



House of Commons  
Northern Ireland Affairs  
Committee

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# **Air Transport Services in Northern Ireland**

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**Eighth Report of Session 2004–05**

*Volume I*





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***Volume I***

*Report, together with formal minutes*

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## The Northern Ireland Affairs Committee

The Northern Ireland Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Northern Ireland Office (but excluding individual cases and advice given by the Crown Solicitor); and other matters within the responsibilities of the Secretary of State for Northern Ireland (but excluding the expenditure, administration and policy of the Office of the Director of Public Prosecutions, Northern Ireland and the drafting of legislation by the Office of the Legislative Counsel).

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### Committee staff

The current staff of the Committee are Dr John Patterson (Clerk), Hugh Farren (Attached Clerk), Dr Aileen O'Neill (Committee Specialist), Tony Catinella (Committee Assistant), Julia Kalogerides (Secretary).

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## Summary

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Northern Ireland, because of its peripheral geographic location, is particularly reliant on good air links to help it maintain and develop a healthy economy, and to play its full part in an enlarged Europe. Over the past decade, global changes and pressures on the airline industry resulted in a decline in services to and from Northern Ireland. By the end of 2003 Northern Ireland had only one remaining direct air link to mainland Europe.

More recently in Europe the emergence of low cost airlines and the drive by airports to secure new air links have helped to bring about a revival. Over the last year significant improvements have taken place and Northern Ireland is now generally well served with links to the rest of the United Kingdom. Routes to a number of European centres have also been established, and the first transatlantic service since 2001 is due to commence shortly. However, there is still potential for expansion of scheduled services, particularly to other important European centres and to more North American destinations.

Good access to Heathrow, with its onward global connections, remains crucial for Northern Ireland. While we were reassured that there is no immediate threat to the current service, the continuing pressure on landing and take-off slots at Heathrow, which is likely to increase in the absence of additional capacity being made available, means that there is little room for complacency. The Government needs to have adequate contingency plans in place to protect this service.

Dublin airport, because of its proximity and improving road links, is an attractive option for many Northern Ireland travellers as it offers a wide range of direct services often at lower fares than a service to the same destination operated from Belfast. While this may be beneficial from a consumer perspective, recapturing some of this market could provide valuable economic benefits for Northern Ireland. In the absence of any definitive information on the numbers or the factors that influence people to choose to fly through Dublin rather than from Belfast, it is impossible to quantify the beneficial impact of any measures that may be introduced.

We believe that the Government White Paper on Aviation provides a sound basis for the development of air services generally in Northern Ireland over the coming years. However, to enable this to happen two important issues need to be addressed:

- First, a decision on the review of the Planning Agreement at the Belfast City Airport is needed urgently. This will determine the scope for the airport to grow and develop. Careful consideration needs to be given to the environmental aspects of this issue; and,
- Second, the decision in principle by the two Governments to provide funding to develop the City of Derry airport is welcomed and must be finalised as quickly as possible. Again, careful consideration needs to be given to the potential impact on those who live near the airport. Important decisions on the future governance of the airport are also needed.

The Route Development Fund, which was set up in September 2003 to promote new air

routes of economic benefit to Northern Ireland, represents a valuable Government initiative at a time when air services to Northern Ireland were very poor. Although it has resulted in some important new routes, a large number of routes have been announced in the same period which will not receive support. Inadequate advance preparation and research, to identify priority routes offering the maximum business or inbound tourism potential, has meant that funding has been awarded in an ad-hoc and disorganised way, and the full potential benefits for Northern Ireland may not have been realised. A Route Development Fund, which has had a relatively high failure rate of funded routes, was introduced in Scotland in 2002. This experience should have sounded a note of caution and underlined the need for a rigorous and focused approach.

Other regions of the UK are considering similar initiatives and we have serious concerns that the proliferation of Route Development Funding could distort the market and reduce the overall effectiveness of such support. It is imperative, therefore, that a thorough, robust, and independent review be undertaken before any further funding is provided for the Northern Ireland scheme.

The considerable growth in air services generally throughout Europe recently, mainly through the advent of low-cost airlines, has been reflected in significant improvements in services to and from Northern Ireland. However, we recognise the susceptibility of airline travel to global events and there is no room for complacency. The planned review next year of the strategic framework for the whole United Kingdom, set out in the White Paper, will be a valuable opportunity to reassess Northern Ireland's performance.

# 1 Introduction

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1. The Northern Ireland economy is currently performing well and the number of visitors coming here last year is estimated to have exceeded two million for the first time.<sup>1</sup> Because of its geographical location, good air transport links to other parts of the United Kingdom, to continental Europe and beyond, are vital to the maintenance and development of a healthy Northern Ireland economy.

2. We were conscious, however, when we started this inquiry in early 2004, that air services to and from Northern Ireland had been through a period of decline over the previous decade. During this time ten scheduled airlines ceased operations in Northern Ireland while only three were established and over 50 scheduled air routes disappeared.<sup>2</sup> With only one direct air link remaining to mainland Europe, Northern Ireland was at a considerable disadvantage compared to other regions of the United Kingdom. Our Inquiry also took place at a time of continuing major structural change within the airline industry which has seen increasing pressures on the established carriers and the rapid growth of the so-called low-cost airlines.

3. This report sets out the results of our examination of :

- the development of capacity at existing airports in Northern Ireland
- the specific challenges facing Northern Ireland as a peripheral region of the United Kingdom
- the effectiveness of the Route Development Fund; and
- the potential impact for Northern Ireland of wider air transport issues on the island of Ireland.

4. In the course of the inquiry we visited each of the three commercial airports in Northern Ireland, and we took evidence from a range of organisations in Westminster, Belfast, Aldergrove and Londonderry. We visited Dublin where we had discussions with the management of Dublin Airport and the management of the two principal airlines in the Republic of Ireland. We are grateful to all those who have helped us, including those who provided written or oral evidence. We wish to thank Mr Chris Tarry, our Specialist Adviser, for his valuable assistance.

## Background

5. Northern Ireland has three commercial airports. The largest of these, **Belfast International Airport**, which is privately owned, handled some 4.4 million passengers in 2004, principally using low-cost or charter airlines. It is situated in a sparsely populated area, has no constraints on overall capacity or operating hours, and has scope to expand within its existing boundaries.

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<sup>1</sup> *Quarterly Economic Review*, Department of Enterprise, Trade and Investment, January 2005; Northern Ireland Tourist Board website.

<sup>2</sup> Ev 103; Ev 123; Q 375

6. **Belfast City Airport**, which is also privately owned, provides a wide range of scheduled services mainly to destinations within the UK and handled just over 2 million passengers in 2004. Because of its location close to Belfast city centre it is subject to constraints and has to operate within a planning agreement which restricts its operating hours and overall capacity. It is also one of a small number of airports designated by the European Commission as a 'City Airport' which means that it may be subject to "more stringent noise-related operating restrictions than at other airports in the EU, if desired".<sup>3</sup>

7. **City of Derry Airport** is owned by Derry City Council and operates a limited number of services, serving the northwest area including Co Donegal in the Republic of Ireland and handling just under 0.25 million passengers in 2004.

8. The Department for Transport (DfT) is responsible for overall aviation policy throughout the United Kingdom. Within Northern Ireland, the Department for Regional Development (DRD) has responsibility for a number of aviation matters including land use planning, environmental issues such as noise control, surface transport and the funding of airports in public ownership. The Department of Enterprise Trade and Investment (DETI) provides funding for a Route Development Fund that aims to promote new air routes of economic benefit to Northern Ireland. The Department of the Environment (DOE) has responsibility for decisions on planning issues relating to airports.

