



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Menter a Busnes **The Enterprise and Business Committee**

Dydd Iau, 8 Mawrth 2012
Thursday, 8 March 2012

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Keith Davies	Llafur Labour
Vaughan Gething	Llafur (yn dirprwyo ar ran David Rees) Labour (substituting for David Rees)
Alun Ffred Jones	Plaid Cymru The Party of Wales
Nick Ramsay	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Kenneth Skates	Llafur Labour
Joyce Watson	Llafur Labour
Leanne Wood	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Niall Duffy	Pennaeth Cysylltiadau Cyhoeddus a Materion Cyhoeddus, Flybe
Catrin Elis	Head of Public Relations and Public Affairs, Flybe Rheolwr y Wasg a Chysylltiadau Cyhoeddus, Maes Awyr Caerdydd
Steve Hodgetts	Press and Public Relations Manager, Cardiff Airport Cyfarwyddwr Datblygu Busnes a Masnach, Maes Awyr Caerdydd Business Development and Commercial Director, Cardiff Airport

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Sarah Bartlett	Dirprwy Glerc Deputy Clerk
Kayleigh Driscoll	Gwasanaeth y Pwyllgorau Committee Service
Andrew Minnis	Y Gwasanaeth Ymchwil Research Service
Siân Phipps	Clerc Clerk

Dechreuodd y cyfarfod am 1.13 p.m.
The meeting began at 1.13 p.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[1] **Nick Ramsay:** Good afternoon, I welcome Members, witnesses and members of the public to this afternoon's meeting of the Enterprise and Business Committee. The meeting is bilingual. Headphones can be used for simultaneous translation from Welsh to English on channel 1 or for amplification on channel 0. The meeting is being broadcast and a transcript of the proceedings will be published. I ask Members and witnesses to turn off their mobile phones and other electronic equipment, and I remind them that there is no need to touch the microphones; they should operate automatically. In the event of a fire alarm, please follow the directions of the ushers. We have received apologies from David Rees and Julie James. I welcome Vaughan Gething to the committee. He has kindly agreed to step in in place of David Rees this afternoon.

1.14 p.m.

Ymchwiliad i Gysylltedd Rhyngwladol drwy Borthladdoedd a Meysydd Awyr Cymru—Sesiwn Dystiolaeth Inquiry into International Connectivity through Welsh Ports and Airports— Evidence Session

[2] **Nick Ramsay:** I welcome our witnesses, Catrin Elis and Steve Hodgetts. Thank you for coming to give evidence to our inquiry this afternoon. I should point out that Steve Hodgetts is the business development and commercial director of Cardiff Airport and Catrin Elis is the press and public relations manager for Cardiff Airport. We have a number of questions, so I propose that we get on with those questions unless you have any pressing comments that you would like to make at the outset. I see not. The first question is from Ken Skates.

1.15 p.m.

[3] **Kenneth Skates:** Thank you very much for coming today. Can you tell us briefly what factors have led to the decline in passenger and freight traffic through the airport since 2007?

[4] **Mr Hodgetts:** The key factors that have influenced the decline in freight is the loss of TNT, which ran a fast parcels operation from Cardiff to Liege for some time. With the onset of more straitened economic times, the company chose to consolidate that route into East Midlands Airport, and it now trucks all its freight from the west and Wales into East Midlands Airport. We have tried to replace that with other fast parcel operators, but there is a spirit of consolidation about.

[5] In terms of passenger numbers, the key factor has been the loss of Bmibaby. At its peak, Bmibaby had three aircraft based at Cardiff and was worth 500,000 passengers a year to us. Given the current aviation climate, we have sought to replace it but have so far only attracted interest from Vueling, the Spanish low-cost carrier, in terms of replacement. So, the loss of passengers is down to the loss of one airline. In that, we are not untypical of quite a few regional airports that have lost traffic over the last year or so, mainly due to aircraft being moved around the network of airlines.

[6] **Kenneth Skates:** Thank you. With specific regard to freight, how can that be developed through the airport?

[7] **Mr Hodgetts:** I think that we have to be cautious about the potential market for

freight. If we look at the final three slides in the data paper, we see that they show the dominance of the London market in terms of belly hold freight, which is carried in containers under wide-bodied aircraft. That is a very specific market, used particularly from the far east and the middle east. The other big market is fast parcels, which is largely based around Stansted Airport and East Midlands Airport. Stansted is the base for the London market and the critical mass that that develops. East Midlands Airport is used because it is in the middle of what is essentially the golden triangle for logistics, in the middle of the motorway network.

[8] So, if we are going to develop a product, it has to be specific for the markets in Wales. One of the things with which we have had difficulty is identifying the key freight flows out of Wales. Cargo consolidators tend to keep that information very close to their chest. We sat on the Wales freight strategy committee, for example, and one of the requests that we made was that an independent study should be conducted through the Government into the potential for air freight flows out of Wales, and we still think that that is a valid opportunity.

[9] **Byron Davies:** To start, can you tell us what action Cardiff Airport is taking to develop the airport?

[10] **Mr Hodgetts:** In terms of routes, we have a full-time route network team. My route development manager was due to sit next to me today, but he is in Berlin talking to airlines as we speak at the international travel federation conference. In terms of physical developments, we continue to invest all of the benefit that we earn back into the business. In the last couple of years, for example, we have installed a new radar, and this year we are completely renewing the x-ray equipment, including the hold baggage equipment. Previously to that, we built the western pier and aprons, so we went up to 17 parking stands. That was based on the prospect at the time of a fourth and fifth Bmibaby aircraft, which, sadly, has not come through.

[11] We tabled proposals for changing the frontage of the terminal, particularly once the security regulations had changed. However, given the current economic times, we are being prudent, and that capital investment has been put on hold for the moment.

[12] **Byron Davies:** In these austere times in which we find ourselves, do you think that you have missed a trick, in that Cardiff Airport, particularly on the south side, has capacity for general aviation, whether it is training or executive jet-type aviation? I am thinking not perhaps of London Biggin Hill Airport, but of similar airports such as Exeter Airport, which does this successfully?

[13] **Mr Hodgetts:** We think that we have opportunities to develop maintenance for business aviation and general aviation. We currently have an empty hangar that we have been trying to market for three years for that very purpose. So, again, the market conditions are clearly difficult at the present time.

[14] In terms of business aviation, we have to look again at the reason why people use business aviation. The key justifications are that they are either what are delightfully known now as high net-worth individuals—rich people, to the rest of us—or there is a market that has a propensity to use that type of aviation. That is usually based on oil and gas or financial services, neither of which are markets that are particularly large in Cardiff and other areas in Wales. We find that, when there is a reason for people to use business aviation, we get quite a bit of it. For the forthcoming Wales versus France grand slam decider, we are already seeing a lot of interest from business aviation. We deliberately reserve slots for that market, even though we are under pressure to take a lot of commercial traffic on those days.

[15] **Byron Davies:** Do you think that you have done enough in the past to develop it?

[16] **Mr Hodgetts:** We have worked with partners like Signature Aviation, which has a worldwide reach, to try to market Cardiff. We have to be frank and say that, at the moment, the market simply is not there.

[17] **Leanne Wood:** On what basis do passenger airlines select markets and destinations?

[18] **Mr Hodgetts:** In terms of airlines, Niall Duffy, who will speak after me, can probably answer that in more detail than I can. From our conversations, it seems that the key issue that they look at is catchment-area quality—how rich, how many and how often they fly. There is a very strong link between GDP and propensity to fly. As we know, Wales has one of the weaker levels of GDP. That has an influence on airlines' thinking. If there are alternative markets with a stronger economic basis, then they will tend to look at those.

[19] Among other things that influence is the charging policy. We have a policy of incentivising all new services and additional capacity. In that, we are not unlike any other airport with capacity in the UK. However, the key issue that we keep hearing about is the economic ability of the region: what businesses there are; how many people live there; what are the leisure flows; and how rich they are.

[20] **Leanne Wood:** So, it does not necessarily vary according to different operators, because they would all look at those factors, would they?

