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# **BILLET D'ÉTAT**

**WEDNESDAY 30th OCTOBER 2013**

**TREASURY AND RESOURCES DEPARTMENT  
SECURING STRATEGIC AIR  
LINKS TO LONDON GATWICK AIRPORT**

# **BILLET D'ÉTAT**

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## **TO THE MEMBERS OF THE STATES OF THE ISLAND OF GUERNSEY**

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I hereby give notice pursuant to Rule (1)(4) of the Rules of Procedure of the States of Deliberation that the item contained in this Billet d'État which has been submitted for debate will be considered at the Meeting of the States of Deliberation already convened for **WEDNESDAY, the 30<sup>th</sup> OCTOBER, 2013.**

**R. J. COLLAS**  
Bailiff and Presiding Officer

The Royal Court House  
Guernsey  
21<sup>st</sup> October 2013

## TREASURY AND RESOURCES DEPARTMENT

### SECURING STRATEGIC AIR LINKS TO LONDON GATWICK AIRPORT

The Chief Minister  
Policy Council  
Sir Charles Frossard House  
La Charroterie  
St Peter Port

15<sup>th</sup> October 2013

Dear Sir

#### **1. Executive Summary**

- 1.1 Comprehensive air transport links are fundamental to the long-term economic sustainability of the Island, none more so than into one of the two principal London hub airports. The prevention of the loss of the Island's slots into London Gatwick Airport ("Gatwick") has previously been identified by the States as a strategic priority. History has shown that privately owned airlines cannot be expected to put Guernsey's strategic, economic and social requirements for such access ahead of their own interests. The economic dynamics of the route are changing, particularly as Gatwick seeks to discourage the use of its runway by smaller aircraft through increases in UK Air Passenger Duty, targeted increases in landing fees and as fuel prices remain high. In this environment, the risks to Guernsey's link with Gatwick remain substantial.
- 1.2 The States has previously mitigated this risk by purchasing Aurigny Air Services Limited ("Aurigny") for the sole purpose of ensuring the continuing operation of an air link between Guernsey and Gatwick. Aurigny's current investment in the introduction of a larger jet aircraft, coupled with Flybe's withdrawal from the route, provides a window of opportunity for the Island to take further steps to insure against this risk. If the route was to be protected by virtue of changes to the States' Air Transport Licensing Policy Statement, the Island could have much greater security of supply on this strategically important route.
- 1.3 The Department believes its role as the shareholder in Aurigny on behalf of the States is a key consideration in this matter and this is the basis upon which this report is being brought forward. There is scope for the Department to adopt a more proactive approach in its role by establishing clear shareholder objectives in areas such as: minimum service standards; fare controls; monitoring arrangements and reporting regimes to ensure that the airline continues to deliver cost effective, efficient and innovative services to and from Gatwick that are responsive to customer needs and serve the best interests of the community.
- 1.4 Air transport services are licensed by the Commerce and Employment Department in accordance with the Air Transport Licensing (Guernsey) Law,

2005. In considering applications for licences, that Department must take into account, *inter alia*, the provisions of the Air Transport Licensing Policy Statement (“Policy Statement”), which must be approved by the States. This report is therefore recommending that the Policy Statement is amended so that, in the case of services to Gatwick only, where an incumbent operator is offering a good level of service and is likely to be prejudiced by the granting of a new licence on the route, the presumption will be that such an application will be refused so as to protect the existing investment on the route.

- 1.5 The proposed amendment to the Policy Statement will **not** preclude more than one operator from being granted a licence on the Gatwick route. However, it will establish criteria that have to be considered by the licensing authority before granting additional licences, including the investment made by an incumbent operator, the quality and level of service it offers and the likely impact on it if additional licences are granted.
- 1.6 This report is also proposing that, in the event that the States approves changes to the existing Policy Statement, the matter should be reviewed after a period of three years, the results of which would be reported to the States with recommendations as to whether or not the arrangements should be maintained.

## 2. Background

- 2.1 At their meeting on 31<sup>st</sup> July, 2013<sup>1</sup>, the States agreed to authorise the Treasury and Resources Department to facilitate borrowing by the Aurigny Group to finance the purchase of additional aircraft as a consequence of Flybe’s decision to withdraw from providing a service between Guernsey and Gatwick and to sell its slot portfolio at Gatwick to easyJet.
- 2.2 In submitting its Report to the States, the Department stressed the importance to the Island of providing reassurance at an early opportunity that Aurigny would safeguard this strategic service, given the loss of capacity that Flybe’s withdrawal would precipitate. Given the importance of the service to the Island’s economy, the Department felt it was essential to maintain confidence and provide reassurance that a comprehensive service would be maintained by Aurigny. In this manner, the States was able to use its ownership of Aurigny for the benefit of the Island by providing much greater security on the critical Gatwick route.
- 2.3 In doing so, the Department noted that Aurigny’s financial forecasts for the expansion of its services assumed that it would become the sole operator on the route following Flybe’s withdrawal. After making such a major investment in additional aircraft on behalf of the Island, the most significant risk would be the licensing of a second operator. Accordingly, the Department noted in its report that it intended to consider the merits of inviting the States to amend the States’ existing Air Transport Licensing Policy Statement and to present that proposal to the States on the matter later in 2013. The existing Policy Statement is attached as Appendix 1 to this Report.

