

**REPLY BY THE PRESIDENT OF THE STATES' TRADING SUPERVISORY BOARD  
TO A QUESTION ASKED PURSUANT TO RULE 14 OF THE  
RULES OF PROCEDURE BY DEPUTY YVONNE BURFORD**

**Question 1**

*In the course of your Committee's work on the future of Guernsey Airport, have you sought any analysis on the likely economic and other effects of a runway extension at Guernsey Airport? If so, please could you publish the conclusions of that analysis and, if you feel it is necessary for context, any associated documentation as a response to this Rule 14 question.*

**Answer**

In December 2021, the States' Trading Supervisory Board (STSB) commissioned a review of the potential forecasting and economic impacts of a runway extension at Guernsey Airport on the finances of the Airport. This work was used to supplement an assessment of future passenger demand, being undertaken as part of the production of a Guernsey Airport Masterplan.

This review was commissioned from York Aviation and was finalised in August 2022. The resultant output has been shared with the Committee for Economic Development (CfED), for wider consideration in its forthcoming Policy Letter on the subject of a runway extension at Guernsey Airport. The STSB is aware that CfED has commissioned other work in support of that Policy Letter.

The conclusion section of the York Aviation review is extracted below:

**Conclusion**

- Overall, we<sup>1</sup> have set out that there would be substantial costs to the Airport, over and above the cost of the runway, if low fares services were to be enabled. Based on the performance seen on Jersey and the Isle of Man and taking into account the level of discounting of charges or support required to attract these airlines as well as operating cost impacts, the effect could worsen airport losses by £2-3 million a year, dependent on the extent to which there was underlying market growth in any event. The losses could be ameliorated to some extent, but not eliminated, if the effect of redeveloping the terminal to accommodate larger aircraft passenger loads led to increased commercial income from additional space but this would come with a requirement for increased capital expenditure.
- There would also be cost impacts on Aurigny as the evidence would suggest that much of the passenger traffic using low cost services would be cannibalised from existing air services (and also potentially from the ferries to the detriment of the Ports more generally). The loss of revenue to Aurigny could reach £25 million a year over time as the low cost network develops. Assuming that it is considered strategically important to retain Aurigny to operate key routes and service frequencies, this would limit the scope to cut the airline's operating costs but for the purpose of our analysis, we have assumed cost reductions equivalent to half of the revenue loss.
- There would be benefits to users largely from lower air fares, balanced by loss of some routes and frequencies of services increasing net journey times when waiting time is taken into

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<sup>1</sup> References to we/our refer to York Aviation

account. It is important to note, however, that most of these benefits are expected to accrue to Guernsey residents and could lead to increases in expenditure off-island.

- In economic welfare terms, our analysis would suggest that only under more optimistic assumptions would the investment in a runway extension and the attraction of low fare airlines deliver a positive return to the States and this is on the basis of a low assumed rate of return of 3.5%. On a more commercial basis, the returns would be negative as is the case if the full cost of the terminal improvement works at the Airport are ascribed to the need to accommodate larger aircraft.
- We have not specifically assessed the costs and benefits in the same terms as previous analyses but it seems highly unlikely that the benefits from incremental visitor numbers, having full regard to diversion from sea, would justify the true costs of accommodating low fare airlines. We do not believe that the business benefits could be realised without other interventions to change the path of the Guernsey economy.
- Overall, the decision as to the viability of the investment is dependent on the objectives set by the States against which the investment is to be judged. We have focussed our analysis on the effect of low fare services as we understand this to be the primary motivation in the proposal to extend the runway. On this basis, we would conclude:
  - Low fare services have the potential to deliver air fare savings and deliver consumer benefits but most of these are likely to accrue to Island residents, many travelling for leisure purposes;
  - The effect is likely to worsen connectivity overall, with potential detriment to business connectivity in terms of frequency to key destinations and the breadth of the network;
  - Low fare services are likely to result in an increased shift from sea to air travel but the net increase in the number of visitors attracted is likely to be low;
  - There would be a material impact on the profitability of the Airport, making the attainability of break-even or profitable operations highly unlikely, with no ability to cover the cost of the required investment to improve the existing facilities and expand them sufficient to handle larger aircraft operated by low fare airlines;
  - There would be a major impact on Aurigny, resulting in substantial loss of revenue against which the scope for cost reductions would be more limited.
- We recognise that having a longer runway could enable other 'mainline' air services to operate with larger aircraft as well but the scope for such services is limited by the small size of the Guernsey market, particularly without broader initiatives to improve economic performance. Overall, it seems highly unlikely that the scale of any mainline services would be sufficient to justify extending the runway, nor would they bring the anticipated air fare benefits.

**Date of Receipt of the Question:** 28<sup>th</sup> November 2022

**Date of Reply:** 7<sup>th</sup> December 2022