[21] **Mr Hodgetts:** At the baseline, yes. I think that the best way to describe it is to say that they all have different trigger points. An airline that focuses on business markets will be looking for the quality of business traffic and the flows, particularly out of Wales, into other European and worldwide markets. KLM has done very well in tapping into that traffic and providing connectivity. As I am sure you will hear later, the Flybe flights to Paris offer an element of connecting traffic. If it is a leisure flight, it is a question of how affluent the area is. I know that it is sometimes criticised by the environmental lobby, but there is a very strict relationship between net wealth and how often someone flies. So, the higher someone's disposable income, the more often they fly.

[22] **Leanne Wood:** Are there any other factors that would attract or deter an airline from flying to Cardiff, other than the GDP question?

[23] **Mr Hodgetts:** Of course, other factors always come into play, such as connectivity, if they are looking to link services together, and access. We cannot deny that access sits on agendas. In our experience, it is not the first question that is asked. That is why we believe that tackling the market issues is more important than the access issues, particularly if they can have a shorter timescale in terms of effecting improvements.

[24] **Keith Davies:** Roedd eich ateb diwethaf yn ddiddorol iawn. Os ydwyf eisiau hedfan, mae'n rhwyddach o lawer i mi gyrraedd Maes Awyr Caerdydd na maes awyr Bryste. Mae pobl yn fy etholaeth i yn gofyn pam mae maes awyr Bryste mor llwyddiannus er ei fod yn anodd ei gyrraedd o'i gymharu â Chaerdydd. **Keith Davies:** Your last answer was very interesting. If I want to fly, it is much easier for me to reach Cardiff Airport than Bristol Airport. People in my constituency ask why Bristol Airport is so successful when it is so much more difficult to reach than Cardiff Airport.

[25] **Mr Hodgetts:** That is a very good question. The Bristol Airport paper, which has been deposited in the written evidence, gives a very eloquent answer to that. What matters for Bristol is the number of routes it has and the airline quality, combined with the fact that it is in a very affluent area, which is one of the reasons that it has attracted them. So, we are seeing

the pull of the fact that people have over 130 destinations to choose from, which is far more than Cardiff has. People want to get to places; the airport is essentially the platform. What really matters is whether you can get to the destination that you want, at the time that you want and usually at a fare that you would be prepared to pay. There is more choice out of Bristol, as there is out of Heathrow, so they pull harder into the region. We have demonstrated in the past—and Flybe has been a great example on routes such as that to Edinburgh—that, where we do achieve parity in terms of capacity and frequency, people will return to Cardiff Airport. Our big quest is to find an airline partner that can give us that critical mass with a selection of routes that will serve the market.

[26] **Eluned Parrott:** In your opinion, what kinds of routes should be prioritised, first, to support a successful airport and, perhaps slightly differently, to bring maximum benefit to the Welsh economy?

[27] **Mr Hodgetts:** We are a business with a high element of fixed costs such as security, fire and rescue, and air traffic control. There are mandatory standards that we have to meet regardless of activity. For us, volume is key. If we get a low-cost carrier with volume, that has a benefit to the business in that it covers the fixed costs better. However, if we are talking about international connectivity, there are targeted routes that we need to look at and they will probably be separate to a low-cost supplier. The first one that springs to mind is Germany, where there are excellent low-cost players in the market. Again, if we could combine that with connecting to another hub, for instance Munich or Frankfurt, that would be an advantage. The other markets are to get us further worldwide connections, and the two key areas for that are the US and the middle east, the latter as a hub into the middle east itself, the far east and Australasia. Those routes can be attracted, but there is a risk element that would need to be covered.

[28] **Eluned Parrott:** When you are looking at those kinds of questions, do you think that the economic priorities of the airport as a business complement the economic priorities of the south Wales region, or do you think that there are areas where they diverge?

[29] **Mr Hodgetts:** Our interests and the region's interests are inextricably linked. We have to serve a market, and the market that we can serve best is Wales, and south Wales in particular. We know that there is a strong loyalty to Cardiff. The disappointment that customers experience is because we are not able to give them the choice of services that they want at the moment. We can tap into that. Equally, we want to reclaim our own passengers. The data sheets show that we are losing a great majority of passengers over the border into England, to Heathrow and Bristol in particular. We believe that we should be reclaiming those for Wales. So, the mix of services is important in that. For business, and for Wales's economic benefit, which also benefits us, the more business that comes in, the more GDP is raised and the more attractive the market becomes. So, it is a virtuous circle. We need to have a clear idea of what targets we have and how we have evaluated those. That needs to be based on a mutual agreement between both Government and the airport about where those targets are, and how we will approach improving connectivity through those targets. We have talked about an overarching policy for aviation and, possibly, even a taskforce to examine the economic benefits, or otherwise, of aviation. That is where we would like to start from with Wales.

[30] **Eluned Parrott:** What discussions have you had with the Welsh Government on developing an aviation strategy for Wales?

[31] **Mr Hodgetts:** We are in constant dialogue with the Government. It is clear that there is a desire to do something to assist the airport wherever it can. It worked hard to get an infrastructure grant for us, which was delivered a couple of years ago. Unfortunately, as we have said, due to the changed business circumstances, and the loss of Bmibaby in particular,

we have been unable to take advantage of that in terms of rebuilding the building. We have a constant dialogue with Government, and there are a whole host of initiatives on which we are working. We hope that some of those will come to fruition, but we have to be cautious about state aid issues. The Department for Transport would always point out that it applies state aid to the correct letter of the law and we have to accept that, within the UK, those are the constrictions under which we work.

1.30 p.m.

[32] **Byron Davies:** Why would an airline like EasyJet operate out of Bristol instead of Cardiff? Is it to do with landing or parking charges?

[33] **Mr Hodgetts:** No, it is not to do with landing or parking charges because, obviously, for an airline like EasyJet, we would incentivise. What happened was that EasyJet inherited Bristol. GO was the low-cost airline in Bristol, and it was a British Airways subsidiary at the time. At the same time that we brought Bmibaby into Cardiff, EasyJet bought GO and chose to develop Bristol as its main provincial base in the UK. It now has nine aircraft based there. I have to say that it has, since then, developed a very strong relationship with the south-west market and the Welsh market that it pulls over there. It enjoys economies of scope and scale at Bristol, simply due to the number of aircraft that it has. It can switch aircraft on and off routes to try them out, and it obviously covers its overheads far better with the range of aircraft that it has. It is a very formidable competitor. Having said that, we see examples elsewhere in the UK where a strong regional airline can have a big influence on the market—Flybe at Exeter is a good example and Jet2 at Leeds Bradford is another. These provide evidence of airlines that have successfully created a good, strong position within a local market. They tend to dominate those markets. We believe that there is still an opportunity for such a player in Wales, and we are working hard to try and find that player.

[34] **Kenneth Skates:** I am far more familiar with the airports in the north-west of England than with Cardiff and Bristol. It strikes me that there is something of a unique comparison to be made of Liverpool and Cardiff and their relationships with Manchester and Bristol. Liverpool was a very small airport—I remember when it was pretty much just a shed and a runway—but its growth has been astonishing, and its success story is something worth studying. It is similar to Cardiff, in that you have a situation in Liverpool where its GDP is far lower than in the greater Manchester area, but it is drawing in a lot of traffic from Wales. Have you looked at how Liverpool managed to attract the likes of KLM, Ryanair and EasyJet, and at how it expanded?

[35] **Mr Hodgetts:** Yes, very much so. Liverpool is a good example of an airport that grew very quickly off the back of the low-cost airline phenomenon. The issue for Liverpool going forward is that it has not managed to retain exclusivity in the low-cost market. If you look at Ryanair and EasyJet, you will see that they are both in Manchester now. It will be interesting to see how that relationship changes over the next few years, and where the aircraft end up. In many ways, that is the issue with airlines. Essentially, they are able to move their equipment very easily, whereas airports are fixed and have to carry that risk. For Liverpool, the challenge is to retain the market share that it has built up, and not to see bigger airports dragging that business away. That is still an open question. Prestwick is a good example of an airport that took a very aggressive stance in terms of developing low-cost services, particularly with Ryanair, but has since struggled because aircraft have been moved to other markets. So, the politest way of putting it is that we do not feel comfortable with having all our eggs in one basket. KLM has been with us for many years. It is a very important carrier to us, and we hope that we can continue to work with it to develop that route.