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<sup>1</sup> Billet d’Etat XVII of 2013

- 2.4 In taking this initiative, the Treasury and Resources Department emphasises its primary objective is securing a strategic link through Aurigny, rather than focussing on its narrower shareholder role in respect of the company. As such, its approach is similar to that adopted in submitting its aforementioned report to the States in July of this year.
- 2.5 The Department signalled its intention in July to report to the States on a possible amendment to the Policy Statement before the end of this year. Since that time, it has carefully considered the scope of the necessary amendment with a view to presenting this to the States, as soon as possible, to remove any uncertainty that may have been created following the July report, recognising the importance of certainty in the air transport licensing framework.

### 3. Strategic Context

- 3.1 The current States Strategic Plan for 2013 to 2017<sup>2</sup> includes amongst its aims the need to protect and improve both the quality of life of Islanders and the Island's economic future. The Plan recognises that this requires, *inter alia*:
- The maintenance and enhancement of Guernsey's standing in the global community;
  - Conditions that encourage enterprise and successful business; and,
  - Efficient transport and communication systems.
- 3.2 Within the context of the above, one of the working assumptions upon which the current Fiscal and Economic Plan is based is that the maintenance of a competitive position for Guernsey is an imperative for the Island's future economic success. The Plan refers to both the Oxford Economics Report published in February 2012 entitled "Towards an Economic Strategy for Guernsey" and the subsequent consultation document published by the Policy Council and Commerce and Employment Department entitled "Growing Guernsey's Economy in a Competitive Environment". The consultation document identified potential opportunities for facilitating economic development, including:
- Lightly supporting the continued growth of financial and professional services as the primary economic engine;
  - Growing value in the tourism sector; and,
  - Developing air and sea routes.
- 3.3 Air transport is essential for every member of the Island's population in terms of family contacts, as well as social services such as medical facilities and treatments and access to training and education in the UK. These links are fundamental to the long-term economic sustainability of the Island. Finance and business services represent over 50% of the Island's GDP and good air links into one of the two principal London hub airports are a major factor in the long-term

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<sup>2</sup> Billet d'Etat VI of 2013

success of the sector, not least because of the very close relationship with the City of London.

- 3.4 With the Gatwick route responsible for approximately 50%<sup>3</sup> of all UK passengers travelling to and from Guernsey, tourism on the Island is also heavily dependent on air links to London. In turn, the success of tourism is necessary for the survival of the air links on which business depends. The aforementioned Oxford Economics Report observed that small Island tourism is constantly vulnerable to the vagaries of market forces in the aviation market and that air routes from Guernsey have seen a good deal of change in the past decade, with “non-native operators” entering and leaving the market at fairly regular frequency.
- 3.5 Hub access to Gatwick is crucial to Guernsey. A reliable and comprehensive connection to this London hub provides local passengers and businesses with access to a wider range of potential destinations than otherwise would be available. It is also vital because, as the finance industry in particular highlights, businesses based in Guernsey need international access.
- 3.6 The prevention of the loss of the Island’s slots into Gatwick has previously been identified<sup>4</sup> as a strategic priority by the States. This comes against a background of an underlying trend within worldwide air travel that has increased demand for limited landing and take-off slots at the London hub airports, making them an extremely valuable commodity in themselves. The problem facing Guernsey is that commercial airlines cannot be expected to take into account the public good that air links provide or to put the Island’s strategic, economic and social requirements for access to a London hub airport ahead of commercial interests. Therefore, as the value and pressure on slots increases, so does the vulnerability of Guernsey’s ‘lifeline’ route into Gatwick. The withdrawal of KLM’s services between Guernsey and London Heathrow in the 1990s and British Airways’ services to Gatwick in 2003, together with the forthcoming loss of Flybe’s services to Gatwick, are testament to this problem.
- 3.7 The UK Government has established an Airports Commission chaired by Sir Howard Davies to examine the need for additional UK airport capacity and recommend how this can be met in the short, medium and long-term. The Commission’s final report assessing the costs and benefits of various solutions to increase airport capacity is not due to be published until 2015. Even if additional capacity is recommended, it will be many years before this feeds through. In the meantime, previous representations by the States of Guernsey and other authorities to the UK Government to reserve slots at the London hub airports for Guernsey (and other regions) have not met with success.

