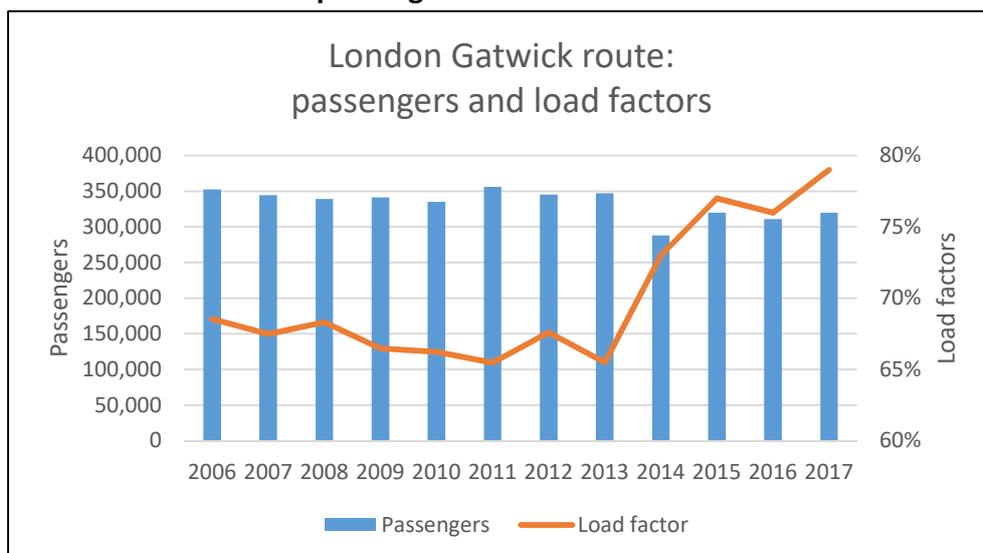


- iii. Chart 2 depicts passenger numbers and passenger load factors over the same period. Since 2014, there has been a slight downward shift in the number of passengers using the Gatwick route, combined with a marked improvement in passenger load factors – the proportion of seats on the aircraft which are filled on average over a calendar year.

¹¹ Aurigny has historically held 6 weekday slots at Gatwick, reducing to 5 at weekends. It has recently been able to acquire a seventh slot on Fridays and a sixth on Saturdays (both in winter only).

¹² Source: Adapted from Billet XXIII, 2013 (2006-12) and Guernsey Airport data (2013-16).

Chart 2: Gatwick route passengers and load factors ¹³



- iv. Pre-2014, passengers on the route stood at around 345,000 (average for 2006-13). After Flybe’s exit from the route, passenger movements declined by approximately 40,000 passengers (or 11%) in 2014, and settled at around 310,000 (the average for 2014-17). As for load factors, they increased from around 67% (average for 2006-2013) to 76% (average for 2014-17).
- v. It is worth noting that the reduction in passenger movements to Gatwick was partly offset by the launch of the London City route in September 2014 – which in 2016 carried over 26,000 passengers – until it was withdrawn in October 2017.

KPI 2: Fares

- vi. Table 1 shows Aurigny’s performance against its fare targets for Gatwick, which are set annually by the States Trading Supervisory Board (‘STSB’).
- vii. The latter has advised that the original target in 2014 of 60% of fares available at £65 or less reflected Aurigny’s average fare on the route of £63 when it was competing with Flybe in 2012. Subsequent increases in the target fare were based on the headline rate of inflation (RPI) and exceptional increases in passenger and landing charges at Gatwick Airport.
- viii. In the four full calendar years following the T&R States report (2014-2017), Aurigny has consistently exceeded its minimum fare targets, by between 2 to 7 percentage points.

¹³ Ibidem.

Table 1: Gatwick route fare targets ¹⁴

Year	Key Performance Indicator	Target	Actual
2014	60% of fares on Gatwick available at £65 or less (excluding UK APD)	60%	67%
2015	63% of fares on Gatwick available at £67 or less (excl. UK APD)	63%	70%
2016	63% of fares on Gatwick available at £69.50 or less (excl. UK APD)	63%	69%
2017	63% of fares on Gatwick available at £69.50 or less (excl. UK APD)	63%	65%

KPI 3: Service Reliability

- ix. Table 2 provides information on the reliability of Aurigny’s Gatwick service. Over the past four years, Aurigny has operated between 98% and 99% of its scheduled flights to Gatwick. In that period, between 77% and 87% of these were on time. This compares well to the average on-time departure performance of all operators at Gatwick Airport, which ranged between 61% and 86% over the same period ¹⁵.