[36] **Vaughan Gething:** The Department for Transport is soon going to consult on a draft

policy framework for what it calls ‘sustainable aviation’. What priorities should be identified to address the needs of Wales, and Cardiff Airport specifically?

[37] **Mr Hodgetts:** We are very interested to see what comes out in the consultation. We want to see more use made of regional airports with capacity. There seems to be very little logic in spending vast amounts of money in creating expensive solutions to a problem that can be solved elsewhere. The other benefit that regional airports bring is some diminution in carbon dioxide signature because you lose a large part of the surface access signature—people travelling by car to Heathrow, for example. So, we think that there is a great opportunity for UK policy to support regional airports. We also want to see further devolution of powers to regional government, for the obvious reason that that would allow us to work more closely with an administration that is more committed to a regional airport like Cardiff. With all due respect to the DfT, it tends to be London-centric at times.

[38] **Vaughan Gething:** That is interesting. In relation to the DfT’s strategy, when you talk about regional airports with additional capacity, there will be other parts of the UK where that will also be the case. I want to be clear on this because, earlier, we heard about relationships with Government. What would you say is the nature of your relationship with and influence on the Department for Transport at the moment, in terms of whether you think that Cardiff Airport will get a good deal from the strategy that is due to come out?

[39] **Mr Hodgett:** We await the strategy and, until it comes out, I cannot comment on it. We know what we would like to see in it and we will almost certainly be consulted upon it. We are hopeful that the consultation will be wide-ranging and open and that we will be able to influence its final outcome. Beyond that, until we see the nuts and bolts of the policy, we will keep our counsel. However, for us, it is about ensuring that regions get the best opportunity. In many ways, there are opportunities available for us to pick up on, for example, fifth freedom rights—I know that that is jargon, but it is when aircraft can come in from another country, land at somewhere such as Cardiff, and fly out somewhere else—is an area that we have been exploring. We looked at that particularly for the United States service via Iceland, but failed to attract enough attention to that. Iceland’s well-known financial problems tended to cause some problems for us as well. So, we are looking at the powers that are already available.

[40] **Vaughan Gething:** I want to pick up the point that you made about devolution and the further devolution of powers. Are you specifically talking about devolution to Wales or are you making a wider point about the potential devolution of powers to English regions as well? I am also interested in what you think would be good for Cardiff Airport in terms of the devolution—

[41] **Mr Hodgett:** About Wales.

[42] **Vaughan Gething:** Fine. Let us hear what you think about—

[43] **Mr Hodgett:** It is important for us to have a strong Welsh Government, and we are already consulting the Silk commission on the extension of taxation powers, particularly on air passenger duty. We also believe that it is important for Wales to be distinctive. It is harder for us to sell Wales, particularly south Wales, as a distinctive market if people believe that it is an appendage to England. That is not something that we want to support or feel comfortable with. So, we are looking to see a more distinctive Wales. We believe that more devolution can assist that. In that, we are not looking to do anything more—

[44] **Nick Ramsay:** To clarify, you are talking about further devolution within the Welsh context.

[45] **Mr Hodgett:** Yes. So, we want to make Wales more distinctive. We see a strong example in Scotland of a distinctive identity that we would like to see emulated.

[46] **Vaughan Gething:** How effectively does the Welsh Government influence or work with the Department for Transport to advance your interests? I am equally interested in how effective you think that our parliamentary representatives are in that respect, because, at the moment, we are not talking about an area that is devolved.

[47] **Mr Hodgett:** We are talking to the Welsh Government at the moment about how much more we can push for. It is very keen to assist us, particularly on air passenger duty. So, we see an appetite for a discussion with the UK DfT on our behalf. It is interesting that smaller regional airports tend not to be consulted directly by the UK Government, and we would like to see that change, but we are not alone in that—the English regional airports would have the same view. Improvements could always be made, but we see evidence at the moment that that engagement is happening.

[48] In terms of Parliament, we see wide-ranging support for Cardiff Airport, but the extent of its organisation is probably an issue on which we need to hold up our hands and say that we could probably do more to organise it effectively. However, in terms of whether there is general sympathy and support for Cardiff Airport, we see no evidence of anything other than broad support.

[49] **Vaughan Gething:** May I raise one final point, Chair? You have mentioned air passenger duty, and the First Minister has mentioned it on a number of occasions, but is there anything else that you think could or should be devolved that would strengthen the hand of the Welsh Government in supporting a stronger future for Cardiff Airport?

[50] **Mr Hodgett:** It is difficult to push too far, too hard. Air passenger duty is the first thing that we would like to be devolved. Rather than advance on a broad front, we would like to get it devolved now. That would be a tangible step forward and then we could work on some of the other areas of policy that we would like to see more influence on.

[51] **Nick Ramsay:** In case Members are wondering, the noise that is coming from outside is from protesters who are petitioning the Assembly; it has nothing to do with this committee or the members of the public in the gallery. [*Laughter.*]

[52] **Keith Davies:** Rydych eisoes wedi sôn bod rhwystrau i ddatblygu llwybrau awyr i Gymru, i Gaerdydd yn enwedig. Yn eich papur, rydych yn sôn am dasglu llwyddiannus a sefydlwyd yn Barcelona. A fyddai'n werthfawr sefydlu tasglu o'r fath yng Nghymru? Pwy ddylai fod yn rhan ohono a sut fyddai tasglu o'r fath yn gallu ein helpu i gael mwy o bobl i Gaerdydd?

Keith Davies: You have already mentioned that there are barriers to the development of air routes to Wales, particularly to Cardiff. In your paper, you mention a successful taskforce that was established in Barcelona. Would it be worth establishing a similar taskforce in Wales? Who should be on it, and how would such a taskforce help us to attract more people to Cardiff?

[53] **Mr Hodgetts:** In Barcelona, it was a broad stakeholder group. Chambers of commerce, the airport, the equivalent of the Confederation of British Industry and the Institute of Directors, the Catalan regional government and some local authorities were all involved, which provided a broad range of ideas and support. The funding mechanisms were slightly different, because the chambers of commerce there have independent funding potential, compared with what is enjoyed in Wales. It provided a consensual approach on how to target routes and how to go after them. It gave route development a high profile and assisted in marketing the region and the airport. It brought many players with many pots of money into one area of interest and was an opportunity to combine those elements, rather than

having those players working in isolation. It has been described as a team of horses all pulling in one direction, which is of advantage to us all.

[54] **Keith Davies:** Pwy fyddai'n gwneud rhywbeth tebyg yng Nghymru, yn enwedig i gefnogi Maes Awyr Caerdydd? **Keith Davies:** Who would do something similar in Wales, particularly to support Cardiff Airport?

[55] **Mr Hodgetts:** We would want to see the Welsh Government involved, for obvious reasons. The CBI and Cardiff & Co would have a role to play. Visit Wales would have a strong role to play, for obvious reasons. We would like to see each of the key departments represented on the taskforce, namely transport, the economy and tourism.

[56] **Keith Davies:** Rwy'n cytuno â'r hyn rydych yn ei ddweud. Mae polisi'r Llywodraeth yn un adweithiol—mae'n ymateb i beth sydd wedi digwydd yn hytrach na'n creu rhywbeth newydd. **Keith Davies:** I agree with what you have said. The Government's policy is reactive—it is responding to what has happened rather than creating something new.

[57] **Mr Hodgetts:** We are not concerned with talking about the past. At the moment, we have a good and strong relationship with the Welsh Government. We are moving forward in many areas. Over the next year or so, we hope to see some of those things come through with real benefits. We stress that the relationship is very positive, and has been so for some time. There is a clear desire to assist Cardiff Airport, particularly on connectivity issues. That enthusiasm is helpful. More hands to the pump will always help everybody.

[58] **Alun Ffred Jones:** Dywedodd Martin Evans o Brifysgol Morgannwg yn ei dystiolaeth i'r pwyllgor y byddai economi'r de-orllewin yn perfformio'n well gyda gwell cysylltiadau awyr. Soniodd am y diwydiant twristiaeth yn arbennig. Beth yw eich barn am yr awgrym y dylai Llywodraeth Cymru ddatblygu gwasanaeth awyr yn Ynys Môn ac yn de-orllewin? **Alun Ffred Jones:** Martin Evans from the University of Glamorgan said in his evidence to the committee that better air links would improve the performance of the south-west Wales economy. He talked about the tourism industry in particular. What is your opinion of the suggestion that the Welsh Government should develop an air service in Anglesey and south-west Wales?