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<sup>3</sup> Source: Guernsey Airport 2012 Passenger Movements

<sup>4</sup> Billet d’Etat XI of 2003 – Security of Air Links

#### **4. Air Transport Licensing**

- 4.1 Air transport licensing in Guernsey is undertaken in accordance with the provisions of the Air Transport Licensing (Guernsey) Law, 1995, and the Air Transport Licensing Policy Statement, which was last considered and approved by the States in 2004<sup>5</sup>. The Law requires that the Policy Statement, and any amendment to it, must be approved by the States.
- 4.2 Applications for air transport licences must be considered and determined by the Commerce and Employment Department. The Law requires the Department to take into account the Policy Statement when considering applications. It is important to note that the Department is not bound by the terms of the Policy Statement; however, it must be able to demonstrate that it took the Policy Statement into account when determining an application.
- 4.3 Some of the key provisions of the existing Policy Statement (see Appendix 1) include:
- 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;
  - 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;
  - Competition is not the sole determining factor and the potential benefits of lower costs and more consumer choice need to be balanced against the need for regulation to safeguard the interests of users and, where appropriate, Island residents;
  - 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;
  - 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;
  - 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.
- 4.4 Flybe's decision to withdraw from London Gatwick is a stark reminder of the Island's vulnerability to commercial decisions in the aviation industry and the potential consequences for the Island's social and economic viability as a result of losing main London hub access. The Island has seen Guernsey Airlines, AirUK/KLM, Air Europe, Cityflyer Express, British Airways and now Flybe

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<sup>5</sup> Billet d'Etat III of 2004

come and go on the routes to London and the Department believes that the existing air transport licensing policy is not delivering the service stability that the community needs as it does not recognise or protect investment made by incumbent operators on the Gatwick route.

## **5. Securing Continued Access to Gatwick through Aurigny**

- 5.1 In 2003, the States of Guernsey agreed<sup>6</sup> to purchase Aurigny for the sole purpose of ensuring the continuing operation of an air link between Guernsey and Gatwick following the withdrawal of British Airways from the route. The purchase was conditional on Aurigny securing a legally enforceable right to appropriate British Airways' former slots to operate Gatwick services to and from the Island, which it subsequently did.
- 5.2 In making the purchase, the States agreed that the acquisition of Aurigny was a strategic investment in an operation that would be of considerable value in protecting the Island's long-term social and economic sustainability by securing access to a London hub airport.
- 5.3 Following consideration of a report from the Treasury and Resources Department in 2005, the States also agreed<sup>7</sup> that the retention of the Aurigny Group (the collective term for Cabernet Ltd, Aurigny Air Services Ltd and Anglo Normandy Aero Engineering Ltd) continued to be in the overwhelming public interest and represented the best strategic option for the Island at that time. In 2007, the States agreed<sup>8</sup> to authorise the Department to facilitate, if necessary by providing guarantees, the Aurigny Group borrowing from third parties to finance the purchase of two new aircraft for the operation of the Gatwick and other services. At the time, the Department advised the States that its view remained that the retention of the Aurigny Group in the ownership of the States was overwhelmingly in the public interest, but that the matter remained under constant review.
- 5.4 Following the States decisions<sup>9</sup> in July, 2013, and after consultation with the Policy Council, the Department approved Aurigny's business case for the purchase of a new Embraer 195 jet aircraft seating 122 passengers. The decision was reached following consideration of a range of different jet and turboprop aircraft, both new and second hand, and of different purchase and lease options.
- 5.5 The business case identified a number of key strategic benefits associated with the proposal, including:
  - The provision for the Island of complete security of supply of air capacity on the strategically important Gatwick route. The airline will be operating up to 6 rotations per day to Gatwick, four of which will be serviced by the larger jet aircraft, providing in excess of 400,000 seats per annum on the route

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<sup>6</sup> Resolution 1 of Billet d'Etat XI of 2003

<sup>7</sup> Resolutions 1 to 3 of Article XII of Billet d'Etat IX of 2005

<sup>8</sup> Resolutions 1 and 2 of Article X of Billet d'Etat XVI of 2007

<sup>9</sup> Billet d'Etat XVII of 2013



(average total passenger numbers on the route over the past 10 years have been just under 341,000 per annum);

- The early provision of confidence and reassurance to the market and our trading partners that a comprehensive service would continue to be operated in the short, medium and long-term by an operator whose shareholder, the States of Guernsey, was absolutely committed to the maintenance of the link, given the importance of the route to so many sectors of the Island and its economy;
- Improved resilience through the operation of a larger jet to increased user/landing charges at Gatwick. Landing fees payable by Aurigny at Gatwick have increased by 320% since 2004. Recent increases in and changes to the structure of landing charges at the Airport are consciously intended to seek more efficient use of its scarce runway capacity by encouraging the use of larger aircraft<sup>10</sup>;
- The opportunity for Aurigny to expand its operations overnight by 20%, offering substantially improved economies of scale. The Company estimates that its “bottom line” performance will be improved by £1.8m in 2014 and that it will breakeven in 2015, before making a modest profit of £200,000 in 2015 and £400,000 in 2017. **Importantly, these projections do not assume any significant change in fare levels on the route.**

Aurigny will be investing approximately £23m in the introduction of the new jet, including start-up costs including crew training, ancillary ground equipment and hangar modifications. Conscious that it would be heavily reliant on a single jet, it should be noted that Aurigny is planning to retain as a spare aircraft its existing third ATR turboprop to assist in restoring services as a consequence of weather related and other delays. The costs of doing so have been factored into the business case. It has also budgeted for temporarily wet leasing in larger additional aircraft to assist where necessary in recovering from service disruptions. Aurigny has established relationships with aircraft operators that specialise in providing such aircraft at very short notice to assist in such situations.