9. The Government published a White Paper in December 2003, which set out a strategic framework for the development of airport capacity in the United Kingdom over the next 30 years.<sup>4</sup> The White Paper recognised the need to balance the benefits of expansion of air travel against its environmental impact including "the significant impact that airports can have on those living nearby".<sup>5</sup> The principal conclusions in the White Paper in relation to Northern Ireland airports were that:

- "the Northern Ireland authorities should review the form of the planning agreement at Belfast City should the airport operator ask them to do so;
- the scope to develop capacity within Belfast International's existing boundaries is significant and should be supported;
- the future development of City of Derry Airport needs early consideration in conjunction with the Government of the Republic of Ireland;
- all developments will need careful environmental assessment."<sup>6</sup>

10. Those who made submissions to us generally accepted the overall thrust of the White Paper, although there were differing views on the solution to the problem of shortage of runway capacity in the South-east of England which has a bearing on the forecast growth for other regions of the UK, including Northern Ireland. The increasing pressure on capacity in London and the South-east will have significant implications for regional services throughout the United Kingdom and for Northern Ireland in particular because of

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<sup>3</sup> *The Future of Air Transport*, Department for Transport, December 2003, Cm 6046 Chapter 7.8

<sup>4</sup> *The Future of Air Transport*, Department for Transport, December 2003, Cm 6046

<sup>5</sup> *Ibid*, Executive Summary

<sup>6</sup> Ev 111

its high dependence on Heathrow for onward global connections. London Redhill Airport argued that the White Paper's conclusions on runway capacity in the Southeast was "too little, too late and partly in the wrong location"<sup>7</sup> while bmi (formerly British Midland) believed that the White Paper "establishes a sound strategic framework in which that capacity can be delivered in a sustainable way".<sup>8</sup>

11. Within Northern Ireland only the management of Belfast International Airport was overtly critical of the White Paper stating that it "fell short of expectation and ... gave no firm direction for the future".<sup>9</sup> Its main concern appeared to relate to the growth forecast for the Belfast City Airport in the White Paper.<sup>10</sup> The General Consumer Council called for the Department for Regional Development "to consult further to promote informed debate and devise a strategy on how Northern Ireland airports can facilitate the proposed growth over the next 25-30 years".<sup>11</sup> Whilst the Department for Transport told us that its "view on aviation policy affecting Northern Ireland has not changed materially since publication of the White Paper", it drew our attention to the fact that "the Government is committed to reviewing implementation of the White Paper in 2006."<sup>12</sup>

12. A Transport Committee report on aviation, prepared in advance of the White Paper, warned that none of the White Paper's "goals will be achieved unless the Government immediately takes action to plan and monitor and ensure the delivery of the developments and policies it proposes."<sup>13</sup>

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<sup>7</sup> Ev 162

<sup>8</sup> Ev 169

<sup>9</sup> Ev 122

<sup>10</sup> Q 374

<sup>11</sup> Ev 36

<sup>12</sup> Ev 111

<sup>13</sup> Select Committee on Transport, 2002-03, Sixth Report, *Aviation*, HC 454-I, para 265

## 2 Airport Issues

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13. The White Paper set out the estimated forecast demand for the Belfast airports suggesting that Belfast City Airport would handle some 4 million passengers a year and Belfast International some 8-9 million by 2030.<sup>14</sup> Belfast International Airport expressed concern that these did not match up with earlier forecasts made by the Department of Environment, Transport and the Regions in 2000<sup>15</sup> which concluded that “Belfast City Airport, with planning constraints, would be about 2.2 million people, ... and Belfast International could grow to just under 10 million”.<sup>16</sup>

14. The forecast in the White Paper relating to Belfast City Airport appears to be based on an assumption of a relaxation of the Planning Agreement, and to reflect the changes that had taken place in the Northern Ireland air transport market since 2000; in particular, that the annual average growth at Belfast City was 13% and at Belfast International 8.5%.<sup>17</sup> By 2004 passenger numbers using Belfast City Airport had exceeded 2 million. We were conscious of the importance of any forecast not remaining static and of the need to review it in the light of prevailing or changing circumstances, and we believe there are reasonable grounds for expecting the actual outcome in 2030 to be different from the forecasts made in both 2000 and 2003.

15. Questions were raised about the extent to which the two Belfast airports are in either in direct competition or complement each other; whether Belfast should be served by only one airport and whether there would be any benefits from the two airports coming under common ownership. Belfast City concentrates on so-called ‘full service airlines’ which have as their principal market the business traveller whereas for Belfast International the main engine for growth has been, and is likely to continue to be, the so called low-cost or no-frills sector which has as its principal focus the leisure sector.<sup>18</sup>

16. It was argued for Belfast International Airport that Northern Ireland would gain economies of scale and other advantages if it had a single airport but accepted that “Belfast City Airport is a fact of life; .... it is there, it is an asset, it should be used for benefit of Northern Ireland PLC.”<sup>19</sup> So far as Belfast City Airport was concerned, the question of a single airport for Northern Ireland was “purely academic, as the two Belfast airports are both privately owned profitable businesses”.<sup>20</sup> The General Consumer Council believed that “competition does exist between the two Belfast airports and ... we support the retention of two airports in the Belfast catchment area”.<sup>21</sup>

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<sup>14</sup> *The Future of Air Transport*, Department for Transport, December 2003, Cm 6046, Chapter 7

<sup>15</sup> *The Future Development of Air Transport in the United Kingdom: Northern Ireland*, A National Consultation, Department for Transport, August 2002 p. 50

<sup>16</sup> Q 374

<sup>17</sup> Ev 17

<sup>18</sup> Ev 168

<sup>19</sup> Q 374

<sup>20</sup> Ev 91

<sup>21</sup> Q 111

17. Economies of scale could be achieved if both airports were in common ownership, but it was accepted that at present this was a hypothetical question.<sup>22</sup> The Department for Transport reminded us that “the Monopolies and Mergers Commission Report found that a 1995 offer by Belfast International to acquire Belfast City was against the public interest”, but agreed that “the issue could conceivably arise again in future years.”<sup>23</sup> The Minister reassured us that should such a situation arise then, public interest issues would have to be considered and it would be for the Office of Fair Trading to make a decision.<sup>24</sup>

### **Belfast City Airport**

18. The scale of operations at Belfast City Airport is restricted by a planning agreement made in 1997 which placed limitations on: the hours of operation (0630-2130), the annual number of aircraft movements (45,000), and the number of departing seats sold (1.5 million – equivalent to some 2.0-2.2 million passengers). Given the growth over the 2000-2004 period, which averaged 13%, the limit on the number of seats sold is now a binding constraint.<sup>25</sup> The White Paper “invited the Northern Ireland Authorities to review the form of the planning agreement if and when they are so requested by the airport operator”.<sup>26</sup> Such a request was made in August 2004, and in November 2004 a public consultation process was launched.<sup>27</sup>

19. Residents who live close to Belfast City Airport made strong representations to us about the potential impact on the environment of any increase in airport activity, particularly in relation to noise and the use of larger aircraft, and also safety concerns.<sup>28</sup> They called for the airport to “accept that it can only have very limited growth (if any)”.<sup>29</sup> Belfast City Airport told us that it “could achieve the required growth within the current operating hours and within the current permitted Air Transport Movements of 45,000 per annum.” Rather it was “seeking to remove the current restriction on ‘seats for sale’ which relates to the capacity of the old terminal building, and has therefore no relevance to the new facilities which opened in June 2001.”<sup>30</sup> The Department for Transport accepted that such decisions were a matter for the Northern Ireland Departments, but suggested that “the normal way of doing that would be through a limit on air transport movements, coupled with a noise contour limit set on the basis of the aircraft using the airport. A ‘seats for sale’ thing is a little bit unusual”.<sup>31</sup> The Civil Aviation Authority (CAA) commented that it was “unsure what purpose is served by having both a cap on seats offered and a limit on total movements” and described the former as “an odd restriction”.<sup>32</sup>