[59] **Mr Hodgetts:** We were part of the intra-Wales air study group that looked not only at the service to Valley but at a wide range of intra-Wales services. It was difficult to see how a market could be sustained out of the west in Wthybush. We assisted with Bangor University's study for Valley, looking at routes that could be developed on the back of the public sector obligation service. In both cases, the markets are very difficult to sustain. As we have already heard, Cardiff serves south-west Wales and we already have a smaller market than some of our competitors. To further fragment that is a risk. If there is to be support for new services, it would be better to concentrate them in Cardiff.

1.45 p.m.

[60] **Alun Ffred Jones:** A fyddai datblygu—efallai yn arbennig yn y de-orllewin—gysylltiadau gwell â Maes Awyr Caerdydd yn gweithio er lles Caerdydd, yn y pen draw, yn hytrach na gwasanaethau allan o Gymru? **Alun Ffred Jones:** Would developing—particularly in south-west Wales, perhaps—better links with Cardiff Airport not work to Cardiff's advantage in the long run, rather than to the advantage of services leaving Wales?

[61] **Mr Hodgetts:** I agree that the more connectivity you have, the better. The problem is that routes where the surface-access alternative is less than three hours tend to struggle. The

London City route, which was provided by Air Wales for several years, struggled for that very reason, and I just have to be sceptical about the ability of such a route to thrive.

[62] **Vaughan Gething:** I am interested in this point about connectivity, but I am equally interested in picking up Keith Davies's question about promotion. If you had a team Wales approach to promote and develop the airport—you mentioned a variety of groups—how would you market Cardiff Airport to south-west Wales, and also to Newport? Newport Unlimited is very much focused on the development of Newport and the Gwent Valleys, where people have real options to go to Cardiff or Bristol. With more routes out of Bristol, how do you market an airport in Cardiff to those differing variations? People have choices about where they can go. If you are going to travel an hour and a half to Cardiff from west Wales, is it really that much further to go another hour to Bristol? How do you get people to stop in Cardiff?

[63] **Mr Hodgetts:** The routes are the reason people would stop at Cardiff. If we have a network with a competitive price position and competitive frequencies, people will tend to use their local airport. Newport will always be contestable. We did some interesting work with the University of Wales Institute, Cardiff a few years ago in which we asked people for their preference by postcode. You could draw a line along the Newport-Cwmbran road where that preference starts to change. All the way up to that line, the preference remained for Cardiff—it was people's local airport and a Welsh airport, and there was a strong loyalty to using it. Once you hit that line, however, it weakened very quickly. The reason people use an airport is to get the flights they want. So, if we can get the network rebooted and recreated, we will see people coming back to us.

[64] **Vaughan Gething:** The point about connectivity has come up a couple of times. In terms of improving connectivity to the airport, are you saying that the priority is to have one line in and out of the airport, or should there be a wider improvement in connectivity across the south Wales area, which you are looking to serve?

[65] **Mr Hodgetts:** Are we talking about access or the route network?

[66] **Vaughan Gething:** Access.

[67] **Mr Hodgetts:** We do not see access as our highest priority. We need to ensure that the route network is robust. As we have said, Bristol is a great example of a route network supplanting access problems. We think that we would be able to connect with our market despite the fact that the last few miles of access may not be ideal.

[68] For us, the problem is that we need to boost public transport as well as car-borne access, going forward. Currently, the airport's links with the west either have to go through Cardiff or they connect very poorly at Bridgend. So, in terms of rail, we would need to see greater frequency along the whole of the Vale of Glamorgan line, to ensure that you could connect pretty easily with services at Bridgend. We are currently working with the Gateway Wales project, which is part of the enterprise zone, to look at what we can do to improve rail connectivity in the Vale of Glamorgan, full-stop, because there are other pressing needs besides ours for improved frequency of services.

[69] In terms of roads, we have been through several projects with the Welsh Government to look at improving road access. They are expensive, and in terms of national priority, we understand that they do not always feature at the top of the list. In an ideal world, we would like to have all things, but in the meantime, we would like to concentrate on the things that we think would bring results quickest, and that still goes back to how we attract airlines and the market.

[70] **Joyce Watson:** Good afternoon. You touched briefly on economic development and on the enterprise zone, and I want to ask some questions about that and have your thoughts on what the Welsh Government's priorities should be for the aerospace enterprise zone at St Athan and Cardiff Airport.

[71] **Mr Hodgetts:** We are very keen to participate in the enterprise zone process. We are waiting for the details on governance and objectives as we speak. We hope to be invited to participate very closely. We have already started work with local landowners to create a vision of what might happen at the gateway to the airport, the Vale of Glamorgan and the enterprise zone. We can share that as the enterprise zone project goes forward. We see that servicing not only the aerospace and aviation market, particularly in terms of training and offices, but in terms of creating a high-quality economic destination in its own right, which, again, will boost the economic value of the region.

[72] So, we are very interested in and excited by the fact that the airport has been brought into the enterprise zone, and we think that it is a great opportunity. We have worked with Aerospace Wales to try to market the joint availability of land for the airport and St Athan. A proposal for a paint shop for aircraft, possibly located on the airport site, was talked about a few years ago. We support British Airways Maintenance Cardiff very strongly, and we would like to see a cluster of services supporting its activities developing in the enterprise zone. We are very aware that some of its services, such as seats and avionics, are already provided in the Valleys. There are great opportunities, and we want to see that partnership approach again, coming out of the enterprise zone project.

[73] **Joyce Watson:** You have touched on a few areas that I would like to explore a bit further. The committee has heard that the development of aerospace-related business around Cardiff Airport is more limited than would be expected of an international airport. First, why do you think that that is the case?

[74] **Mr Hodgetts:** That depends on how you define an international airport. If we are talking about an intercontinental gateway or hub, there will almost certainly be more maintenance based around that because the aircraft are based there; there are fleets based at airports such as Schiphol, for example. Heathrow has managed to retain quite a bit of the maintenance capacity for British Airways, which we had expected would disperse over time, because of pressures on the runway and so on. So, there is an interesting conundrum now about how to leverage that dispersal. Without aircraft based here, we are looking at the maintenance and repair of aircraft on a third-party basis. There is an awful lot of competition in that market, as Aerospace Wales will testify. We continue to work to ensure that, whatever we do on each site, both sites complement each other.

[75] **Eluned Parrott:** I would like to turn to the question of the Welsh transport strategy and transport policy in more general terms. In your paper, you note that surface access and public transport are not what you would consider critical issues, although you have mentioned that they are issues here. However, we have received evidence from Flybe, for example, that they would like to see those issues improved. What are your comments on that? Of the proposals in the national transport plan on, for example, improved Vale of Glamorgan line services or safety improvements on the A4226, Five Mile Lane, which of those sorts of things would be most helpful to you?

[76] **Mr Hodgetts:** If we look at where Flybe has been very successful at tapping into connectivity, we will see that they are places such as Southampton and Birmingham. They have rail networks that are essentially inter-city, high frequency and electrified. There is a big difference between the current standard of rail infrastructure around Cardiff Airport and what we are talking about in those places. We have to be wary of attributing too much shift, unless we are talking about high-frequency, high-quality services with a long reach. In our master

plan, we talk about extending services to Newport and First Great Western services, even over the bridge into Bristol, for example. If you are going to have the sort of success that Flybe has enjoyed in places such as Southampton, you need that range of services. We have to be cautious about how quickly that will be achieved for the Vale of Glamorgan line and the area around Cardiff Airport.

[77] I am sorry, but I have forgotten the second part of the question.

[78] **Eluned Parrott:** I was wondering about the proposed improvements to Five Mile Lane.

[79] **Mr Hodgetts:** We worked very hard on the trunking project with the Welsh Assembly Government, but we failed to get approval. We are interested in seeing improved road access simply because it would also relieve pressure on the current port road and the Vale of Glamorgan road links, which are under pressure from housing and many other elements. We will continue to work, and we still are working, to find an acceptable alternative to the current access. The Five Mile Lane improvements are a start, and we will take a small step and build on that.