- 5.6 The business case made conservative assumptions about passenger numbers on the route, specifically making allowance for the migration of some existing Gatwick passengers to other UK airports in anticipation of an increase in competitive pressure from operators on other services following Flybe’s withdrawal from Gatwick. For example, Southampton is now being proactively marketed as a viable alternative to London with connecting rail/air tickets.
- 5.7 In presenting its business case to the Department for the acquisition of a larger aircraft, Aurigny reiterated that after making such a major investment in additional aircraft on behalf of the Island, the most significant risk associated with it would be the licensing of a second operator on the Gatwick service. The Department acknowledged this risk and, indeed, was clear in highlighting this concern when presenting its aforementioned report to the States in July.

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<sup>10</sup> UK Civil Aviation Authority – Investigation under Section 41 of the Airports Act, 1986, of the structure of airport charges levied by Gatwick Airport Limited (14<sup>th</sup> September 2012)

Nevertheless, in considering with Aurigny the possibility that it might become the sole operator on the route following the withdrawal of Flybe, the Department was clear with the airline in its belief that this presented concerns, including risks of:

- Monopolistic behaviour, such as inefficiency and higher fares;
- Poor service quality;
- Reduced innovation;
- Provision of inadequate capacity.

The Department indicated to Aurigny that it believed that steps would need to be taken to effectively mitigate these concerns and ensure that Aurigny remains an “honest” partner for the benefit of the Island and the travelling public. These steps involve making best use of the Department’s role as the airline’s shareholder in a more proactive manner than has been the case in the past.

5.8 This will be undertaken by a Shareholder Sub-Committee that has previously been constituted by the Department, which will have responsibilities for ensuring that it is an effective and active shareholder in Guernsey Post, Guernsey Electricity, Aurigny and Jamesco 750 (the company established for the management of the Island’s tankships). The Sub-Committee’s formal objectives include ensuring the businesses operate efficiently in the best interests of the community and ensuring that they deliver cost-effective and innovative services which are responsive to their customers’ needs.

5.9 The Department has previously set high level objectives for Aurigny covering key performance areas. Going forward, a key activity for the Sub-Committee will include establishing challenging updated and more detailed shareholder objectives, guidance and key performance indicators for the airline. In the event that the airline was to become the sole operator on the service to Gatwick following Flybe’s withdrawal, the Department believes it is essential that these updated objectives should include, inter alia:

- Targets and controls for average fares and passenger yields on the route that will incentivise and deliver efficiency. As part of this process, the Department intends to commission periodic external efficiency reviews of the airline;
- Service reliability, including targets for on-time performance and ensuring that the airline has reasonable contingency plans and procedures in place to deal with delays and cancellations.
- Capacity targets, ensuring that the airline is properly planning to meet the needs of the market. The Department is conscious that, whilst Aurigny would be in a position to offer sufficient capacity to meet demand over the course of a full year, there may be a limited number of peaks at certain times when even the larger jet may not be sufficient to meet demand. It will be critical for Aurigny to manage any such peaks through effective yield management, encouraging greater use of cheaper off-peak services to smooth out demand.

The Department is proposing to report publicly on these (and any other) targets and Aurigny’s performance against them on an annual basis.

## 6. Gatwick Service - Changing Economic Dynamic

6.1 When Flybe announced that it was withdrawing its services from Gatwick in May of this year, the airline cited the pricing regime applied by the owners of Gatwick on the operators of smaller regional aircraft, together with what it regarded as the punitive levels of Air Passenger Duty (APD)<sup>11</sup> imposed on domestic services, as the main reasons for its decision, **noting that none of its services at Gatwick had returned a profit over the last year**<sup>12</sup>. Flybe reported that the costs of its operations at Gatwick rose by 102% between 2007 and 2012 as a result of the airport's restructured landing fees and increased passenger charges.

6.2 Aurigny has been competing with Flybe on the Gatwick route since it took over from British Airways in mid-2003 and is currently projecting a loss of approximately £800,000 on its services to Gatwick in 2013. Its own experience in respect of airport charges and APD payable by passengers on its Gatwick flights reflects Flybe's position. The table in Appendix 2 sets out Aurigny's direct operating costs on the Gatwick route between 2004 and 2012, whilst the table in Appendix 3 sets out both operators' passenger and capacity figures for the route over the same period. Key points of note are as follows:

- Despite the competitive market place, combined passenger numbers carried on the route by both Flybe and Aurigny have remained almost flat, with long-term growth of just 1.8% between 2004 and 2012. This is in spite of Flybe's position<sup>13</sup> as both Europe's largest independent regional airline and its significant presence as the leading airline brand in the UK regional market, as well as the interlining opportunities it currently offers at London Gatwick;
- Aurigny's share of the overall market has increased at the expense of Flybe. Over the period, its passenger numbers have increased by 72%. However, the passenger and security charges it pays at Gatwick have increased by over 160% and the air passenger duty (APD) payable to the UK Government has increased by over 330%; and,
- Although the capacity offered by Aurigny on the route has increased by only 47% over the period, aircraft landing charges payable by Aurigny at Gatwick Airport have increased by over 320% and fuel costs have increased by over 270%.