Table 2: Service reliability ¹⁶

	2014	2015	2016	2017
Scheduled Flights	3,994	4,055	4,054	4,097
Cancelled	1.3%	1.0%	2.0%	2.0%
Operated	98.7%	99.0%	98.0%	98.0%
% of operated that were: On time	87%	80%	80%	77%
% of operated that were: Delayed (>15mins)	13%	20%	20%	23%

- x. In conclusion, the 2013 amendment to the Air Transport Licensing Policy Statement sought to maintain and protect the Island’s air links with London Gatwick. These route KPIs relating to seat capacity, fares and service reliability suggest that, so far, this has been achieved.

¹⁴ Source: States Trading Supervisory Board (STSB).

¹⁵ Source: Civil Aviation Authority.

¹⁶ Source: Aurigny.

APPENDIX 2

COMMITTEE FOR ECONOMIC DEVELOPMENT AIR TRANSPORT LICENSING (GUERNSEY) LAW, 1995

POLICY STATEMENT

This policy statement is the Committee for Economic Development's published policy in relation to the licensing of Guernsey's air transport services as prepared by the Committee and approved by the States of Deliberation as from time to time amended or replaced (with or without modification) by Resolution of the States. This policy statement replaces that set out on p. 405 *et seq* of Billet d'État XXIII of 2013.

1. Services on essential lifeline routes (as defined by Regulations) between Guernsey and another point in the British Isles, where the aircraft is carrying passengers or cargo for hire or reward, will be subject to a Guernsey air transport licence being granted – in addition to the appropriate licence(s) or permission(s) required by the home State of the operator. However, some aircraft or classes of aircraft may be exempt from the need to obtain such a licence (e.g. emergency flights, technical stops, and air taxis (the latter is defined in the Regulations made in 2001)). For clarity, the British Isles (in this context) comprises the United Kingdom, the Isle of Man, and the Channel Islands.
2. Under these arrangements, the Director of Civil Aviation's professional opinion will be accepted for determining the fitness and technical capabilities of individual operators. Applicants will be required to provide evidence of meeting the minimum insurance cover requirements imposed by the State of the Operator, or the State of Registry, as the case may be.
3. When applications for a licence are considered, in accordance with the requirements of insular legislation, a view will be taken as to the extent to which what is proposed will, or will not, be in the best interests of the users of the Island's air transport services and thereby also the best interests of the Island.
4. Every air transport licence application is considered on its own merits.
5. Certain benefits, particularly with regard to cost and consumer choice, can result from appropriate competition between different destinations and/or carriers. Competition could, therefore, be inter-route or intra-route.
6. Competition, however, is not the sole determining factor and the potential benefits of lower costs and more consumer choice will need to be balanced

against the requirement for regulation to safeguard the interests of the users of the air transport services and, where appropriate, Island residents.

7. Consideration will be given to the likely short-term and long-term advantages and disadvantages that would result from the provision of the proposed services.
8. The interests of the users of passenger air transport services may be summarised as follows:-
 - (i) for locally-based leisure and business travellers, the requirement is for sufficient capacity on a daily year-round basis to provide for on-demand travel at reasonable cost on services linking the Island with a number of centres of population in the British Isles, and in particular with airports able to provide interlining links with European, Intercontinental and United Kingdom domestic air services. In this respect direct air links with London hub airports, particularly London Gatwick, are considered to be of paramount importance;
 - (ii) for tourists to Guernsey, the need is for sufficient capacity at the lowest possible fare on direct services from multiple points of origin within the British Isles. The available air transport services should, wherever possible, allow tourists to make the choice between their own independent travel arrangements or packages offered by tour operators or agents;
 - (iii) for users of the Gatwick route, as detailed in paragraph 18; and
 - (iv) for users of the essential, lifeline, routes, as detailed in paragraph 19.
9. The interests of the users of cargo air transport services may be summarised as follows:-