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<sup>22</sup> Q 381

<sup>23</sup> Ev 113

<sup>24</sup> Q 413

<sup>25</sup> Q 290

<sup>26</sup> *The Future of Air Transport*, Department for Transport, December 2003, Cm 6046, Ch7.9

<sup>27</sup> *Planning Belfast City Airport Future*, News Release, DoE, 19 November 2004; The management of Belfast International Airport were granted leave to apply for a judicial review of the process in February 2005

<sup>28</sup> Ev 24-28

<sup>29</sup> Ev 26

<sup>30</sup> Ev 91

<sup>31</sup> Q 365

<sup>32</sup> Ev 7; Q 4

20. The Kinnegar Resident’s Action Group expressed concerns that “the noise climate is only being estimated using computer simulations” and that this is only effective “if there is secondary radar to plot actual aircraft flight paths and heights together with ground monitoring equipment”.<sup>33</sup> Belfast City Airport, which meets quarterly with local residents through an airports forum, told us that “active noise monitoring, both on the airfield and off the airfield” takes place regularly to validate the computer modelling, and “is due to be done again within the next few weeks”.<sup>34</sup> The Airport also indicated that it plans to replace its primary radar and “would consider moving towards secondary radar”.<sup>35</sup> **We fully recognise the environmental concerns of local residents who live near Belfast City Airport and we welcome the very positive efforts of Airport management who reassured us that “we are trying to work closely with the community around us”.**<sup>36</sup>

21. Belfast City Airport believes it has a “niche role within Northern Ireland”<sup>37</sup> with a rate of growth in the range of 3-5% in prospect if the seat for sale limitation was lifted.<sup>38</sup> Whilst the current focus is on services to Great Britain it is clear that the airport has ambitions to serve some continental European business centres, such as Amsterdam, Brussels, Frankfurt or Paris, although to do this would require the addition of starter strips to the runway.<sup>39</sup> Unsurprisingly, Belfast International Airport was opposed to any change in the planning agreement, and stated that “we consider that further development would be harmful to the overall prospects for Northern Ireland”.<sup>40</sup> However, there is strong support across a broad front for the airport to continue to grow, “Further expansion of Belfast City Airport is a vital component to the growth of domestic air travel. The proximity of the airport to the centre of Belfast is a huge selling point for travellers within the United Kingdom”.<sup>41</sup>

**22. An application to review the current Planning Agreement at the Belfast City Airport is with the Department of the Environment for decision. We also understand that leave has been granted to Belfast International Airport to seek a judicial review of the application. Whilst it would be inappropriate for us to recommend a particular course of action on the issue, we believe that a ‘seats for sale’ restriction is not a valid or suitable way to manage the environmental impact of airport activity. We urge the Minister for the Environment to ensure that a decision is forthcoming as quickly as possible.**

### ***Belfast International Airport***

23. Belfast International Airport is recognised as the principal growth airport for Northern Ireland and has been the centre for the growth of low-cost or ‘no-frills’ airlines. The airport has also been a significant beneficiary of support from the Route Development Fund.

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<sup>33</sup> Ev 27

<sup>34</sup> Qq 294, 297

<sup>35</sup> Q 296

<sup>36</sup> Q 293

<sup>37</sup> Q 290

<sup>38</sup> Ev 91

<sup>39</sup> Q 304

<sup>40</sup> Q 383

<sup>41</sup> Ev 152

24. The representatives of Belfast International Airport, with plans to invest £40 million over the next five years to upgrade and develop facilities, argued consistently that growth should only occur there, and that growth at the other Northern Ireland airports would damage their competitive position.<sup>42</sup> However, we consider that competition between airports is increasingly a feature of the operating environment across Europe to attract and retain airlines.<sup>43</sup> Low-cost or no-frills airlines tend to display a high propensity to transfer a service if it is not profitable or if there is a better offer of financial support available elsewhere. The importance of revenue derived from charges to airlines at Belfast International has declined sharply in relative terms over the recent past thus increasing the importance of passenger spending at the airport.<sup>44</sup>

25. Several witnesses expressed concern at what they saw as an increasing dependence on airlines in this segment to provide services to and from Northern Ireland: “Aircraft are very mobile assets and routes can be easily opened/closed to take advantage of more economic returns; Northern Ireland will remain exposed to this”.<sup>45</sup> **It appears that the dependence of Belfast International Airport on low-cost or no-frills airlines has increased its need for greater passenger volume and the associated retail and related spending. This is a situation that is brought into greater focus against the background of the airport’s planned substantial capital expenditure programme.**

26. Dublin airport remains the principal competitor to Belfast International; “close to home we are competing very directly with Dublin”.<sup>46</sup> Although the new route openings should increase the relative competitive position of Belfast International, passengers to or from Northern Ireland may still find travelling via Dublin a more attractive and cost effective option on these routes.<sup>47</sup> **We fully recognise that there is a limit to the number of destinations currently served from Dublin that may be able to be offered from Belfast irrespective of support from the Route Development Fund.** A number of witnesses suggested that if a destination was served three times a day from Dublin there may be enough traffic to support a once-a-day service from Belfast.<sup>48</sup>

### **City of Derry Airport**

27. The City of Derry Airport plays an important role for the Northwest of the island of Ireland<sup>49</sup> and is regarded by the Londonderry Chamber of Commerce as “an important tool in the drive to improve social and economic conditions” in the area.<sup>50</sup> Whilst there appears to be no recent data to quantify the number of travellers from the Republic using the airport, its importance to the region is widely recognised. The Department for Regional Development told us that “The Republic of Ireland has a strategic interest in the continuing

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<sup>42</sup> Qq 375, 395

<sup>43</sup> Q 387

<sup>44</sup> Q 398

<sup>45</sup> Ev 104; Ev 155

<sup>46</sup> Q 387

<sup>47</sup> Ev 105

<sup>48</sup> Q 308

<sup>49</sup> Q 418

<sup>50</sup> Ev 45

operation and potential development of the City of Derry Airport”,<sup>51</sup> a view that was echoed by Inter-trade Ireland.<sup>52</sup> Indeed, the Irish Government, which supports the service between the City of Derry and Dublin through a Public Service Obligation (PSO),<sup>53</sup> also jointly funded an expansion of the airport in 1998.<sup>54</sup>

28. Despite recording the most rapid growth of any airport in Northern Ireland during 2004 with an increase of some 15.5% in passenger numbers compared with 2003, City of Derry with just under 0.25 million passengers was still approximately one twentieth of the size of Belfast International. It is also well below the 1.0-1.5 million passengers which are generally regarded as the minimum throughput at which an airport is likely to be profitable.<sup>55</sup>

29. The Londonderry Chamber of Commerce emphasised that “one of the difficulties of chasing further expansion is that there are constraints which block the future development of the airport”.<sup>56</sup> A bid for substantial public funding to extend the runway and develop the airport terminal is currently being considered by the two Governments. The Minister told us “We are hopeful of trying to get a decision in the not too distant future”.<sup>57</sup> The Council argued that the extension was necessary to meet new international requirements for safety zones at each end of the runway, and they saw this as “affecting [their] ability to attract new operators and expand current routes particularly in the low cost sector”.<sup>58</sup>