Aurigny has no control over the charges levied by Gatwick for aircraft and passenger movements, nor the level of APD charged by the UK Government. It can only exercise very limited control over its fuel costs (through hedging

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<sup>11</sup> APD is an excise duty which is due on chargeable passengers being carried from Gatwick on chargeable aircraft. The rate of APD depends on the passengers' final destination. There are four destination bands based on the distance between London and the capital city of the destination country/territory. From 1 April 2013 each destination band has three rates of duty depending on the class of travel and the type of aircraft used, so there are 12 different rates of duty in total.

<sup>12</sup> Flybe letter and briefing note of 23<sup>rd</sup> May, 2013, to Commerce & Employment Department

<sup>13</sup> Source: Flybe Group Annual Report 2012/13

agreements etc), but the airline's experience reflects the worldwide trend for higher fuel prices. Taken together, all these costs represent 56% of Aurigny's total direct operating costs on the Gatwick route in 2012, compared to 35% in 2004.

- 6.3 Aurigny's remaining direct operating costs on the route (those within the airline's control) have increased by 56% between 2004 and 2012. However, as highlighted above, the capacity it offered on the route over the same period increased by 47%. Inflation over the period in Guernsey was 33.7%.
- 6.4 There has been a substantial change in the economic dynamics of the route, driven by increases in landing and passenger charges at Gatwick, APD and fuel costs, each of which are completely or largely outside the control of airline operators. The changes to the structure of the landing charges at Gatwick are particularly significant to the route's economics, as this will continue to discourage the use of smaller aircraft as the airport seeks to increase the number of passengers being carried on each aircraft to make the best use of its limited runway capacity.
- 6.5 Despite the presence of competing operators and Flybe's promotion of Guernsey as part of its national marketing activity, there has been virtually no long-term growth on the Gatwick route since 2004. In this environment and as aircraft sizes increase, the inevitable consequence is that passenger yields will suffer and/or service frequencies will have to be reduced.
- 6.6 The alternative - reductions in service frequency - would compromise the Island's requirement for easy and convenient access to Gatwick. Aurigny's current slot portfolio provides for weekday arrivals from and departures to Guernsey at Gatwick at the following times of the day:

<b>Arrivals:</b>	08:00	09:30	11:20	15:30	17:30	18:55
<b>Departures:</b>	08:30	10:00	11:50	16:00	18:00	19:30

Any slots left regularly unused in the event of service reductions would most likely either have to be sold to other operators, reallocated to other routes or returned to the slot pool, compromising Aurigny's ability to maintain and safeguard this strategic link in the longer-term.

## 7. Guernsey-Gatwick Route - Policy Statement

- 7.1 Aurigny's investment in a larger jet aircraft, coupled with Flybe's withdrawal, provides an opportunity for the Island and the airline to establish a service to Gatwick that maintains regular year-round frequencies throughout the day with sufficient capacity to meet market demand and provide complete security of supply for the Island on the route. However, if this is to be sustainable, it does rely on it being able to realise the potential of its investment on the route.
- 7.2 Historically, there has been a general presumption on the part of the States against intervention in the delivery of services by the private sector. Nevertheless the States has recognised that, from time to time, it has been

necessary to intervene to secure important strategic services which could not be guaranteed if left to free market mechanisms.

- 7.3 The decision to acquire Aurigny as a means of securing landing slots and thereby maintaining a strategic link to Gatwick is one such example. Similarly, the decision to acquire the two tank ships in order to ensure the essential fuel supply lifeline to the Island was maintained is another example. In that instance, there is no evidence that had the States not intervened the private sector would have been willing or able to ensure continuity of supply. Furthermore, the conscious decision of the States to retain ownership of Guernsey Electricity and Guernsey Water and not to expose those organisations to competition, in contrast to the arrangements in larger territories, such as the UK, underlines the fact that small islands such as Guernsey which are vulnerable strategically to the withdrawal of services supplied by the private sector may be driven to taking appropriate action.
- 7.4 Against the above background and having considered the matter in detail, the Department is recommending that the States should amend the existing Policy Statement so that there is a presumption in favour of supporting existing operators and investment on the Gatwick route, rather than a presumption in favour of competition.
- 7.5 The Department is recommending that the following specific provisions **relating to the Gatwick route only** should be included as an addition within the Policy Statement:

“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 Board 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 likely effect on the incumbent operator(s) of granting such an application,*

*where an incumbent operator offers a good level of service and is likely to 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.”*

There also need to be some minor consequential amendments to the Policy Statement to take into account the inclusion of the above new paragraph. A full draft of the Policy Statement revised in accordance with the above is attached as Appendix 4.