the requirement is for sufficient capacity on a daily year-round basis to provide for on-demand transport of cargo at reasonable cost on services linking the Island with a number of points in the British Isles, and in particular with airports able to provide interlining links with European, Intercontinental and United Kingdom domestic air services.
10. Subject to paragraphs 18 and 19, the best interests of users, particularly in regard to cost and consumer choice, are generally enabled by active competition between air transport operators. Where such competition is intra-route, it should be able to stimulate the route in question. However, it should not discourage active, long-term development of that route. Where such competition is inter-route, it should be able to generate lower fares on those routes and would offer consumers a choice of route. Each route should be

provided with a suitable standard of service, by the airline(s) operating on it, to satisfy all main categories of user throughout the year. The services provided should also have continuity over a period of time.

11. There is particular concern to ensure that scheduled air services are maintained at a sufficient level, throughout the year, to ensure the economic and social sustainability of the Island. Air transport links with the United Kingdom are particularly important in this regard. Additionally, scheduled services are important for health/medical, educational and business requirements. Charter air services, or other short-term operations, could be detrimental to the provision of scheduled air services on any particular route and that year-round scheduled services are generally of paramount importance.

Scheduled Air Services

12. Subject to paragraph 19, the main aims, in respect of scheduled air services, are to:-

- (i) maintain year-round scheduled services of sufficient capacity to cater for all user categories;
- (ii) secure the provision of sufficient capacity throughout the year to cater for the needs of the tourism industry;
- (iii) secure the lowest fare structure consistent with viable operations;
- (iv) obtain continuity of service from year to year, with the airline or airlines operating on a route being in a position to develop the service for the benefit of all categories of user;
- (v) facilitate point-to-point travel and interlining opportunities;
- (vi) secure the highest possible standard of service;
- (vii) maintain and protect the Island's air links with London, with particular reference to hub airports and, in respect of the Gatwick route, in accordance with paragraph 18.

13. Certain applications could have a potential impact on the incumbent operator. There may be occasions when more than one airline applies to operate the same route. In considering such applications, particular reference will be made to :-

- (i) the number and nature of aircraft in an airline's fleet, with particular concern for the back up arrangements that could apply to the route;
- (ii) the ability of an airline to replace the capacity provided by an incumbent operator, should the introduction of further competition lead to the withdrawal of the latter from the route, in part or in whole;
- (iii) an airline's performance on other routes (e.g. punctuality, customer service);
- (iv) evidence of an ability to maintain continuity of service from year to year (i.e. the ability to withstand difficult trading conditions that might occur);
- (v) an ability to expand operations through a successful marketing campaign and to cope with the traffic growth generated thereby; and
- (vi) the fare structure and level.

Charter Air Services

14. Charter services can be beneficial, particularly for the tourism industry. The interests of the tourism industry and tour operators can be served by continuity of those services from year to year.
15. For routes that do not have a year-round scheduled service, charter licence applications will normally be granted.
16. Year-round scheduled services are important. Summer-only, or other short-term, services on any particular route could adversely impact or totally eliminate regular year-round services on that route or nearby routes.
17. The extent to which charter flights or other short-term operations would impact on scheduled services will be considered. Charter flights can impact on scheduled services –
 - (i) by reducing the profitability of the scheduled services to such an extent that the latter becomes reduced in scope, particularly during less-profitable or off-season months;
 - (ii) by discouraging the development of air services provided by the scheduled operator(s) on the route.

London Gatwick

18. In light of the importance of the Gatwick route to the island, and the volatility of services thereon, when considering any new application to operate on the route, the Authority must have regard to the following matters:

- (i) the investment by the incumbent operator(s) on the route,
- (ii) the level of service and reliability of the incumbent operator(s) on the route, and
- (iii) the effect on the incumbent operator(s) of granting such application,

where an incumbent operator offers a good level of service and will be prejudiced by the granting of such application, the presumption will be that such application will be refused to safeguard the existing service on this lifeline route.

Lifeline routes on which a Public Service Obligation has been imposed

19. Where it is necessary for the economic and social development of Guernsey that a public service type obligation (PSO) be imposed on scheduled services on a route to/from Guernsey and where the Committee designates such a route as a lifeline route, the Authority shall grant a licence only to the operator who is to perform that route in accordance with the terms and conditions of the PSO.