30. The Stop Eglinton Airport Evictions Group questioned the need for the extension to the runway, not least due to the impact that it would have on their homes. They argued that an alternative and more practical direction for the runway was feasible, which would remove the need for some of their Group to have to move house.<sup>59</sup> However, the views expressed by this group appeared not to be universally held by all the residents affected directly.<sup>60</sup>

31. The airport operates at a deficit and in the last financial year reported a loss of £1.3 million which continues to be borne by the ratepayers of Derry City Council.<sup>61</sup> The Council and City of Derry Airport are making strenuous efforts to reduce this deficit and pointed out that £0.6 million of this relates to repayment of Government capital loans taken out some time ago at exceptionally high fixed rates of interest.<sup>62</sup> **We urge the Minister for Regional Development to consider what action can be taken to reduce the**

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<sup>51</sup> Ev 145

<sup>52</sup> Ev 162

<sup>53</sup> A Public Service Obligation (PSO) is a mechanism provided for in European legislation permitting governments to provide financial support for a route that is considered to be of fundamental importance for a region

<sup>54</sup> Ev 145

<sup>55</sup> Official Journal of the European Communities, L 137; 30<sup>th</sup> April 2004, para 292

<sup>56</sup> Q 126

<sup>57</sup> Q 421

<sup>58</sup> Ev 63

<sup>59</sup> Ev 51

<sup>60</sup> Ev 163

<sup>61</sup> Q 171

<sup>62</sup> Qq 171-175

**financial burden of the City of Derry Airport deficit on the ratepayers in the Derry City Council area, such as refinancing the loans or rescheduling payments.**

32. The targets set within the future development plan for the airport, which under option 2 suggested passenger volumes of 0.83 million by 2010, appear to be heavily dependent upon the establishment of additional services by Ryanair.<sup>63</sup> The analysis also appears to rely heavily on assumptions in terms of route developments and load factors, which seem more appropriate to the experience at Stansted and a number of witnesses questioned their validity.<sup>64</sup>

33. At the start of the 2004/05 winter timetable, Ryanair reduced its frequency to Stansted from two to one a day. More recently, the airline, although introducing its new and larger Boeing 737-800 onto the route, has restricted the number of seats that can be used to remain within safety margins,<sup>65</sup> and this results in the airline encountering a financial penalty.<sup>66</sup> Ryanair's management informally indicated to us that unless there were tangible signs of the extension programme going ahead in the very near term then the remaining service that they operated was likely to cease. Conversely they also indicated that if the extension was to take place then there was a real prospect of them operating a range of services from their other bases to the City of Derry and they considered that this would result in a boost to inward tourism.

34. Belfast International Airport argued that if the development of City of Derry was "allowed to proceed with grant assistance, this expansion could harm the development of Belfast International Airport, lead to passenger displacement and involve the wholly inappropriate use of public funds".<sup>67</sup> **We fully understand the importance of City of Derry Airport for the North West region and we recognise that its future rests on its ability to develop and expand to attract new services. We therefore wholeheartedly welcome the decision in principle by the two Governments to provide £10 million for development<sup>68</sup> and urge the Minister for Regional Development to ensure that the outstanding conditions are addressed as quickly as possible.**

35. The management of City of Derry Airport called for the Airports Act 1986 to be extended to Northern Ireland to enable the setting up of a public airport company to run the airport.<sup>69</sup> The Department confirmed that this "is one of the options that will be looked at as part of the review of governance arrangements" but consideration seemed to be at an early stage.<sup>70</sup> **We call on the Minister for Regional Development to undertake the review of governance of the City of Derry Airport as a matter of urgency.**

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<sup>63</sup> *Derry City Council Economic Appraisal of City of Derry Airport*, Executive Summary, PriceWaterhouseCoopers, January 2004; The appraisal considered four options: Option 1 – Status quo, Option 2 – Redevelop airport runway and facilities in 2004, Option 3 – Redevelop airport runway and facilities in two phases, Option 4 – Close the airport.

<sup>64</sup> Q 152 inter al

<sup>65</sup> *Airline to introduce bigger planes*, Irish News, 19 January 2005

<sup>66</sup> Informal discussion with Ryanair, Dublin, 24 January 2005

<sup>67</sup> Ev 128

<sup>68</sup> *Two Governments announce decision in principle to provide £10 million for City of Derry Airport*, News Release, Department for Regional Development, 24 March 2005

<sup>69</sup> Q 175

<sup>70</sup> Q 425

### 3 'Leakage' to Dublin Airport

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36. There is a significant number of passengers from Northern Ireland who use Dublin airport each year and, at the same time, a smaller number of passengers from the Republic of Ireland travel from Belfast airports. The extent of this 'leakage' from Northern Ireland was an issue of concern in the Aviation White Paper which estimated that it varied "between 0.2 and 0.6 million passengers per year although there is no firm evidence of this and some believe that it could be as much as one million passengers a year".<sup>71</sup>

37. A consultant's report, commissioned by the Department for Regional Development in 2001, estimated that 360,000 people from Northern Ireland used Dublin Airport and about 100,000 from the Republic of Ireland used Belfast airports, resulting in a net leakage of 260,000. However, no studies have been carried out since 2001 and no further estimates have been made.<sup>72</sup> The CBI claimed that Northern Ireland loses over half a million passengers to Dublin airport and suggested that "Northern Ireland has an opportunity to capture some of this market".

38. It was generally recognised that competition between Belfast airports and Dublin Airport provided choice for consumers, and overall this was seen as a benefit.<sup>73</sup> Nevertheless, there are undoubtedly significant economic benefits for Northern Ireland, including the creation of substantial additional jobs, if some of this market could be recaptured.<sup>74</sup> The CAA pointed out that "residents in Northern Ireland appreciate the ability to fly from Dublin to destinations which may never be viable from Belfast and which save them the inconvenience of having to take a feeder flight to London",<sup>75</sup> while the General Consumer Council argued that "it is competition both ways and Belfast, in terms of its two airports, has to offer alternatives if it is to attract people in the opposite direction".<sup>76</sup>

39. The introduction of the Route Development Fund was described in the White Paper as "a potentially significant policy response" to the issue of cross-border leakage,<sup>77</sup> but the Department for Transport admitted that it did not know whether this has had any impact and suggested that it "needs to be monitored carefully".<sup>78</sup> The Minister told us that the impact of the Route Development Fund was "very much about building the critical mass of the airport".<sup>79</sup>

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<sup>71</sup> *The Future of Air Transport*, Department for Transport, December 2003, Cm 6046, Chapters 7.3.1, 7.3.11

<sup>72</sup> Qq 283-284

<sup>73</sup> Q 12

<sup>74</sup> Q 409

<sup>75</sup> Ev 7

<sup>76</sup> Q 118

<sup>77</sup> *The Future of Air Transport*, Department for Transport, December 2003, Cm 6046, Chapter 7.3

<sup>78</sup> Qq 347-348

<sup>79</sup> Q 434

40. In addition to the extensive range of direct services available from Dublin, many respondents highlighted other factors which encourage Northern Ireland passengers to use Dublin Airport. These include the recent road improvements that have reduced travel time between Belfast and Dublin, and the absence of any air passenger tax in the Republic of Ireland.<sup>80</sup>

41. The key priority for Belfast International Airport in reducing the trend towards Dublin airport was the removal of the airport departure tax.<sup>81</sup> From a business perspective the CBI also argued that these tax differentials “provide important cost advantages in markets which are increasingly price sensitive”.<sup>82</sup> Belfast International Airport provided anecdotal evidence that the airport tax was the crucial factor that persuaded groups from the United States to opt for Dublin Airport rather than Belfast.<sup>83</sup> However, the Department for Transport remained to be persuaded that the tax issue “makes a huge amount of difference”.<sup>84</sup> Some also cited the situation in the Scottish Highlands and Islands where flights from those airports are exempt from Airport Departure Duty.<sup>85</sup>