[80] **Eluned Parrott:** One of the other decisions was to postpone the express bus service until after 2015. Given recent media coverage of the shuttle service from Rhoose station on the Vale of Glamorgan line, and the potential for that to be under threat, what is your view on that decision?

[81] **Mr Hodgetts:** We understand that there are priorities and pressures on budgets at the moment, and the usage of the rail-air shuttle bus is still a very small part of our modal share. With one train an hour on the Vale of Glamorgan line it is always going to be difficult to get a significant shift to rail in terms of access. I do not think that it is a message that we should be sending out at this time. I believe that the shuttle bus should be continued.

[82] The express bus service, again, was something that we worked very hard on with the Government. That is a proposal that would make a difference to access, particularly if we could get inter-modal ability, so that passengers could use either rail or bus, depending on the time of their arrival, with multi-ticketing whereby tickets could be used independently for rail or bus, with add-on tickets that would take passengers all the way home. So, there was a lot of work still to be done in terms of getting the product absolutely right. We understand that it has been moved because of other pressing priorities, and we understand the pressures that the bus support grants are under at the present time. We would like to see it brought forward as soon as conditions allow.

[83] **Eluned Parrott:** What is your view on the balance between pushing for improvements to Vale of Glamorgan rail interconnectivity and pushing for a specific, non-commuter, mixed bus express service into Cardiff and perhaps other cities?

[84] **Mr Hodgetts:** The reason why we examined the bus service was because it had a quicker lead time, funding being available, and could make an impact earlier than rail, for example. Rail is still very much dependent on the Cardiff area resignalling programme, which is still a few years away. So we saw that as an opportunity to develop something quickly, but, alas, circumstances changed and that was not possible.

[85] **Eluned Parrott:** Finally, what practical changes would you have proposed to the strategy as it is before you?

[86] **Mr Hodgetts:** The current transport strategy talks about supporting international connectivity and then does not put any meat on the bone, so to speak. So, what we want to

see, as we have said all the way through, is a policy that states what are the key target markets for Wales in terms of connectivity, where the priorities lie, and how we will go about achieving those in terms of connecting and marketing, particularly the marketing into Wales of tourism and business, and what sort of mechanisms might be considered.

[87] **Nick Ramsay:** You spoke earlier about air passenger duty and your concerns around that. Can international air connectivity to Wales be developed without a reduction in air passenger duty?

[88] **Mr Hodgetts:** Yes, it can, but it will be slower and more difficult. What we have is an opportunity to make Wales distinctive and different. Air passenger duty, particularly on long-haul routes, is a difficult burden. Our views on air passenger duty per se are well known; we think that the tax has become iniquitous, and it does not do anything except remove demand from regional airports. The opportunity to create a different position on air passenger duty in selected markets is, I think, one that should be taken, and it is significant that ours is not the only devolved Government that thinks so.

[89] **Nick Ramsay:** Your written evidence refers to the devolution of power to ‘levy or remit passenger duty’—would both of those options be equally effective, or would you favour one over the other?

[90] **Mr Hodgetts:** Anything that reduces the cost of travelling will stimulate demand. Remitting air passenger duty on key routes, for example, would obviously stimulate demand. So that is the obvious preference that we have.

2.00 p.m.

[91] **Byron Davies:** How should the Welsh Government engage with the UK Government on the issue of state aid? I am thinking in particular of how the current guidelines on state aid for developing regional airlines affect route development in Wales.

[92] **Mr Hodgetts:** I think that anything we say is being superseded by the EU consultation on this, which is under way. The independent view appears to be that the EU consultation will be about closing the door on some of the evidence that we have seen elsewhere rather than loosening the regime. So, we may be too late on that. There are best practices in terms of marketing support and the funding of joint ventures that we can look at more strongly. We need to be capable of looking at best practice elsewhere and assimilating that. That is something that we continue to work at and encourage. There is a general nervousness about state aid issues within the UK Government, and we have to be very careful about how we promote that idea.

[93] **Keith Davies:** Pa mor effeithiol yw polisi cynllunio Cymru a chynllun datblygu lleol Bro Morgannwg o ran eich cefnogi i ddatblygu’r maes awyr? **Keith Davies:** How effective is the planning policy in Wales and the Vale of Glamorgan local development plan in supporting you to develop the airport?

[94] **Mr Hodgetts:** We are very lucky to have a very good working relationship with the devolved Government and the local authority with regard to planning. The land use elements of our master plan, which we created in 2006, were accepted and adopted by both the local authority and the Welsh Government. So, we have a presumption for the correct form of development built into our future. We continue to ensure that we have a good relationship with the community. We have a noise insulation grant scheme for the few properties that are affected directly by our aircraft noise. That was introduced by us voluntarily; although some airports are covered by legislation, we are not. So, we chose to introduce that.

[95] We work on several joint working parties with the local authority, including the LDP stakeholder group. We have an excellent working relationship with the local authority and the Welsh Government. So we do not anticipate that land use conflicts will arise in Cardiff.

[96] **Vaughan Gething:** I would just like to raise one point that relates to questions asked earlier about access. I know that you have said that routes are a bigger issue in terms of development, but there is an issue about how people get to the airport. It sounded to me as if you were saying—I want to be clear about this, so, if I am wrong, please say so—that, to deliver the rail access improvements that you would like to see, ideally, the Cardiff signalling project needs to go ahead and the network around the area needs to be electrified, including the Vale of Glamorgan network, to deliver the sort of efficiencies and increase in speed and efficiency that you talked about. In order for me to be clear, is that exactly what you are saying, or have I read into your comments something that does not reflect your position?

[97] **Mr Hodgetts:** No, if you read our master plan, the access improvements that we are talking about very much reflect that. What you need to make big changes in how people access the airport, modal share, as it is called, is a frequent, comfortable service. Having said that, it is not a panacea. For example, at Prestwick Airport, there is a 20-minute service between the airport and Glasgow. It is an excellent, electrified service. However, services have still been lost by Prestwick and market has been lost. So, we have to temper the impact that access improvements can have with the need to continue to strengthen the route network. That is still the priority.

[98] **Vaughan Gething:** That is understood.

[99] **Eluned Parrott:** To clarify, the No. 1 priority is assistance with the route development network in terms of your connectivity and the second priority is the land connectivity to the airport. Is that right?

[100] **Mr Hodgetts:** That is correct. That is the hierarchy that we would prefer.

[101] **Nick Ramsay:** I see that Members do not have any further questions or points for clarification. Therefore, I thank Catrin Elis and Steve Hodgetts for coming here this afternoon to give evidence. That was very useful, and we will factor in your responses into our inquiry.

[102] **Mr Hodgetts:** Thank you very much.

2.05 p.m.

**Ymchwiliad i Gysylltedd Rhyngwladol drwy Borthladdoedd a Meysydd Awyr
Cymru—Sesiwn Dystiolaeth
Inquiry into International Connectivity through Welsh Ports and Airports—
Evidence Session**

[103] **Nick Ramsay:** Good afternoon. I welcome Niall Duffy, head of public relations and public affairs at Flybe to this afternoon's meeting, continuing our inquiry into international connectivity through Welsh ports and airports. I am sorry that you are on your own at your end of that table—we asked Bmibaby if it would like to participate, but it declined our invitation. Unless you have any pressing opening statements that you would like to make, we have a number of questions for you, so I propose that we get into asking those.

[104] Cardiff Airport has seen a significant decline in passenger numbers since 2007. What impact does the performance of the airport have on the attractiveness of Cardiff as a destination for airlines?

[105] **Mr Duffy:** The first thing to say about the decline in passenger numbers is that Cardiff Airport is not alone in having seen such a decline since 2007; many airports have seen a similar decline. Thinking about some of the airports that we do not serve—there are not many that we do not—in our neck of the woods in the south-west of England, Plymouth City Airport has completely disappeared off the map. So, Cardiff Airport is not alone in facing some of those challenges.