Guernsey Air Transport Licensing Review

Final summary report

17 March 2017



The Committee for Economic Development (CfED) is reporting back to the States this year on whether or not to maintain the current Air Transport Licensing (ATL) policy arrangements

Guernsey is unusual in having an ATL regime - the policy is guided by a number of issues:

- Concern that the free market may not deliver beneficial outcomes for Guernsey, especially regarding the Gatwick route.
- The Billet D'Etat (XXIII 2013) which was approved to amend the ATL Policy Statement to provide greater security on the Gatwick route also included provision to:
 - monitor and review the effect of the revised ATL Policy Statement*; and
 - report back to the States in 2017 with recommendations on any further amendments it may require in light of that review.
- CfED's objectives relating to air links and air transport performance**.

The objectives of our study were four-fold

1. Map out the options for ATL policy;
2. Provide a high level economic assessment of the key advantages and disadvantages of each option;
3. Provide an indication of the effect of each option on a range of economic and social objective metrics; and
4. Ensure the analysis is forward looking and future proofed.

Our analysis was informed by a number of strands of evidence

- Airline interviews – in-depth interviews and email exchanges with a number of airlines (including those serving and not serving Guernsey).
- Stakeholder interviews (in particular senior staff of CfED, Guernsey Airport, the States Trading Supervisory Board and the Transport Licensing Authority).
- Desk research, data analysis and literature review; and
- Five detailed case studies covering ATL regimes in comparable jurisdictions (Jersey, Isle of Man and Bermuda) and the use of Public Service Obligations (PSOs) in Norway and the Highlands and Islands of Scotland.

CfED will use this study to review the Air Transport Licensing Policy Statement and report back to the States later this year with recommendations for any further amendments (following those made in 2013*)

... we have been asked to consider the options for ATL reform and analyse the economic trade-offs

We also reviewed and sought views on the current ATL process

0 -1 weeks

All applications

Airline applies to TLA for a route licence and application published in *La Gazette Officielle* and CAA Official Record

2-3 weeks

All applications

Statutory period for the receipt of representations

4 to 5 weeks

Non-contested applications

TLA determines the application against Policy Statement

- The TLA is comprised of up to seven members (five elected politicians and up to two non-voting members appointed by the committee who shall not be members of the States).
- It has responsibility for determining applications for air route licences*.
- Non-contested ATL applications are usually processed in 4-5 weeks, whereas a contested application can take up to 6 months to process

4-5 weeks

Contested applications: The TLA decides whether or not to hold a hearing (at its discretion). If a hearing is not held, the TLA will determine an application against the Policy Statement and any representations. If a hearing is to be held, the TLA will negotiate with relevant parties on timing, but will ultimately set a date. This could be a number of months after the date of an application. The TLA will determine an application after a hearing against the Policy Statement and any representations