**42. We recognise that Dublin Airport, for a variety of reasons, including in particular, the range of direct services it has to offer, will continue to attract significant numbers of passengers from Northern Ireland. Steps should be taken to keep this ‘leakage’ to a minimum for the overall benefit of the Northern Ireland economy. In the absence of reliable and up-to-date information on passengers from Northern Ireland who use Dublin Airport, and vice versa, we believe it will be impossible to measure the impact of any policy measures aimed at addressing the issue.**

**43. We call on the Minister for Regional Development to commission an urgent study to determine the number of passengers from Northern Ireland who use Dublin Airport and those from the Republic of Ireland who use the Belfast airports, and, equally important, to carry out a detailed analysis of the factors which influence those decisions. Following this, we urge the Minister to consider what further steps can be taken to improve the competitiveness of Belfast airports and to reduce the flow of passengers to Dublin. We also urge the Minister to pursue with the Treasury what measures can be taken to address the impact of the significant tax differentials between Northern Ireland and the Republic of Ireland.**

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<sup>80</sup> Ev 151, Ev 5, Ev 156

<sup>81</sup> Qq 388-389

<sup>82</sup> Ev 105

<sup>83</sup> Q 409

<sup>84</sup> Q 349

<sup>85</sup> Ev 125

## 4 Route Development Fund

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44. Mr Ian Pearson MP, then Minister for Enterprise Trade and Investment, launched a Northern Ireland Route Development Fund (RDF) in September 2003. The Fund, which is similar to one introduced in Scotland a year earlier, was set up “to help promote the development of new air routes that are of economic benefit to Northern Ireland”.<sup>86</sup> The objectives of the scheme emphasise the development of new routes “particularly with continental European centres”<sup>87</sup> by providing “investment support for local airports to reduce landing charges for carriers on selected and targeted new routes”.<sup>88</sup>

45. The introduction of the Fund was generally welcomed, although the CAA urged caution saying that “there is a need to avoid a proliferation of subsidies”;<sup>89</sup> and bmi argued that “providing subsidy to private sector operators distorts the market”.<sup>90</sup> Belfast International Airport believed that the Fund was “a good initiative” and that it did not change the “basic airline rationale in terms of route development, [but] rather altered the timing of certain developments”.<sup>91</sup>

### *Assessment of potential routes*

46. The Department of Enterprise, Trade and Investment (DETI), which administers the scheme, told us that they were unsure what the initial uptake from the Fund would be, and rather than targeting selected routes they “came up with a kind of informal list.” However, this was not published, and they “relied on the airlines, the airports, the market ... coming forward with a proposal.”<sup>92</sup> We were also told that no priority was accorded between routes within the United Kingdom, routes to continental Europe, and transatlantic routes, DETI indicating that “we take them as they come”.<sup>93</sup> DETI sought to reassure us that each route was looked at “on its merits ...but it was always conditional on there being a direct, real, economic benefit to Northern Ireland”.<sup>94</sup> DETI subsequently stressed that the primary objective of the Scheme is “to improve the economic infrastructure of Northern Ireland by improving accessibility for the benefit of promoting business linkages and enterprise development. To that end, the creation of new routes is in itself the main benefit that the Scheme is seeking to realise”.<sup>95</sup> Supplementary evidence we have received appeared to underline the associated social benefit of these routes.<sup>96</sup>

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<sup>86</sup> Ev 144

<sup>87</sup> *Ibid*

<sup>88</sup> *Pearson announces new Air Route Development Fund*, DETI News Release, 4 September 2003

<sup>89</sup> Ev 6

<sup>90</sup> Ev 169

<sup>91</sup> Ev 125

<sup>92</sup> Qq 264, 266

<sup>93</sup> Q 269

<sup>94</sup> Q 264

<sup>95</sup> Ev 88

<sup>96</sup> Ev 89

47. It seems evident that adequate research was not carried out before the Route Development Fund was introduced to identify priority target routes based on clear business needs and inbound tourism potential. The absence of such priorities has resulted in funding being awarded in what appears to be an ad-hoc and haphazard way. We are concerned that the start-up of any new routes seems to be accepted by Government as an end in itself and, although this may provide a social benefit for Northern Ireland, it does not meet the stated objectives of the Fund.

### **Routes Supported**

48. DETI announced new routes to Rome and Berlin in January 2005. This brought to nine the total number of routes supported by the Fund of which three are within the United Kingdom.<sup>97</sup> The General Consumer Council pointed out that two routes, from City of Derry to Manchester and Birmingham, were already served from both Belfast airports, and suggested that the additional benefit of these for Northern Ireland consumers could be “limited”.<sup>98</sup> Belfast International Airport went further, describing this decision as “a misuse of resources and counter-productive to the overall aims of the initiative”.<sup>99</sup> DETI told us that these decisions were based “essentially on economic criteria” and that they “helped to reinvigorate and regenerate growth at the City of Derry Airport”.<sup>100</sup> City of Derry Airport, while welcoming the funding, suggested that Air Route Development (NI) Ltd “have reinterpreted the rules”.<sup>101</sup>

49. The new routes to continental Europe were generally welcomed. For example, flyBE described itself as “an enthusiastic supporter” of the scheme.<sup>102</sup> The CBI had concerns that some of the new routes “are clearly focused at ‘outward bound’ tourism”,<sup>103</sup> but recognised that “business and tourism will marry together” and called for “sufficient marketing effort and resources” to be aimed at incoming passengers to retain the sustainability of these routes.<sup>104</sup> Jet2.com argued “that Government funding would be best channelled towards supporting the promotion of new services at the destination end of the route.”<sup>105</sup> DETI told us that “the scheme enables the efforts of a range of organisations, including the airport, tourism bodies and inward investment agencies, to be more effectively focused and co-ordinated”,<sup>106</sup> but it was unclear what promotion the new services received at the destination points.

50. The objectives of the Fund indicate that in developing new routes to continental European centres the aim is to promote “business linkages, enterprise development and

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<sup>97</sup> Q 246. Funded routes commenced in 2004, Belfast International to Paris and Nice, City of Derry to Birmingham and Manchester. Funded routes due to commence in 2005, Belfast City to Norwich, Belfast International to Newark, Geneva, Berlin and Rome

<sup>98</sup> Q 110

<sup>99</sup> Ev 125

<sup>100</sup> Q 265

<sup>101</sup> Q 194

<sup>102</sup> Ev 74

<sup>103</sup> Ev 104

<sup>104</sup> Q 333

<sup>105</sup> Ev 165

<sup>106</sup> Ev 144

tourism” and “to allow a day’s business to be transacted at a wider range of European cities”.<sup>107</sup> **From a business perspective the routes supported by the Route Development Fund to continental Europe would appear to fail to meet the objective of allowing a day’s business to be transacted, as in many cases they do not provide a minimum of a daily service and, where they do, it would not be possible to return later the same day.**

51. The importance for Northern Ireland of having access to major hub airports, such as Heathrow, is fully recognised. “Improved connectivity for business travellers in and out of Northern Ireland” is also one of the economic benefits expected from the new routes supported by the Fund.<sup>108</sup> While some of the new routes are to important hub airports, including Amsterdam and Paris Charles de Gaulle, these are provided by a low cost airline which does not provide direct connections for onward flights.<sup>109</sup>

52. The Department for Transport highlighted the issue of onward connections and stressed that there will be a continuing need to have “full scheduled services connecting with onward services, not only at Heathrow but also at European hubs”.<sup>110</sup> The recent CAA study on regional air services quantified the extent of so-called ‘self interlining’, where the passenger, rather than the airline, arranges for his own connections and takes the risk of making a suitable connection. We note that the level of ‘self interlining’ is very significantly lower than the level of connections between full service airlines.<sup>111</sup> We note also the experience in the Republic of Ireland where major ‘flag carrying’ airlines, including Air France (with CityJet) and Lufthansa, have a number of services a day to their main hubs from Dublin Airport.