[106] Having listened to a lot of what Steve said, it is easy for us to point to a successful relationship with Cardiff Airport. We do not have the kind of issues with Cardiff Airport's management team that we might have with a number of our other airports in terms of the difficulty of the relationship. So, if the first part of your question is about whether Cardiff Airport is alone in this, then the answer is that it is not. If the second part is about whether it is something that that the airport could have worked harder to mitigate, then the answer is that I am not sure that that would be a reasonable assumption in the current economic climate.

[107] **Nick Ramsay:** Thanks. How does Cardiff Airport compare with other airports from which Flybe operates in terms of airport facilities and the support provided to airlines?

[108] **Mr Duffy:** I think that the facilities are good. This might be the subject of a later question, so stop me if I start to answer questions that you want to ask later. If we are talking about what attracts an airline to an airport, particular business models look for different things from an airport. Flybe is not interested in shopping facilities. We are interested in cost certainty, fast turnaround and in a number of other things as well. However, in terms of those two fairly fundamental things, Cardiff Airport scores well, and, because we fly from so many different airports around the United Kingdom, it is easy for us to make that comparison.

[109] **Nick Ramsay:** Why have passenger numbers at Cardiff Airport fallen significantly and at a faster rate than in many other UK airports since 2007?

[110] **Mr Duffy:** I think that Steve touched on the most obvious reason, which is the departure of Bmibaby. It is a business model and an airline that has been struggling financially for a number of years. When you lose an operator that had however many tens of thousands of passengers, it is quite hard to replace those. We stepped in and replaced some of those routes, but our business model is not the same as Bmibaby's model, and therefore some of the other routes that we examined that we thought that we might be able to do did not fit our business model, for a whole host of reasons.

[111] Again, this may touch on something that will come up later, but, since 2007, domestic aviation, which is our speciality, has seen an overall fall of around 17.5%. There are lots of reasons for that, air passenger duty being one of them. To carry on agreeing with Steve—it is terribly corporate today, with all this agreement—there are certain airports, based on the catchment area and the demographic of the passengers who pass through them, that will find it more difficult in times of economic downturn. Cardiff is not the only airport that has faced that challenge. Exeter, where we are based, is very similar, as is Norwich, and Prestwick has also struggled over that period, for different reasons.

[112] **Nick Ramsay:** To clarify, however, there has been a significantly faster rate of decline at Cardiff than at the other airports that you mentioned.

[113] **Mr Duffy:** Not all of them. I am not sure of all the statistics, but it is very difficult, as Steve says, to replace an entire airline. It is a challenge.

[114] **Joyce Watson:** Good afternoon. You have started to touch on some of the questions that I was about to ask, and that is fine. You describe regional aviation as a challenging

business, and your paper refers to regional aviation as being high-risk. Do you want to expand on that?

[115] **Mr Duffy:** Yes; if there is one message that I would like to leave with you, it is that aviation is a tough old game. I came from the food industry, and I have worked in other industries as well, and the margins in aviation are eye-watering and toe-curling—whichever analogy you want to use. It is very challenging. To give you an example—this is all publicly available knowledge, so I am not sharing anything that my chief executive or my chief financial officer might jump on me for—within Flybe a 1% increase in turnover equates to about £30 million. We are a £700 million-a-year business now, so 1% up is great, but 1% down means that it is much more of a challenge. Steve is right to a very large extent when he says that our assets are mobile, by definition, so it is very challenging. We have an advantage over a number of other competitors in that a lot of our routes are high frequency. We do not operate once-a-day routes—it tends to be two, three or four times a day, and with really busy routes, like Glasgow to Belfast, or Birmingham to Edinburgh, it is up to six or seven times a day. The advantage that we have over some of our competitors is that we can trim that, and the passenger will not see a huge difference, but there will be still be a route there. We have competitors who have not been able to do that, and when a route goes from twice a day to nothing, it has gone, and it is difficult to bring those routes back. There are plenty of examples. We tried to make Newcastle work as a route out of Cardiff, but the economics were just not there, for a whole number of reasons.

[116] **Joyce Watson:** We have talked about supporting connectivity to destinations outside Europe. How important are the regional aviation operators, like Flybe, in supporting that?

[117] **Mr Duffy:** There are two points on that, I would say. First, because of the lack of capacity in the south-east—I am not getting into the third runway discussion—operators like Flybe have an opportunity to serve European cities in a way that, 10 years ago, we simply did not have. A very clear example of that, and I make no political point about the policy decision, is that, once the general election in the UK had been decided two years ago, and it was clear that no third runway was coming at Heathrow, people from Air France got straight on the phone to us and said, ‘How would you like to create the equivalent of a UK hub at Paris Charles De Gaulle?’ That is a business opportunity that our 3,000 staff would be pretty annoyed if we did not take, so we accepted the offer. We are now exporting—for want of a better word—passengers from Cardiff, Birmingham, Manchester and Southampton to places like Amsterdam and, more specifically for us, Paris, where they can access an awful lot of services. So, we are determinedly regional. We are based in Exeter. Of our 200-plus routes, about eight or nine go to London. We get the regional market completely. While there is a lack of capacity in the south-east, our staff, shareholders and passengers rely on us to get them to places like Paris.

2.15 p.m.

[118] **Leanne Wood:** Can you tell us how airlines select the routes that they fly and the airports from which they fly?

[119] **Mr Duffy:** I have already mentioned a couple of things, such as cost certainty. When you have a variable such as fuel, it is very important for an airline to know that its costs in airport operations are tied down and are not unreasonable. Even with our quite advanced hedging policies, the cost of fuel is a lot—for some airlines, it is up to 40% of their total budget. We are lucky in that we have more environmentally efficient and newer aircraft, so it is much lower for us. Cost certainty includes security, ground handling services and landing charges. I do not want to repeat what Steve said, but it is about catchment area and GDP. There are very different markets around the UK. Southampton is probably our biggest and most successful base. We draw people to Southampton from south London, the whole of

Hampshire, Winchester and some of the stockbroker belt and richer areas. They will access Southampton because it is quick—it has rail access—and because we offer about 29 routes from Southampton to Europe and the UK. So, the catchment area is important.

[120] A mix of passengers is crucial as well. We are not a leisure provider. Around 5% or 6% of our network serves what we call sun or ski destinations. We only go to Spain from Exeter and Southampton. That is not our business. For us, one of the two key demographics is the business traveller, which accounts for about 45% of what we do. That is why the high-frequency stuff works—you can get from Southampton to Newcastle, have your meeting and get back in the same day. The other demographic is, in our own vernacular, VFR, which stands for visiting friends and relatives. When you do not live inside the M25, it is not easy to get a train to visit your friends and relatives. On some of the routes that I mentioned earlier, there are a lot of links—for example, between Belfast and Glasgow or Inverness and London. A lot of these routes are VFR routes, for which people will travel in the middle of the day and they do not need to leave at 7 a.m.. So, we look for a mix of passengers.

[121] We also look for an efficient airport. Although our business model is different to the one used by Ryanair or EasyJet, we still demand a maximum turnaround of 25-35 minutes. We want the passengers out of their seats and in the terminal, then a quick clean and turnaround in 35 minutes. You do not earn money if the aircraft is parked.

[122] **Leanne Wood:** So, the infrastructure at the airport is crucial.

[123] **Mr Duffy:** Yes, it is absolutely crucial. Let me give you an example. This is not meant to be a criticism of our friends at Birmingham, but Birmingham Airport recently re-jigged its whole terminal. It had two terminals, which it turned into one, but it is a bit of a labyrinth for people trying to get to the boarding gates. We have picked up some negative feedback from our passengers on that. So, good parking and good access are important. I am not suggesting for one second that we want passengers to check in 10 minutes before they fly—that would be great, but we appreciate that, with security, it takes a while. Airport access and efficiency are important. Lastly, access to market is important. I heard this in some of your earlier questions. If you can establish a critical mass, such as banking in Edinburgh, access to that market is crucial for business travellers. I do not pretend for one second to be an expert on businesses in and around south Wales, but if there are clusters, that helps and that matters. So, it is a whole range of those issues, and probably more that I have forgot.

[124] **Leanne Wood:** I have one final question. Can you give us an idea of how long it takes to set up a route, from initial negotiations through to commencement of service?