- 7.6 In making this recommendation, it is not the Department’s intention to prejudice either Flybe’s or Aurigny’s existing operations or licences on the service. Indeed, the proposed amendment recognises that, for the time being at least, both Flybe and Aurigny will continue to operate on the route. Furthermore,

following Flybe's withdrawal from the route next March, it does **not** necessarily prevent another operator from being granted a licence on the route. However, the proposed amendment does establish criteria specific to the lifeline Gatwick route that have to be considered by the licensing authority. These include taking into account the investment made by an incumbent operator, the quality and level of service it offers and the likely impact on it as a result of additional licences being granted. Importantly, it means that the licensing authority would need to take into account the States' decision to support Aurigny's investment in the Gatwick service.

- 7.7 The Department is proposing to report back to the States after a period of three years on the impact and effect of these proposed changes in the Policy Statement, recommending any further changes that might be considered necessary (including the possibility of reverting to the current licensing position).

## **8. Guernsey Airport**

- 8.1 Although the proposed amendment to the Policy Statement does enable more than one operator to be licensed on the Gatwick route, it does also create the possibility that there may only be one airline servicing it following Flybe's withdrawal. The Department has sought the views of the Public Services Department should such an eventuality arise. The Department's comments are attached as Appendix 5 to this Report.
- 8.2 Should such a situation arise, the Department is conscious that the withdrawal of Flybe's services will reduce the number of existing aircraft movements on the Gatwick route and that this will depress Guernsey Airport's income from aircraft landing fees (as opposed to income from passenger handling fees). However as operators have little choice but to increase the size of aircraft operating on the service as a result of Gatwick Airport's landing charge policy, it will be increasingly difficult for the route to sustain the existing service frequencies that have historically been provided by Flybe and Aurigny using smaller aircraft seating up to 88 passengers. Indeed, Aurigny does not anticipate maintaining its current frequencies if a second operator is licensed on the route following Flybe's withdrawal.
- 8.3 Aurigny does anticipate "leakage" of some Gatwick passengers to other routes to and from Guernsey (see paragraph 5.6). Whilst this may reduce income from passenger handling charges at Guernsey Airport on the Gatwick route, it should be offset by increases in income from these fees on other services to the Island.
- 8.4 The Department acknowledges the other valid concerns raised by the Public Services Department, especially those around peak period capacity, aircraft contingency arrangements and service reliability. However, it is confident that these issues can be managed by its taking a more proactive approach to its role as shareholder in Aurigny and the setting of clear objectives, targets and monitoring arrangements for the airline (see section 5).

## 9. Conclusions

- 9.1 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.
- 9.2 The proposed amendment to the Policy Statement would not preclude other licences from being granted on the Gatwick route. Furthermore, even if Aurigny did become the sole operator on that route, it would still be competing against other carriers and routes operating from alternative points in the UK. Finally, as shareholder, the States of Guernsey is well placed to ensure that Aurigny does not abuse its position and continues to meet customer needs and expectations.
- 9.3 Within the above context, the Department therefore believes that the principal consideration in determining whether or not to amend the Policy Statement should be the extent to which the Island wants to take steps to ensure the long-term security of its strategically important link between Guernsey and Gatwick.

## 10 Principles of Good Governance

- 10.1 In preparing this Report, the Department has been mindful of the States Resolution to adopt the six core principles of good governance defined by the UK Independent Commission on Good Governance in Public Services (Billet IV of 2011). The Department believes that all of the proposals in this Report comply with those principles.

## 11 Recommendations

- 11.1 The Treasury and Resources Department therefore requests the States:
- a) To approve the revised Air Transport Licensing Policy Statement in accordance with the Air Transport Licensing (Guernsey) Law, 1995, as set out in Appendix 4 of this Report;
  - b) To direct the Treasury and Resources Department to monitor and review the effect of the revised Air Transport Licensing 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.

Yours faithfully

G A St Pier  
Minister

J Kuttelwascher	A Spruce	A H Adam	R A Perrot	J Hollis
Deputy Minister				Non-States Member

**APPENDIX 1****GUERNSEY TRANSPORT BOARD****AIR TRANSPORT LICENSING (GUERNSEY) LAW, 1995**  
**POLICY STATEMENT**

This policy statement is the Guernsey Transport Board's published policy in relation to the licensing of Guernsey's air transport services as prepared by the Board 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. 1178 *et seq* of Billet d'État XXII of 1995.

