

Our Ref: 1749

Your Ref:

When telephoning please ask for:
John Lowther

22nd August 2007

Mr John Banfield
Inquiry Director
Competition Commission – BAA London Airport Inquiry
Victoria House
Southampton Row
London
WC1B 4AD

Dear Sir

HEATHROW AIRPORT PRICE CAPS 2008-13

I am writing to express the concern of the Tees Valley local authorities on the implications of the proposals from the Civil Aviation Authority on charges levied on airlines at Heathrow on the Tees Valley economy. I understand that the Competition Commission is currently considering the CAA's proposals and as such I am writing to make you aware of our concerns.

The CAA propose a price cap range for 2008-13 of RPI+4% pa to RPI+8% p/a which will increase charges at Heathrow by 44-73% over the review period. On this basis Durham Tees Valley Airport have been notified by bmi that it is not able to sustain the operation of short feeder services into Heathrow such as the Durham Tees Valley – Heathrow route.

The implementation of price caps at Heathrow will inevitably result in the continued reduction of UK domestic feeder services into Heathrow and their ultimate replacement by international air services operated by large aircraft providing increased profits to BAA at the expense of increased peripherality for the UK regions such as the Tees Valley.

The loss of the bmi service to Heathrow from Durham Tees Valley will severely impact on the Tees Valley economy. 35% of passengers on the flight to Heathrow are interchanging direct on to other European and intercontinental flights, most of whom are business passengers. For these reasons an alternative service to Gatwick, Stansted or London City would not be an adequate substitute to replace the Heathrow service. The rail option is unattractive because

of the requirement to change once at Kings Cross to the Piccadilly line or twice for the Paddington rail link, a journey at best of at least 4 hours.

In the Tees Valley we have the second largest chemical/petrochemical complex in Europe with major international companies such as SABIC, BASF, Petroplus, Huntsman, Terra, Avecia, Johnson Matthey and world-class engineering and architectural design practices such as AMEC, Whessoe, Aker Kvaerner and Cleveland Bridge who depend on easy access via Heathrow to both markets and their head offices. If it becomes increasingly difficult to travel direct by air from Heathrow to Durham Tees Valley then there is a danger that when investment decisions are made by global companies they will locate elsewhere because of the difficulty of travelling by air to the area. In this way the competitiveness of a peripheral region like the Tees Valley is reduced.

It is Government policy through its PSA targets to reduce the £30 billion output gap in GVA between the north and south. PSA target 1 for the DTI and the Treasury is to demonstrate further progress by 2008 on the Government's long term objective of raising the productivity growth over the economic cycle, improving competitiveness and narrowing the gap with our major industrial competitors. PSA target 7 for the DTI, Treasury and DCLG refers to the need to maintain substantial improvements for the economic performance of all the English regions by 2008 and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006. The loss of the Durham Tees Valley – Heathrow flight because of charging policy at Heathrow will make it more difficult to close the output gap.

In most countries airports are seen as major drivers of economic growth. The recent Regional Spatial Strategy for the North East of England proposes major growth of airport related industry at Durham Tees Valley Airport and planning permission for a major business park on the north side of the airport and a major development for airport related industry on the south side of the airport has been granted and development is expected to commence on the north side shortly and the on the south side in 2009. The route to Heathrow is a critical factor in attracting and developing airport related industry and hence the economic growth of the Tees Valley.

The proposal for increased charges affects primarily the non BAA airports. Where BAA are the operator of a provincial airport as well as Heathrow there is scope for cross subsidisation. Clearly this protects UK internal flights from Glasgow, Edinburgh and Aberdeen but still leaves non BAA owned airports such as Newcastle, Durham Tees Valley and Leeds/Bradford at a disadvantage.

For these reasons, the Tees Valley authorities request the Commission to consider the introduction of some sort of charging structure that safeguards the slots at Heathrow for regional feeder services for the UK like Durham Tees Valley in recognition of their special role in supporting the UK economy. Options could include the development of a separate charging structure for UK domestic feeder services, the safeguarding of Heathrow slots that have been operated from any UK region for a period of greater than 10 years, or a differential pricing policy based on the size of aircraft which is the practice at most other airports but not Heathrow.

The Tees Valley authorities consider that the Competition Commission should consider these broader issues. Our links to Heathrow have been in place for over 37 years. Everyone in the region, especially the business community and the agencies and organisations involved in the regeneration of the North East, feel strongly on this issue. We would urge the Competition Commission to consider these issues seriously in its deliberations.

We believe one mechanism the Commission should explore is a public service obligation. The Department for Transport's White Paper – The Future of Air Transport – published in December 2003 sets out Government policy on the issue of slots at London airports. Paragraph 4.44 states that:

“In recognising the importance of regional services, the Government is prepared to intervene in well defined circumstances to protect slots at the London airports for such services by imposing Public Service Obligations (PSOs). The imposition of a PSO enables the slots used for that service to be ‘ring-fenced’, so that airline cannot use them for a service to an alternative destination. The rules for imposing PSOs are set out in European regulations (Regulation 2408/92 and Regulation 95/93).

4.45 - The Government will apply PSOs where, in accordance with the existing EU Regulation 2408/92, three criteria are met:

- The route is to a peripheral region, or to a development region, or is a ‘thin’ route; we will consult shortly on the details of this;
- The air service concerned is vital to economic development for the region; and
- A PSO is required to ensure an adequate level of service. We will be consulting regional stakeholders and the aviation industry shortly on an appropriate definition of ‘adequate’ bearing in mind the importance to travellers of services at both peak and off peak times.”

In the event of a solution not being found, the Tees Valley authorities consider that the Department for Transport should consider developing a public service obligation for feeder services from areas such as Durham Tees Valley since it is clear that the Durham Tees Valley satisfies the criteria set out in para 4.45 of the White Paper.

Yours sincerely

John Lowther
Director
Tees Valley Joint Strategy Unit