[125] **Mr Duffy:** This is the best thing about aviation. I would like to take two seconds to tell you a very quick story. I promise that I will be quick. [*Laughter.*]

[126] **Nick Ramsay:** That is always music to the Chair's ears.

[127] **Mr Duffy:** It is relevant, trust me. I came from the food industry—a big confectioner that was one of the biggest food companies in the world. If you came up with an idea for a new chocolate bar, the process would take about a year. You had to work out where you could manufacture it—would it be Poland or would it be York. You had to talk to the supermarkets, because you could not do a thing unless they stocked it. You had to work out whether it would be a fairtrade product. You had to work out its marketing and its name, and you then had to carry out funny little taste tests. About a year later, your fantastic new 'XX' bar would be on the shelf. If Steve came to me after this meeting and said that he really wanted to run a route from Cardiff to Bergen—which I visited last week—we could, if the yield and passenger numbers were right, announce it next week and begin operating it in six weeks. It is great. That is why so many of my colleagues are lifers when it comes to aviation—it is one of

the most responsive businesses around.

[128] This works both ways. I joined the aviation business five years ago when times were great—it was the land of milk and honey. You could try any funny old route. We had one route from Southampton to Newquay. Looking back, that was madness. [*Laughter.*] It is quite a long drive, in fairness. We thought, ‘Yeah, it is a maritime route. It will work.’ We put it on sale and, four weeks later, it was pretty evident that people did not want to fly from Southampton to Newquay. We killed it before we even operated the first flight. So, aviation is still responsive, and it can still do that. However, we are in pretty austere times, so it takes a few brave decisions to make that process go further.

[129] **Kenneth Skates:** On that point, Mr Duffy, are you exploring any possible new routes to and from Cardiff?

[130] **Mr Duffy:** We have regular meetings with every single one of our airports, as well as some of those to which we do not currently travel. We are in discussions with Cardiff and all other airports about potential new routes. However, it is difficult. You cannot gloss over the fact that it is very challenging at the moment.

[131] **Eluned Parrott:** So, route development is potentially quick and easy and, apparently, very difficult at the same time. What can we do at the political end to help make this happen? What practical steps could we take to make developing new routes from Cardiff more viable for you?

[132] **Mr Duffy:** I do not know whether there is a separate set of questions on air passenger duty, but I will give you the headline: APD would make a difference. I can expand on that now or later, but it matters. Despite the EU state aid rules, and I am no expert on this, there are examples in the United Kingdom where assistance matters. I am not sure whether I included this example in my submission, but we started a route from Inverness to Amsterdam last year. I went up to Inverness to launch it, all guns blazing. That route is underpinned by support from Highlands and Islands Enterprise, from the Highlands and Islands Transport Partnership and from Visit Scotland. So, if the will is there and the partnership exists, you can introduce routes. From looking at the passenger numbers, I know that that support made the difference in that route being profitable, and I know that Visit Scotland is pleased with the number of passengers who are now accessing Inverness through Amsterdam, not just from Holland but also from the rest of the world.

[133] **Eluned Parrott:** We have had evidence suggesting that a multi-agency approach might be beneficial in terms of bringing public and private sector organisations together. Do you think that that kind of approach ought to be used in Wales to develop our international air connectivity?

[134] **Mr Duffy:** Yes.

[135] **Eluned Parrott:** Fantastic. You gave us an example from Scotland. Are there any other EU examples that you would be able to give us of where that kind of multi-agency approach has been effective?

[136] **Mr Duffy:** Yes. Last August, we acquired an airline in Finland. That was a joint venture between us and Finnair: the airline is owned 60% by us and 40% by Finnair. We bought what was a miniature Flybe but for Finland. Due to the fact that there are some pretty isolated communities up towards the arctic circle, Finnish regional governments support those routes, legally and within European guidelines, and they are not public service obligation routes. So, there are examples, but the rules are tightening up, as Steve said. One only has to look at the demise of Malév, the Hungarian national airline, a month and a half ago. That was

a different matter entirely, because that was about propping up a fading airline rather than route development, and I do not profess to be an expert, but one has to be careful about not breaking those rules. I would be happy to drop you a note about those examples in Finland, because they are current in my mind. They have made some routes manageable rather than them being on death row, shall we say.

[137] **Nick Ramsay:** It would be helpful if you could send us any more information that might be useful to us.

[138] **Kenneth Skates:** Turning to enterprise zones, how important is the existence of aerospace-related industry and businesses around an airport to its success?

[139] **Mr Duffy:** Going back to the earlier point about clusters, it helps. It does not necessarily have to be sector specific. Belfast City Airport is a relevant example because there is an aircraft manufacturer at the end of the runway. What used to be Short Brothers plc is now Bombardier, the Canadian aircraft manufacturer that makes most of our aircraft, as it happens. However, that is not why we fly to Belfast. We fly to Belfast because there are reasons to do with culture, business and visiting friends and relatives for doing so. It is not sector specific for us, but if it were to do with aerospace that would be fine. There is a huge aerospace research and development industry on the Isle of Man, but that is not why we are the biggest airline on the island: the reason is access. It can be important, but for us it would not necessarily have to be sector specific.

[140] **Kenneth Skates:** The Government has said that it is going to take a bespoke approach to policy for enterprise zones. What approach might be most beneficial for the aerospace enterprise zone at St Athan near Cardiff Airport?

[141] **Mr Duffy:** To be brutally honest, I am not sure that I can answer that. That is not an area of expertise for me or the airline. Exeter International Airport, where our headquarters is situated, is currently building a science park that will link with the Met Office, which is based in Exeter, and Exeter university and its 18,000 students. It makes route development more likely because there is a cluster. A new town is also being built with 10,000 inhabitants. That all matters. I confess that I am not familiar with the specifics.

[142] **Eluned Parrott:** Cardiff Airport has told us that surface access to the airport is not its number one priority in terms of driving forward the airport's development. Do you agree with that prioritisation?

[143] **Mr Duffy:** It is a chicken and egg situation. In my submission I said that all airports could benefit from better access and Cardiff is no different in that sense. Cardiff is not Southampton, which has a motorway at the end of the runway and a train station 100 paces from check-in. Equally, it is not Norwich, where you lose the will to live driving down the A11, or whatever it is, saying, 'I'm going to get there at some point'. It is a chicken and egg situation. On balance, I would tend to agree with Steve that 'If you build it, they will come' works to a certain extent, and that it is about routes. It may well be that once there are more industries and more reasons for people to access airports for business reasons, that will make the difference. It is a chicken and egg situation. I would not want to say that, for us, it makes the difference, but it would help.

[144] **Eluned Parrott:** I am glad to hear that one does not lose the will to live driving to Rhoose, as I live there. [*Laughter.*]

[145] **Mr Duffy:** No, absolutely not. [*Laughter.*]

2.30 p.m.

[146] **Eluned Parrott:** Your paper states that surface access and public transport need to be improved, although not as a specific issue for Cardiff. What priorities would you identify? Obviously, a couple of different options have been discussed to do with shuttle services to the rail service at Rhoose and direct bus links. Which of those would be a priority for your passengers, from your point of view?

[147] **Mr Duffy:** If money were no object and you were able to throw billions of pounds at transport infrastructure, as they seem to be doing at Westminster for high-speed rail, I would say 'rail' because there is a double benefit in that it will get you there. We fly a number of Westminster MPs to work. The reason a number of them fly with us rather than into Heathrow is that they can get off at Gatwick, get on a train and, half an hour later, they are at Victoria, with a 10-minute walk to Westminster. Access is perfect. Gatwick works because the train is direct and it goes where they want to go to. I know that there is no such thing as a blank cheque, but for us the priority would be trains.

[148] **Alun Ffred Jones:** You mentioned air passenger duty and EU state aid regulations. I have two questions. First, how significant an impact would the devolution of powers over air passenger duty have on the development of Welsh connectivity?