1. Services 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 from the United Kingdom's Civil Aviation Authority (hereinafter "CAA"). 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 absolute clarity, the British Isles (in this context) comprises the United Kingdom, the Isle of Man, and the Channel Islands.
2. Under these arrangements, the CAA's licensing procedures will be accepted for determining the financial fitness and technical capabilities of individual airlines, and for determining when an airline is engaged in anti-competitive behaviour. Applicants will be required to provide evidence of meeting the minimum insurance cover requirements, as stipulated from time to time by the CAA. Holders of air transport licences are required to provide such evidence annually to the Guernsey Airport Director.
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.
- 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. Generally, the best interests of users, particularly in regard to cost and consumer choice, are 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. 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.
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.

**APPENDIX 2****GATWICK (LGW) - GURNSEY: AURIGNY DIRECT OPERATING COSTS**

<b>AURIGNY DIRECT OPERATING COSTS (DOCs)(£)<sup>14</sup></b>							
	<b>Landing Fees (LGW)</b>	<b>Passenger Charges (LGW)</b>	<b>APD</b>	<b>Fuel</b>	<b>Other DOCs</b>	<b>TOTAL</b>	<b>DOC per Passenger</b>
<b>2004</b>	316,000	359,000	292,000	426,000	2,617,000	4,010,000	34.63
<b>2005</b>	335,000	395,000	312,000	582,000	2,631,000	4,255,000	33.80
<b>2006</b>	348,000	437,000	339,000	700,000	2,768,000	4,592,000	33.51
<b>2007</b>	360,000	470,000	629,000	676,000	2,939,000	5,074,000	35.95
<b>2008</b>	417,000	521,000	686,000	1,021,000	3,337,000	5,982,000	42.95
<b>2009</b>	556,000	648,000	791,000	825,000	3,122,000	5,942,000	38.19
<b>2010</b>	878,000	687,000	893,000	992,000	3,064,000	6,514,000	40.64
<b>2011</b>	1,357,000	890,000	1,197,000	1,553,000	3,979,000	8,976,000	45.00
<b>2012</b>	1,355,000	941,000	1,272,000	1,586,000	4,089,000	9,243,000	46.46

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<sup>14</sup> Source: Aurigny Air Services

**APPENDIX 3****GUERNSEY – GATWICK: PASSENGER AND CAPACITY FIGURES**

<b>LONDON GATWICK - GUERNSEY</b>						
	<b>Passengers</b>			<b>Capacity</b>		
	<b>Aurigny</b>	<b>Flybe<sup>15</sup></b>	<b>Total<sup>16</sup></b>	<b>Aurigny</b>	<b>Flybe<sup>17</sup></b>	<b>Total</b>
<b>2004</b>	115,764	223,162	338,926	177,888	310,704	488,592
<b>2005</b>	125,857	224,348	350,205	185,560	342,906	528,466
<b>2006</b>	137,031	215,649	352,680	185,670	328,994	514,664
<b>2007</b>	141,137	203,238	344,375	190,146	320,112	510,258
<b>2008</b>	139,261	199,868	339,129	189,062	307,397	496,459
<b>2009</b>	155,577	185,786	341,363	226,898	286,536	513,434
<b>2010</b>	160,248	174,876	335,124	229,234	276,694	505,928
<b>2011</b>	199,446	156,577	356,023	272,520	271,378	543,898
<b>2012</b>	198,918	146,207	345,125	262,563	247,937	510,500

<sup>15</sup> Figure calculated by subtracting Aurigny's passenger figures from total passenger figure for the route published by Guernsey Airport.

<sup>16</sup> Source: Guernsey Airport

<sup>17</sup> Source: Flybe Website

**APPENDIX 4****AIR TRANSPORT LICENSING (GUERNSEY) LAW, 1995**  
**PROPOSED DRAFT POLICY STATEMENT**

This policy statement is the Guernsey Transport Board's published policy in relation to the licensing of Guernsey's air transport services as prepared by the Board 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 III of 2004.

1. Services 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 from the United Kingdom's Civil Aviation Authority (hereinafter "CAA"). 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 absolute clarity, the British Isles (in this context) comprises the United Kingdom, the Isle of Man, and the Channel Islands.
2. Under these arrangements, the CAA's licensing procedures will be accepted for determining the financial fitness and technical capabilities of individual airlines, and for determining when an airline is engaged in anti-competitive behaviour. Applicants will be required to provide evidence of meeting the minimum insurance cover requirements, as stipulated from time to time by the CAA. Holders of air transport licences are required to provide such evidence annually to the Guernsey Airport Director.
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; and
  - (iii) for users of the Gatwick route, as detailed in paragraph 18.
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 paragraph 18, 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. 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 Board 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 likely effect on the incumbent operator(s) of granting such application,

where an incumbent operator offers a good level of service and is likely to 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.



**APPENDIX 5**

**PUBLIC SERVICES DEPARTMENT  
COPY**

Ref: Ald/Air1043.2/PL/sm

4 October 2013

Minister  
Treasury and Resources Department  
Sir Charles Frossard House  
La Charotterie  
St Peter Port  
Guernsey  
GY1 1FH

Dear Deputy St Pier

**Review of Air Route Licensing Policy**

In recognition of your Department's intention to ask the States to review the Air Route Licensing Policy, the Board of the Public Services Department considered the matter at its meeting held on 3 October 2013.