<6 months

Contested applications

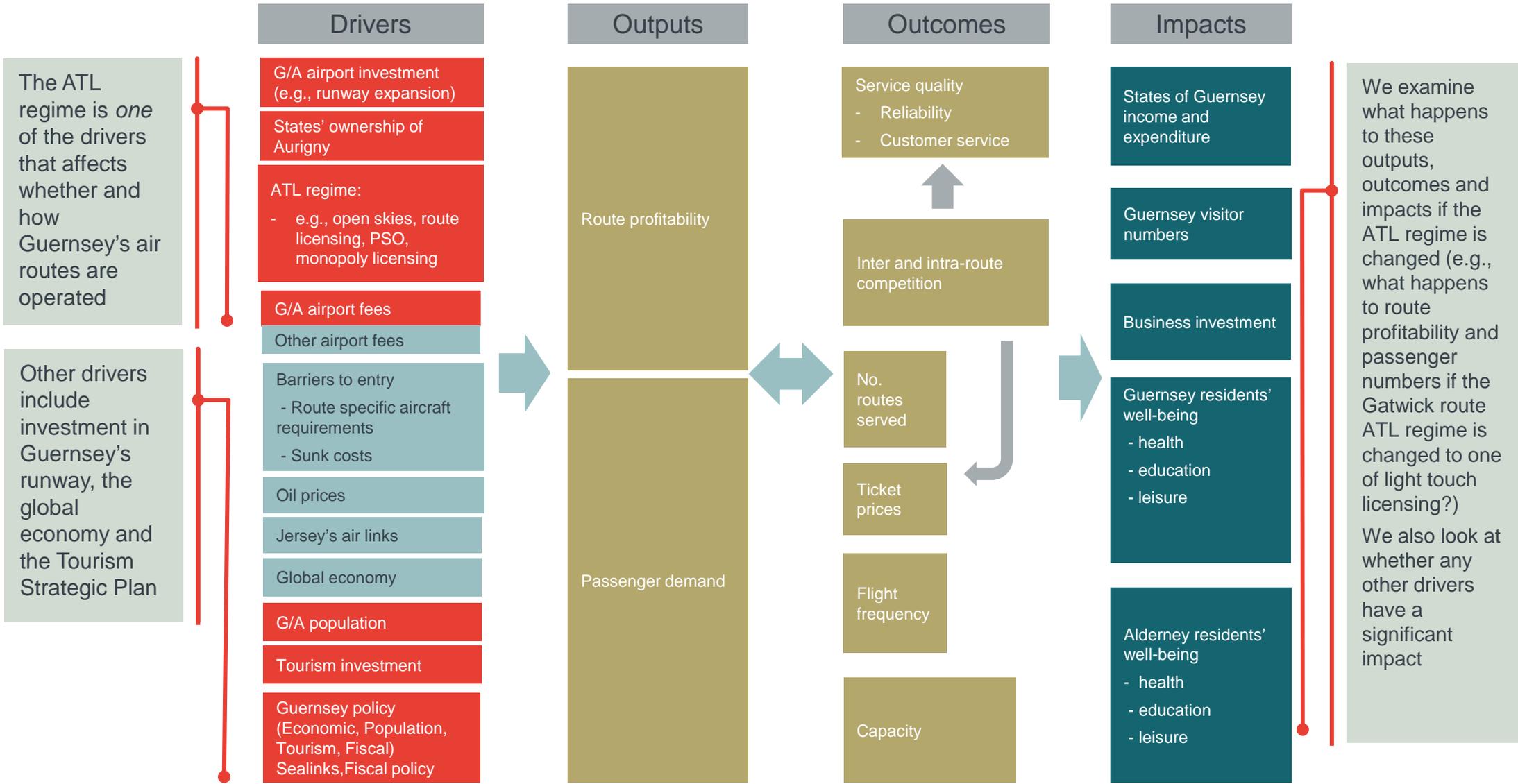
Decision taken for contested applications and licence awarded (if decision to approve).

- Our examination of the TLA's licence data shows that nine out of ten licence applications are approved.
- In addition, some airlines have been granted air route licences to operate a route but then do not, suggesting that the licensing process is not the main or only barrier to route development.
- Most airlines we consulted were satisfied with the current process, but Low Cost Carriers (LCCs) said they would be deterred by anything other than the lightest touch licensing regime/open skies.
- A number of stakeholders and airlines told us that the decision-making could be more systematic, better informed and transparent. The TLA has published guidelines on this ***.