[149] **Mr Duffy:** It could have a very significant impact. We are the only airline—and I know this because I have been writing the policy for the past five years—that has consistently supported the devolution of APD to Holyrood, Stormont and here. Local communities know what is best for them. I am trying not to stray into politics, but that is pretty evident. The best example I can give you at the moment is Northern Ireland. It has one transatlantic air service. That is the Continental air service from Newark to Belfast International Airport. Continental was ready to walk because air passenger duty at £75 per person leaving Belfast was prohibitive. An hour and a half's drive down the road is Dublin, where there is no similar tax. Continental said to the UK Government, 'You'd better sort it out or we're off'. The UK Government has subsequently devolved the responsibility for long-haul APD to Belfast, which, for me, is the most obvious statement you can possibly get that APD has an impact on demand. Of course it does, otherwise, they would not say that there is a difference between Dublin and Belfast. I would say that, with regard to Bristol, APD is something that could be used to market Cardiff and grab those passengers.

[150] My biggest bugbear is the fact that, because APD is a departure tax, as a domestic airline, we get hammered both ways. I use our example of Glasgow to Belfast a lot, because you are barely in the air before you are coming down again, but it is £13 one way and £13 back the other way. There are charter air services that serve Glasgow to Turkey, which is a journey of thousands of miles, that pay it one way and pay nothing coming back. All that is doing is exporting people away from the UK when we should be keeping them here. There are lots of legal issues involved in dealing with it, but it is a particular bugbear of mine. Cardiff should be able to control its own APD because there is absolutely no doubt that, at the moment, when we sell some of our tickets at £24.99, more than half of that is going straight into George Osborne's pocket.

[151] There are a few caveats. I do not want you taking that responsibility and frittering it all away on a direct route to Singapore. I would much rather you focused on where the genuine investment will come from. If we are interested in proper devolution, I do not think you can get a better example.

[152] **Alun Ffred Jones:** So, you are in favour of devolving it provided that it is lowered.

[153] **Mr Duffy:** I think that the principle of devolution is right. I would be very surprised if any Government thought, 'Oh, that's quite a good cash cow, isn't it?' [*Laughter.*] You may

be teasing me slightly, but, yes, I would agree with you—of course, we would like to see it lowered.

[154] **Nick Ramsay:** I think he is more than slightly teasing you. *[Laughter.]*

[155] **Alun Ffred Jones:** How should state aid regulations be changed in order to support air connectivity in Wales?

[156] **Mr Duffy:** There seems to be enough wriggle room so that, with imagination, it is still fine at the moment. The danger would be, if everything became too regulated, that airlines and airports would not have any flexibility to look at innovative solutions that would benefit regions that do not have the kind of footfall—the passenger numbers—that Manchester, London and Birmingham have.

[157] **Byron Davies:** The Department for Transport has committed to maximising the benefits from existing capacity and creating conditions in which regional airports can flourish. Considering where you are as an airline, what, in practice, can the Department for Transport do to help Cardiff Airport to flourish?

[158] **Mr Duffy:** I generally have a lot of sympathy for my colleagues at the DfT in Westminster because they have taken quite a big hit in terms of the human resource that they have to devote to aviation. It is a difficult time for them. Congratulations for getting them out of London to speak to you this morning; that is a result. I am no fan of London-centric policies, and the department needs to make real some of its rhetoric about regional differentiation. When the Treasury reported on the consultation about APD, it, rather than the DfT, was pretty clear that the next stage would be to look at how regional differentiation could help. You could argue that one of the things that it has done that will benefit the regional aviation business is the fact that there is no extra capacity in the south-east. That could and should benefit international connectivity from places like Cardiff.

[159] The DfT has a hard job, because it is fair to say that there is not really a fully developed aviation policy for the country at the moment. There really is not. It is therefore difficult for the department, at this stage, given that it does not have that policy in front of it.

[160] **Byron Davies:** So, how do you believe that the UK Government aviation framework should be developed to support Welsh aviation and connectivity?

[161] **Mr Duffy:** To develop Wales or the regions of the UK I would give the same answer. First, there should be expenditure on infrastructure, because if we are serious about stopping people from driving to Heathrow, then access to airports matters. There could be support for increasing runways and access around the whole of the UK—Birmingham has that and it looks like others will as well. When the economy is brighter, that will benefit some of the other airlines.

[162] The same principles apply to Cardiff Airport. Making some kind of policy decision that enables the regional differentiation of costs and support for regional aviation would make a difference. I do not know how that could come together, but if the DfT is serious and does not want to lose more airports—Plymouth is the first and I doubt that it will be the last—it needs to get outside London and look to see where the places are where it is a necessity rather than a luxury to fly. It is impossible to do a day's business in some of the UK regions and get back in a day because there are not enough routes. We do not have enough routes to necessarily make that possible out of Cardiff. So, that is a criticism that could be applied to us.

[163] **Byron Davies:** However, you said that it is quite easy to start a route.

[164] **Mr Duffy:** It is, but it is easier when you have a base. If the money and the passengers are there, we can start a route. However, there is no prospect of that at the moment because of the economy and the infrastructure, and because, in somewhere like Cardiff, we do not have physical aircraft based there. It is much easier for us to start something at 7 a.m., which we currently do not from Cardiff, than it is to go to Cardiff for a business meeting when you might arrive at 9.30 a.m.. So, having staff based there makes a difference, and it is the reason why some airports flourish above others. It remains a slight disappointment to us that, for all sorts of reasons, we have not yet been able to increase the number of bases that we have around the UK, and that would include Cardiff.

[165] **Byron Davies:** I have one brief point—I do not want you to go into any great detail. I was interested in what you said, namely that you could achieve a new route in six weeks. My impression of the CAA is that it is quite a difficult, bureaucratic sort of organisation. It must play quite a part in this.

[166] **Mr Duffy:** Not really. In the whole of Europe, it is only in Guernsey that you need a licence to operate a route. If there is room at the airport and we have the physical capability in terms of aircraft, we can do it pretty quickly. It is easier than one would think. We do not need a licence, and we could do it fairly quickly. I would concede that it is not easy, though.

[167] **Eluned Parrott:** So, for you as an airline, a differential air passenger duty regime is presumably your No. 1 priority. Is that correct?

[168] **Mr Duffy:** Oil at \$75 a barrel would be our first priority. [*Laughter.*] However in terms of the things we control, APD does matter. We did some sums. Willie Walsh was on the radio the other day complaining that almost 4% of his turnover at IAG was APD. That made us wonder what ours is, because we are a domestic airline, and the percentage of our turnover is more than treble that, going straight into someone else's pockets. I appreciate that we do not pay all the same taxes that other businesses pay, but there are other taxes that we certainly pay. We pay for all our own infrastructure—we do not receive a penny in public subsidy. One of life's great ironies is that APD raises just over £3 billion, and the subsidy to rail—I make no comment one way or the other; I use rail all the time—is about £4 billion.

[169] **Leanne Wood:** [*Inaudible.*]

[170] **Mr Duffy:** That is food for thought, is it not?

[171] **Nick Ramsay:** That has silenced the committee, and at an opportune moment, because that was our last question, unless any Member wants to come back on something.

[172] **Byron Davies:** You do not pay duty on fuel, do you?

[173] **Mr Duffy:** No, we do not.

[174] **Byron Davies:** Whereas rail does.

[175] **Mr Duffy:** Well, it does not pay VAT on fuel. Do not get me wrong; despite the fact that seven out of every 10 rail journeys begin or end in London, rail is absolutely crucial. Without it, we could not get people to our airports. I was simply making a mathematical comparison between the amount raised in APD and the amount given in subsidy to rail.

[176] **Eluned Parrott:** I want to recap the points that we have heard. The priorities for you are: No. 1, APD; No. 2, route support and development; and No. 3, service connectivity. Is that how you see it?

[177] **Mr Duffy:** It is very difficult to rank things in order of priority, but those three are all pretty important as far as they are within our control. Oil and creating an upturn in the economy are crucial.

[178] **Eluned Parrott:** Thank you.

[179] **Nick Ramsay:** Great. I thank Niall Duffy for coming to give evidence to our inquiry this afternoon. Also, thank you for the way in which you having engaged with the committee. You were succinct and you provided a lot of information, which is going to be very useful in our deliberations and our discussions afterwards. Thank you for coming.

[180] **Mr Duffy:** It was a pleasure. Thank you, all.

[181] **Nick Ramsay:** The food industry's loss is clearly the aviation industry's gain.

[182] With that, I declare the meeting closed.

*Daeth y cyfarfod i ben am 2.44 p.m.
The meeting ended at 2.44 p.m.*