The Board appreciates the strategic nature of Air Route Licensing and the importance of the Gatwick route to the local community.

It therefore firmly believes that States Members need to be provided with an assessment of the wider economic implications for Guernsey of creating solus operator status for this route before any decision can be taken.

The Public Services Department is mandated to manage the Airport such that it provides this lifeline facility efficiently and effectively. In this the Board has taken advice from the Airport Director and endorses his observations (appended) which are made from the perspective of running the Airport as a viable trading unit. In summary, there is a concern that a reduction in capacity on the route, owing to aircraft being full at peak times or through technical difficulties, will lead to reduced income for the Airport, which already only just breaks even. If a solus arrangement is introduced and leads to quantifiable losses by Guernsey Airport it will be for States to decide how this shortfall is to be made up.

The Board recognises that this is a complex matter with a wide range of issues to be taken into account.

Yours sincerely

P Luxon  
Minister

## **Appendix**

### **RESPONSE TO TREASURY & RESOURCES FROM THE AIRPORT DIRECTOR ON SOLUS GATWICK OPERATOR STATES REPORT**

- Guernsey Airport and Public Services Department fully recognise the importance of LGW as one of Guernsey Airport's key strategic routes.
- Guernsey Airport's primary concern is to protect and then develop its income, particularly during a period of reducing passenger movements. Airport income comprises both fixed and variable charges, levied on the aircraft and on the number of passengers being carried. Aside from some short-term rebates on certain fees for new routes, all fees charged on established routes attract the same level of income, whether there is one operator or many. Accordingly the more aircraft that are operating, the higher the Airport's income; and the more passengers being carried on those aircraft maximises that income recovery. This has to remain Guernsey Airport's primary focus.
- How long fares on the LGW route will remain affordable is a concern to Guernsey Airport, given the declared pricing strategy of Gatwick Airport's operator.
- LGW currently accounts for £3.2m of Guernsey Airport's turnover per annum, based on an annual route capacity of around 515,000 seats per annum over two operators.
- Passenger movements on LGW have remained fairly static at 340,000 over the last three years. On the basis of a sole operator and looking at Aurigny's stated plans, capacity on the route will reduce from the current 515,000 seats per annum to around 420,000 per annum. The Airport has not yet seen evidence that at peak times there will be sufficient capacity on the route to meet the existing demand at certain times of the year and/or times of the day. In this respect the Airport's prime concern is that this will result in a reduction in passenger carryings on the route and a loss of income that will not be picked up elsewhere. I understand that Aurigny is predicting a reduction of passenger numbers on the Gatwick route after March 2014.
- Guernsey Airport is anticipating a reduction in income and a reduction in capacity if LGW drops to a single operator. It is recognised that this may happen regardless of any change to the Air Route Licensing Policy, but at this stage Guernsey Airport is not in a position to identify how that lost income stream will be recovered, or where additional capacity on other routes might be increased to help offset the predicted reduction in income.
- As an observation, the planned proposals for a single LGW operator, if that were to be Aurigny, would place considerable dependence on a single E195 aircraft. Albeit backed up by smaller ATR72 aircraft, the fact remains that currently during times of operational difficulty Aurigny is not always able to resource a large replacement aircraft at short notice. If the licensing policy is revised and results in a single operator on this route it is recommended there be a requirement for that operator to demonstrate it is able to resource suitable replacement aircraft in a timely manner. This is particularly critical for this route, which handles approximately

50% of all UK passenger movements across six slots a day from early morning to late evening. Without such a requirement, Guernsey Airport's trading concern would be that any technical faults will force cancellation of flights and thereby depress Airport revenues.

- From Guernsey Airport management's perspective there is scope to achieve growth on the route, which would be positive, although it is in the interests of the Airport that this is not only achieved but also sustained over the medium to long term. In this respect growth prospects are enhanced if an airline is able to demonstrate a recognised presence in the UK market, and the capacity to offer opportunities for passengers to through ticket into and out of Guernsey to destinations further afield, and use these advantages to increase load factors.
- In order to safeguard revenues Guernsey Airport recognises the importance of airlines having robust and reliable ground support at the airports which they are serving. In setting any new policy on links to LGW it would be recommended that due diligence is carried out to ensure any selected airline's ground handling arrangements are not likely to lead to difficulties and cancellations.

C J Le Ray  
Airport Director  
2 October 2013

**(NB The Policy Council, by majority, supports the Report)**

The States are asked to decide:-

I. Whether, after consideration of the Report dated 15<sup>th</sup> October, 2013, of the Treasury and Resources Department, they are of the opinion:-

1. To approve the revised Air Transport Licensing Policy Statement in accordance with the Air Transport Licensing (Guernsey) Law, 1995, as set out in Appendix 4 of that Report.
2. To direct the Treasury and Resources Department to monitor and review the effect of the revised Air Transport Licensing 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.