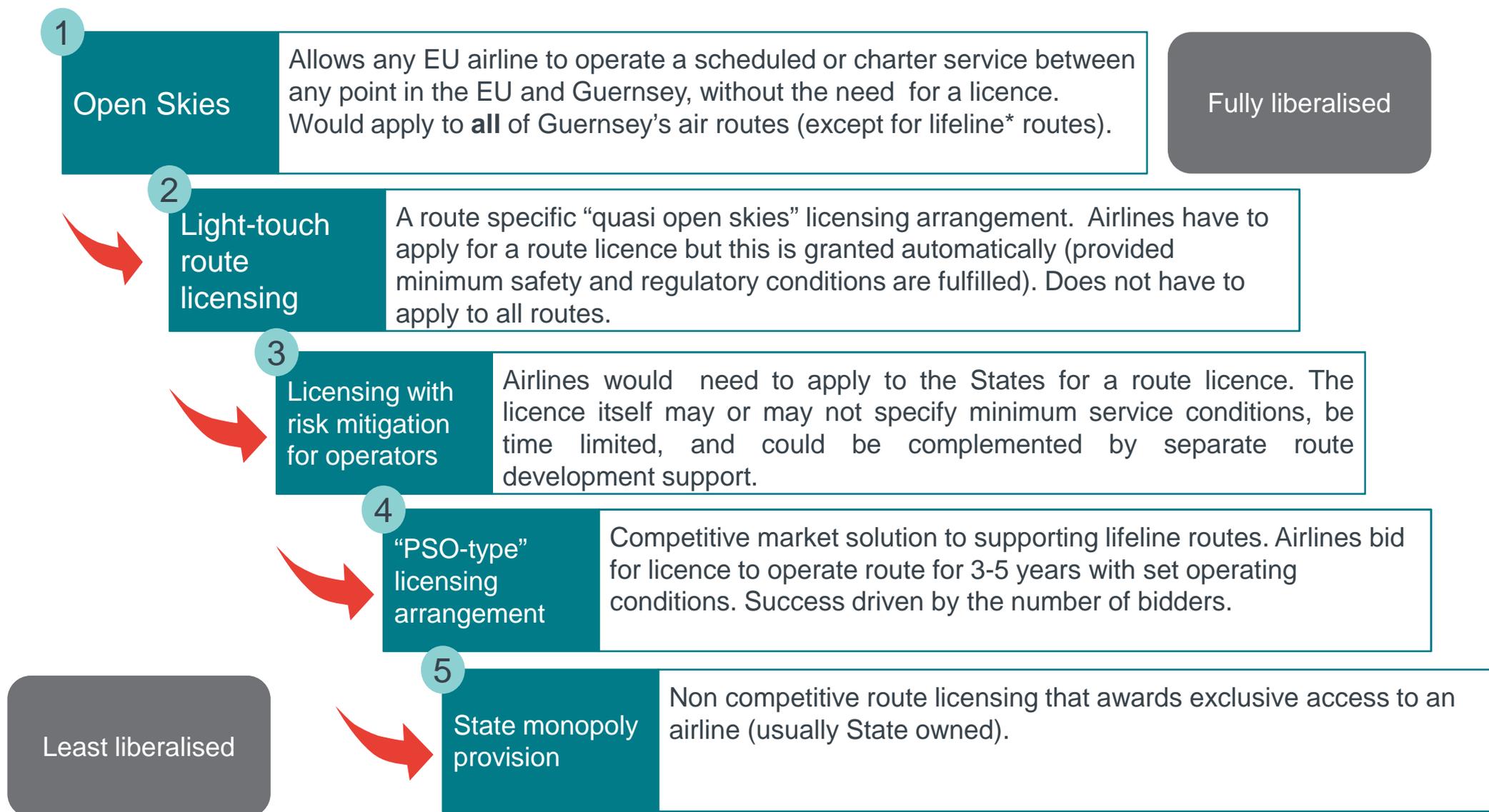
Any changes to the ATL policy statement should aim to clarify and simplify the task of determining licensing applications

- Whilst there is some guidance** which states that the TLA has mandated responsibility for determining applications for route licences, and the TLA has since set out details of the application process and its procedures***, there is scope to further define the discrete responsibilities of the TLA and CfED and create greater levels of certainty and incentives to encourage airlines to operate into Guernsey.
- To assist this we recommend that CfED's role continues to be one of strategic route development and its supporting policy and the TLA's role non-strategic.
- We also recommend that the ATL policy statement should set out a measurable and finite set of conditions that successful applicants would need to satisfy, thus removing any ambiguity from the point of the airline and clearly defining the decision making process of the TLA.

We have developed an air route decision making logic model to predict whether Guernsey and Alderney will be made better or worse off by changing the ATL regime



We considered the full spectrum of ATL options drawing on our research and evidence from case studies...



...and found that the economic trade-offs and ATL response depend upon the type of route (evidenced by our logic model analysis and airline interviews)