**53. We recognise the importance of developing new routes to hub airports that provide alternatives to Heathrow. However, the value of such connections is greatly reduced where the airlines do not provide direct connections to onward flights. The merits of giving greater priority in allocating Route Development Funding to ‘full service’ airlines connecting to their hubs should be considered.**

54. The CBI argued that direct access to a United States hub was essential for the Northern Ireland economy and pointed out that Northern Ireland has had no direct transatlantic services since the Aer Lingus route from Belfast International via Shannon to New York ceased in 2001. This compares very unfavourably with Dublin airport which currently has nine routes to North American destinations.<sup>112</sup> CAA statistics show that in 2003 some 37% of passengers travelling from Belfast to Heathrow were connecting to other flights and that about two-thirds of these were travelling to North America.<sup>113</sup> In addition, it is likely that a considerable number of passengers from Northern Ireland use the Dublin services to North American destinations. A new route operated by Continental Airlines to New York will commence in May 2005 and Belfast International Airport stressed that the Route

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<sup>107</sup> *Ibid*

<sup>108</sup> *Ibid*

<sup>109</sup> Eight of the nine routes announced to date are provided by low cost or regional airlines; EasyJet (5), Aer Arann (2), Continental (1), FlyBE (1)

<sup>110</sup> Ev 113

<sup>111</sup> UK Regional Air Services; a study by the Civil Aviation Authority, CAP 754, 24 February 2005, pages 49-57

<sup>112</sup> Ev 104

<sup>113</sup> Ev 5

Development Fund “was absolutely essential in obtaining a service to North America, we could not have done it without it”.<sup>114</sup>

**55. We commend the use of the Route Development Fund to support a new direct service from Belfast International to New York’s Newark International Airport, which is due to begin shortly. This is a particularly welcome service which will provide full interlining at an important east coast hub allowing onward connections throughout the North American continent.**

### **Monitoring of Routes**

56. It is a condition of the Route Development Fund scheme that the performance of each route will be monitored for a period of three years under a number of headings; the detailed breakdown of passengers flown, financial measures relating to investment per passenger, and economic measures relating to tourism numbers and jobs created.<sup>115</sup> The DETI explained that supported routes are monitored on a monthly basis through an analysis of passenger statistics and that “we know how many business people are travelling, which direction they are coming from, the extent of the inbound tourism”.<sup>116</sup> However, when asked for specific information on two sample routes which have been in operation for over six months, only the overall number of outbound and inbound passengers was available with no breakdown of business or leisure passengers.<sup>117</sup>

57. Although jobs, tourism numbers, and tourism revenue were identified as issues to be measured during the monitoring of the scheme it is clear that in practice no specific targets relating to these have been set.<sup>118</sup> The Department told us that direct and indirect job creation was “one of the side benefits of the scheme” and suggested that “possibly as many as 500 jobs will result from the scheme. This was not one of the objectives of the scheme when we introduced it”.<sup>119</sup> **The absence of any specific economic targets means that the only measure of success of the Route Development Fund will be the sustainability of supported routes. This is not sufficient, and we recommend that the way in which the scheme is currently monitored, and the identification of appropriate targets be reviewed urgently.**

58. The Department for Transport is developing a UK-wide protocol and appraisal framework as part of its monitoring of Route Development Funds.<sup>120</sup> It also confirmed that “a number of other regions are considering setting up Funds”.<sup>121</sup> One of the key objectives of this framework is to ensure that the Funds “work with the market rather than distort it”.<sup>122</sup> The CAA stated that the Funds can cause distortions of the market warning that

<sup>114</sup> Q 384

<sup>115</sup> Brochure, “Air Route Development in Northern Ireland” (Q263)

<sup>116</sup> Q 278

<sup>117</sup> Ev 90

<sup>118</sup> *Ibid*

<sup>119</sup> Q 278

<sup>120</sup> Ev 114

<sup>121</sup> Q 352

<sup>122</sup> Ev 114

**“You could end up with a race to the bottom, in terms of competing regions trying to out-subsidise each other”.**<sup>123</sup> The Department for Transport was dismissive of this claim suggesting that “if [Route Development Funds] are properly operated .... The risk of them generating unfair competition or over-competitive markets is a pretty minimal one”.<sup>124</sup> Belfast International Airport highlighted the experience of the Scottish Route Development Fund, which it described as having a ‘scatter-gun’ approach, and pointed out that, while there have been a number of “hugely important” new routes developed, “there have been a number of failures in a very short timescale”.<sup>125</sup>

**59. We take very seriously the warning that Route Development Funding may distort the market and we have concerns that, as more regions of the United Kingdom introduce Route Development Funding schemes, its efficacy could be seriously diminished with airlines tempted to switch routes to chase this support.**

### **Review**

60. DETI told us that the initial budget of £4 million for route development was now fully committed and that it is “taking stock”.<sup>126</sup> Just over 90% of the Fund has been spent on direct support for routes, while almost 10% was spent on administration and consultancy.<sup>127</sup> There was general support for the Fund to continue, although Belfast International Airport conceded that it did not think “there are actually that many more routes that need pump-priming”.<sup>128</sup> DETI advised us that a review of the scheme will be undertaken and shared with us the Terms of Reference.<sup>129</sup> The review will be undertaken by the company set up to administer the scheme, Air Route Development (NI) Ltd, in conjunction with DETI. The Terms of Reference state that “it is too early to make an assessment of the overall effectiveness of the scheme” and indicate that “the review will essentially take the form of a stocktaking exercise”.<sup>130</sup>

**61. Since the introduction of the Route Development Fund there has been a significant upturn in air services generally throughout Europe, particularly by low cost airlines. We are aware of some 25 new routes in Northern Ireland announced since the launch of the fund with nine of these supported by the Fund. It is difficult to assess how many of these supported routes would have commenced without funding. While the overall aims and objectives of the Fund are commendable, we have serious concerns about how they have been applied in practice and believe that the maximum potential economic benefit may not have been achieved for Northern Ireland.**

**62. We recommend that, before any additional funding is provided for route development, a thorough, robust and independent review be carried out into the**

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<sup>123</sup> Q 42

<sup>124</sup> Q 353

<sup>125</sup> Q 391

<sup>126</sup> Qq 275, 276

<sup>127</sup> Ev 88

<sup>128</sup> Q 393

<sup>129</sup> Q 437

<sup>130</sup> Terms of Reference for Review of Air Route Development Scheme (NI)

**operation of the scheme to date and its potential to contribute further to economic development in Northern Ireland.**

## 5 Global Connections

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### *Direct Services*

63. Since September 2003, there have been 25 new routes announced from Northern Ireland although not all are yet operational and one, Jet2's proposed Belfast International to Cork route, was withdrawn before it became operational.<sup>131</sup> Ten of the new routes are to mainland Europe and of these, five out of the eight routes to be operated by easyJet, have attracted Route Development funding; 13 of the routes are to other parts of the UK and, of these, three are supported by the Fund. The other route is the new transatlantic service noted earlier, which is also supported by the Route Development Fund. This represents a significant improvement in the Northern Ireland's overall air transport position although a number of witnesses underlined the need to establish air links with other cities and, in particular, Brussels and Frankfurt.<sup>132</sup>

### *Importance of Heathrow*

64. Whilst the London area is well served through four airports, Gatwick, Heathrow, Luton and Stansted, many witnesses told us of the importance of the service to Heathrow.<sup>133</sup> In 2004 Heathrow accounted for some 36% of passenger journeys between Belfast and London; Gatwick 25%; Luton 19% and Stansted 18%.% In terms of airlines' shares, in 2004 bmi accounted for 36% of the Belfast to London market; easyJet 52% and flyBEflyBE 10%.<sup>134</sup> Billy Armstrong MLA noted that "It is vital that Northern Ireland's future access to Heathrow Airport is protected and that no further erosion takes place... it provides a gateway to the world unrivalled by any other UK airport and must be maintained and secured for the long term".<sup>135</sup> The General Consumer Council stated that "Northern Ireland's access to Heathrow should be protected in the interests of consumers and business and steps need to be taken to secure the existing 16 slots".<sup>136</sup>

65. Several witnesses suggested that, whilst there was not necessarily any immediate threat to the service operated by bmi between Belfast City Airport and Heathrow, this could change. The scarcity of slots increased their value, and almost by definition would make services to regional airports financially less attractive for airlines. The prospect of further international liberalisation, including transatlantic 'Open Skies', will increase the demand for and value of slots for profitable long-haul services, either from existing Heathrow operators or other new entrants. The fundamental uncertainty of the position was summed up well by bmi: "bmi has no current plans to alter its pattern of service at Belfast City though, of course, the company will respond to commercial and other pressures as and when these arise".<sup>137</sup>

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<sup>131</sup> *Belfast-Cork route fails to get off the ground*, Belfast Telegraph Friday 25<sup>th</sup> February 2005

<sup>132</sup> Qq 386, 393

<sup>133</sup> Ev 37

<sup>134</sup> Analysis of CAA data: [www.caa.co.uk](http://www.caa.co.uk)

<sup>135</sup> Ev 153

<sup>136</sup> Ev 138

<sup>137</sup> Ev 168

66. The importance of Heathrow for passengers from Belfast who wish to make onward connections was confirmed by data provided by the CAA. In 2003 (the last year for which information is available) the CAA estimated that some 327,000 Belfast passengers transferred there, or some 42% of all passengers on the Belfast-Heathrow route.<sup>138</sup> The CAA data also revealed the extent of self-interlining<sup>139</sup> at other UK airports, and in particular highlighted the example of an estimated 14,600 Belfast passengers in 2003 connecting via Liverpool to go to and from Malaga.<sup>140</sup> With the direct service now operating from Belfast to Malaga this figure is likely to fall. **We recognise the importance of passenger survey data and would encourage the CAA to include Northern Ireland airports in a further survey at the earliest possible opportunity.**

67. A range of mechanisms were suggested to protect slots at Heathrow in the event that the Belfast – Heathrow service is placed under threat. These included the imposition of a Public Service Order (PSO), a mechanism which would allow the Government to provide financial support to a route that was considered to be of fundamental importance for a region.<sup>141</sup> However, current PSO regulations only permit the maintenance of a service between two cities and not between specific airports; in the case of London almost two thirds of the Belfast passengers use airports other than Heathrow. An alternative mechanism is the acquisition of slots by the Government or other organisation but this would require the establishment of a suitable mechanism for secondary trading of slots approved by the EC.<sup>142</sup> However, based on recent transactions, it appears that the cost of a pair of slots at peak times could be more than £6 million. We do not consider that this represents a good use of public money, a view echoed by the CAA.<sup>143</sup>

**68. We recognise the crucial importance for Northern Ireland of maintaining access to Heathrow and the difficulties in developing a mechanism to protect this service. We welcome the continuing overall commitment to Northern Ireland by bmi, and the reassurance that there is no immediate threat to its service to Heathrow. However, we urge the Minister for Regional Development, in conjunction with the Department for Transport, to explore and develop contingency plans to protect the service.**

### **Dublin Airport**

69. Dublin Airport represents both the main competitor for Northern Ireland airports as well as providing the opportunity for a wider range of air services for Northern Ireland consumers. bmi, for example, emphasised that “its London-Belfast is in competition with services from London to Dublin”.<sup>144</sup> We are conscious that even with an increased number of destinations served direct from Belfast, more competitive prices and frequency of service may still be available through Dublin to these destinations. The CAA told us that “flying

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<sup>138</sup> Ev 19 Table 3

<sup>139</sup> Self interlining refers to onward connections using low cost airlines where the passenger takes the risk on the connection

<sup>140</sup> Ev 19 Table 4

<sup>141</sup> See footnote 53

<sup>142</sup> Ev 115

<sup>143</sup> UK Regional Air Services, A study by the Civil Aviation Authority, CAP 754, 24 February 2005, para 8.3

<sup>144</sup> Ev 170

from Dublin was likely to be a feasible alternative to connecting at Heathrow. This would depend on the destination and the usual considerations of price and schedule”.<sup>145</sup>

### **Other European Hubs**

70. The DETI suggested that the easyJet service to Paris “raised Belfast International Airport’s connectivity score from 50.49 to 80.80 an increase of 59%”.<sup>146</sup> Whilst this may be mathematically correct using the established formula, we are conscious that easyJet does not facilitate direct connections, and the number of passengers using the Belfast to Paris service for onward connection may well be significantly lower than if the service was provided by a full service operator.

**71. We consider that the extent of potential connecting benefits at other European hubs may be illusory if the onward service from that hub is not flown by the main carrier or one of its alliance partners. This point is made by the CAA in its Regional Air Services Study.<sup>147</sup> Heathrow will continue to be the main airport enabling Northern Ireland passengers to make onward global connections, although increasing congestion in the near term may make alternative options, where they exist, more attractive.**

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<sup>145</sup> Ev 5

<sup>146</sup> Ev 89

<sup>147</sup> UK Regional Air Services, A study by the Civil Aviation Authority, CAP 754, 24 February 2005, para 5.15

## 6 Air freight

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72. Belfast International Airport (BIA) has 24 hour operational access, and provides air freight facilities for Northern Ireland. It is the third largest air freight facility in the United Kingdom, handling around 50,000 tonnes per annum.<sup>148</sup> The CBI highlighted the need for Northern Ireland to have access to “competitively priced air freight services” by exploiting the world-wide express operator market,<sup>149</sup> and we recognise that BIA has scope within its boundaries to expand its dedicated air freight infrastructure and facilities, if required.