	Critical route (vital to the economic or social well-being of Guernsey or Alderney)	Non-critical route (not vital to the economic or social well-being of Guernsey or Alderney)
Policy intervention required to remove a barrier to entry	<p>‘Lifeline routes’* (Alderney)</p> <ul style="list-style-type: none"> Thin routes, critical to the economic and/or social well-being of Guernsey or Alderney where the barrier to entry is route profitability The key aim of the ATL regime is to make the route attractive to airlines through for example subsidy provision 	<p>‘Development routes’</p> <p>For new routes, the key aim of the ATL regime may be route development support or if this is developed separately, it should be as light touch as possible to promote entry</p> <ul style="list-style-type: none"> In either case, the ATL regime should support the overarching strategic aim to develop the route (through free market competition or supporting an appropriate airline).
No intervention required to remove barriers to route entry.	<p>Strategic routes (Gatwick, Jersey**, Southampton***)</p> <p>[** facilitates inter-island business - without the link some Guernsey businesses may relocate] [***enables access to vital health services]</p> <ul style="list-style-type: none"> Evidence that the free market is able to provide a ‘minimum service level’ without the need for a subsidy (but intervention may be required to protect Gatwick slots) 	<p>‘Other routes’ (Birmingham, Exeter, Bristol, East Midlands, Norwich, Stansted, Leeds/Bradford, other ‘non-development’ new routes)</p> <ul style="list-style-type: none"> No strong reason for policy intervention on these routes even if the free market would not operate these routes. The key aim of the ATL regime is to be as light touch as possible to promote route entry to carriers

* In the UK, definition of the type of route that warrants PSO status is best conveyed by the term “life-line” i.e., “a route serving a peripheral or development region in its territory” or on “a thin route to any airport in its territory” where the route is considered “vital for the economic and social development of the region which the airport serves”. Sources: Article 16 of Council Regulation (EC) No. 1008/2008 and <http://www.airneth.nl/activities/details/article/european-experience-with-direct-subsidisation-of-air-services/>

We find that for the Gatwick route Guernsey should benefit from moving to a light touch “quasi open skies” ATL regime if there is a runway extension (with slot leasing*)

	Current ATL regime	Proposed ATL regime	Likely impacts		
			Positive	Negative	Neutral /uncertain
Gatwick with: <ul style="list-style-type: none"> Runway extension Slot leasing* 	From: heavy touch licensing	To: light touch (“quasi open skies”)	Passenger demand and profitability will increase and fares should fall. Increased visitor numbers and well-being	Aurigny exit from the Gatwick route and potential closure Cost of runway extension Less frequent flights	Fewer destinations if Aurigny ceases to trade. Schedule should still serve the business community
Gatwick with: <ul style="list-style-type: none"> Runway extension No slot leasing 	From: heavy touch licensing	No change recommended	We recommend no change because, in the absence of slot leasing, the current ATL regime is necessary to protect Guernsey’s Gatwick slots		
Gatwick with: <ul style="list-style-type: none"> No runway extension Slot leasing* 	From: heavy touch licensing	No change recommended	We recommend no change because any move to liberalising the Gatwick route would probably result in Aurigny closure (and loss of air route destinations) or a significant increase in States expenditure to maintain Aurigny (in the absence of Gatwick route profits)		
Gatwick with: <ul style="list-style-type: none"> No runway extension No slot leasing 	From: heavy touch licensing	No change recommended	We recommend no change because, in the absence of slot leasing, the current ATL regime is necessary to protect Guernsey’s Gatwick slots		

* Slot-leasing is common practice in the airline industry and would be feasible for Aurigny. This is considered by the IoM in their 2013 Open Skies Review. Several airlines provided us with examples of slot leasing occurring under an open skies regime (details of these arrangements are confidential).

...and for all other routes except Alderney we find that Guernsey should benefit from changing its ATL regime to a light touch “quasi open skies” regime

	Current ATL regime	Proposed ATL regime	Likely impacts		
			Positive	Negative	Neutral /uncertain
Alderney	From: light touch licensing (+support to Aurigny)	To: “PSO-type” regime to replicate current service	Improved route profitability and competition for the Alderney route. Potential for lower States subsidies if sufficient competition (see case study evidence)	If the States provide the aircraft to increase the number of bidders this will increase States expenditure (but this should be offset by a lower subsidy),	“PSO” licensing conditions can be set to maintain current service levels (frequency, pricing, capacity)
Development routes	From: light-medium touch regime	To: light touch (“quasi open skies regime”) with route development support from CfED	Increased no. of passengers (net of impact on other routes), visitors and destinations*. Capacity and frequency should improve in the long run. Improved well-being for Guernsey residents	Potential for a reduction in service frequency and/or capacity if another airline takes over an existing Aurigny route	Prices may fall if increased competition between airlines (on the same route or nearby routes) Business investment may increase States expenditure will fall if route development costs less than current support to Aurigny
All other routes	From: light-medium touch regime	To: light touch (“quasi open skies regime”)	New entrant airlines may improve passenger numbers* and route profitability and some new routes may develop as airlines seek to use their spare off-peak capacity States expenditure will fall as a result of ceasing to provide financial assistance to Aurigny to service these routes	Destination choice , route longevity and Guernsey well-being will fall if the free market is left to serve these other routes that are currently served by Aurigny (assuming the States no longer provide financial assistance to Aurigny)	Impact on States expenditure and income dependent upon the level of assistance provided to Aurigny to service non-profitable routes – but in principle this should decrease

Overall we recommend that Guernsey adopts a light touch “quasi open skies” ATL regime for all routes except Alderney and Gatwick (if there is no runway extension), taking into account some key issues

	ATL recommendation	Issues to consider
Gatwick (no runway extension)	Maintain the current ATL regime	A move to quasi open skies with slot leasing may result in a regional airline providing better route promotion, slightly lower fares, some passenger growth and comparable capacity, but would also result in a lower frequency service, the loss of Guernsey’s middle of the day slots (unless these are leased for other destinations) and the need for the States to provide significantly more support to Aurigny to continue to operate its other services. Without slot leasing it is unlikely that another airline would try to enter the route, but if they succeeded this could result in Guernsey losing its slots.
Gatwick (runway extension)	Light touch licensing regime (quasi open skies) with slot leasing	A move to quasi open skies with slot leasing and a runway extension could lead to LCC entry, lower prices, significant passenger and visitor growth and improved route promotion. Although a LCC may only operate two rotations per day, evidence from the IoM and Jersey suggests the timetable would support business travellers. The States could lease the unused slots for other destinations. These benefits should be balanced against the cost of a runway extension and of States support to Aurigny to maintain its other services.
Alderney	“PSO type” regime	A well-designed PSO style arrangement should incentivise the free market to provide an Alderney service, that is comparable to today’s, at a lower cost. The key risk, illustrated by our Norway and Scotland case studies is that not enough airlines will bid for the contract, meaning that those airlines that do bid have little incentive to keep their bids as low as possible. One way of addressing this could be for the States to provide a suitable aircraft and invite airlines to bid for an operator contract. Another way could be to relax the PSO licence requirements.
Development routes	Light touch licensing regime (“quasi open skies”)	ATL policy for development routes should focus on minimising barriers to entry. One way to do this is making the licensing regime as light touch/attractive as possible to prospective airlines. Another way, illustrated by our Bermuda case study, is to provide additional separate strategic route development support to airlines. This support is not formally linked with the licensing regime and can take the form of marketing support or other financial risk mitigation measures. The cost of this should be compared with the current cost of supporting Aurigny’s non-profitable services.
All other routes	Light touch licensing regime (“quasi open skies”)	There is no economic rationale to provide support to these routes either because the free market is already providing at least a minimum service level or because the route does not serve a critical role in supporting Guernsey’s economy or well-being. A light touch licensing regime will have no or little impact on existing profitable routes such as Birmingham, but may result in at least some of Aurigny’s currently non-profitable routes being discontinued and a greater turnover rate of new/ discontinued routes.

...and that the roles of CfED and the TLA are more distinct

Our recommendation to move to a quasi open skies arrangement on most routes reinforces a separation of tasks between CfED and the TLA. Whilst CfED should continue to focus upon route development and its supporting policy, the ATL policy statement and the TLA should continue to have a non-strategic focus, and aim to minimise any deterrent effect of the licensing process by automatically granting licences provided minimum regulatory and safety conditions are satisfied.

A similar clear separation of roles should be defined for the Gatwick and Alderney routes once the precise ATL regime has been agreed upon. For both these routes it is likely CfED will be involved in the airline selection process and the TLA would issue licences based on these recommendations (provided minimum safety and regulatory conditions have been met).

CfED – strategic focus

- Development routes – route development support
- Alderney – to include PSO design and evaluation
- Gatwick – to be determined

TLA – compliance and administrative focus

- All routes except Alderney and Gatwick – Automatic granting of licences provided minimum safety and regulatory conditions met
- Alderney – to include PSO administration and compliance checks
- Gatwick – to be determined