73. Heathrow “is the major global cargo hub” and we were told that Northern Ireland “lost significant capacity for belly freight to Heathrow when British Airways ceased its Belfast International to Heathrow route in 2001.<sup>150</sup> The CBI pointed out that “the majority of air freight leaves Northern Ireland on the first leg of its journey by road and sea”, and highlighted the “need to look at ways of shortening that supply chain” calling for Northern Ireland to use “air freight in a more cost-effective, efficient and innovative way”.<sup>151</sup> Belfast International Airport argued that the development of good road infrastructure in Northern Ireland was critically important for air transport development, and that it “is absolutely critical from a freight perspective”.<sup>152</sup>

74. Significant manufacturing capacity has moved from Northern Ireland to Asian countries over recent years, and the CBI stressed the need for new air routes to respond to this development and to provide manufacturers with easy access to and from Asia.<sup>153</sup> The CBI made the point that, linked to this, Northern Ireland is bringing “products in from the Asian market, ... some ... for added value services before it goes on to other markets” and this also creates a demand for air services.<sup>154</sup> A joint study by the CBI and BIA into air freight services for Northern Ireland is taking place,<sup>155</sup> and the CBI suggested that, although final conclusions have not been reached, it “may well” conclude that a joint passenger and freight route could be developed to serve the Asian market.<sup>156</sup>

75. The CBI/BIA study found that, “with the exception of the electronics sector, the majority of businesses currently use air freight only in emergency”, but that “opportunities exist for collaboration across sectors to achieve the critical mass necessary to develop ‘low cost’ air freight services to key geographic locations”.<sup>157</sup> **We recognise the growing importance of air freight services to enable the business sector in Northern Ireland to**

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<sup>148</sup> Ev 104

<sup>149</sup> *Ibid*

<sup>150</sup> Q 339

<sup>151</sup> *Ibid*

<sup>152</sup> Q 404

<sup>153</sup> Q 327

<sup>154</sup> Q 328

<sup>155</sup> *Air Freight – A last resort or potential competitive advantage*, Research Report, CBI & Belfast International Airport, October 2004

<sup>156</sup> Q 328

<sup>157</sup> *Air Freight – A last resort or potential competitive advantage*, Research Report, CBI & Belfast International Airport, October 2004, page 15

**compete in the global market, and we commend the current study by the CBI and Belfast International Airport.**

## 7 Conclusion

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76. Airports in Northern Ireland have grown rapidly over the last few years with the two Belfast airports providing both complementary and competitive services. We believe this is good for Northern Ireland consumers. Belfast International Airport has scope to expand and develop to meet demand, while any further growth at Belfast City Airport will require some easement of the current Planning Agreement. An urgent resolution of this issue is required to enable both airports to plan for the future. Dublin Airport will continue to attract a considerable number of passengers from Northern Ireland, but a study should be carried out to quantify the scale of the leakage and identify ways of reducing it.

77. The City of Derry Airport provides a valuable economic lifeline for the North West of the island of Ireland, and the proposed major infrastructural funding to be provided by the two Governments will enable it to continue to develop and expand. The airport currently operates at a considerable annual deficit which falls on the local ratepayers, and ways need to be found to reduce this burden.

78. The introduction of the Route Development Fund was a valuable initiative with the potential to help develop much needed new routes, mainly to continental Europe. While the resulting increase in services has undoubtedly brought benefits to Northern Ireland consumers, the opportunity to maximise that potential may have been lost because of inadequate advance preparation and a rather liberal interpretation of the criteria. The creation of similar Funds in other regions of the United Kingdom has the potential to distort the market and reduce its overall effectiveness. A comprehensive independent review is needed before any expansion of the Fund scheme is considered.

79. Access to Heathrow remains crucial for the economic wellbeing of Northern Ireland but it is clear that intensive pressure on capacity at Heathrow and the other London airports could make this increasingly difficult to maintain. An 'Open Skies' agreement between Europe and the United States could add significantly to that pressure. Efforts must be made to find ways to protect the existing slots at Heathrow, if the need arises.

## Conclusions and recommendations

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1. We fully recognise the environmental concerns of local residents who live near Belfast City Airport and we welcome the very positive efforts of Airport management who reassured us that “we are trying to work closely with the community around us”. (Paragraph 20)
2. An application to review the current Planning Agreement at the Belfast City Airport is with the Department of the Environment for decision. We also understand that leave has been granted to Belfast International Airport to seek a judicial review of the application. Whilst it would be inappropriate for us to recommend a particular course of action on the issue, we believe that a ‘seats for sale’ restriction is not a valid or suitable way to manage the environmental impact of airport activity. We urge the Minister for the Environment to ensure that a decision is forthcoming as quickly as possible. (Paragraph 22)
3. It appears that the dependence of Belfast International Airport on low-cost or no-frills airlines has increased its need for greater passenger volume and the associated retail and related spending. This is a situation that is brought into greater focus against the background of the airport’s planned substantial capital expenditure programme. (Paragraph 25)
4. We fully recognise that there is a limit to the number of destinations currently served from Dublin that may be able to be offered from Belfast irrespective of support from the Route Development Fund. (Paragraph 26)
5. We urge the Minister for Regional Development to consider what action can be taken to reduce the financial burden of the City of Derry Airport deficit on the ratepayers in the Derry City Council area, such as refinancing the loans or rescheduling payments. (Paragraph 31)
6. We fully understand the importance of City of Derry Airport for the North West region and we recognise that its future rests on its ability to develop and expand to attract new services. We therefore wholeheartedly welcome the decision in principle by the two Governments to provide £10 million for development and urge the Minister for Regional Development to ensure that the outstanding conditions are addressed as quickly as possible. (Paragraph 34)
7. We call on the Minister for Regional Development to undertake the review of governance of the City of Derry Airport as a matter of urgency. (Paragraph 35)
8. We recognise that Dublin Airport, for a variety of reasons, including in particular, the range of direct services it has to offer, will continue to attract significant numbers of passengers from Northern Ireland. Steps should be taken to keep this ‘leakage’ to a minimum for the overall benefit of the Northern Ireland economy. In the absence of reliable and up-to-date information on passengers from Northern Ireland who use Dublin Airport, and vice versa, we believe it will be impossible to measure the impact of any policy measures aimed at addressing the issue. (Paragraph 42)

9. We call on the Minister for Regional Development to commission an urgent study to determine the number of passengers from Northern Ireland who use Dublin Airport and those from the Republic of Ireland who use the Belfast airports, and, equally important, to carry out a detailed analysis of the factors which influence those decisions. Following this, we urge the Minister to consider what further steps can be taken to improve the competitiveness of Belfast airports and to reduce the flow of passengers to Dublin. We also urge the Minister to pursue with the Treasury what measures can be taken to address the impact of the significant tax differentials between Northern Ireland and the Republic of Ireland. (Paragraph 43)
10. It seems evident that adequate research was not carried out before the Route Development Fund was introduced to identify priority target routes based on clear business needs and inbound tourism potential. The absence of such priorities has resulted in funding being awarded in what appears to be an ad-hoc and haphazard way. We are concerned that the start-up of any new routes seems to be accepted by Government as an end in itself and, although this may provide a social benefit for Northern Ireland, it does not meet the stated objectives of the Fund. (Paragraph 47)
11. From a business perspective the routes supported by the Route Development Fund to continental Europe would appear to fail to meet the objective of allowing a day's business to be transacted, as in many cases they do not provide a minimum of a daily service and, where they do, it would not be possible to return later the same day. (Paragraph 50)
12. We recognise the importance of developing new routes to hub airports that provide alternatives to Heathrow. However, the value of such connections is greatly reduced where the airlines do not provide direct connections to onward flights. The merits of giving greater priority in allocating Route Development Funding to 'full service' airlines connecting to their hubs should be considered. (Paragraph 53)
13. We commend the use of the Route Development Fund to support a new direct service from Belfast International to New York's Newark International Airport, which is due to begin shortly. This is a particularly welcome service which will provide full interlining at an important east coast hub allowing onward connections throughout the North American continent. (Paragraph 55)
14. The absence of any specific economic targets means that the only measure of success of the Route Development Fund will be the sustainability of supported routes. This is not sufficient, and we recommend that the way in which the scheme is currently monitored, and the identification of appropriate targets be reviewed urgently. (Paragraph 57)
15. We take very seriously the warning that Route Development Funding may distort the market and we have concerns that, as more regions of the United Kingdom introduce Route Development Funding schemes, its efficacy could be seriously diminished with airlines tempted to switch routes to chase this support. (Paragraph 59)
16. Since the introduction of the Route Development Fund there has been a significant upturn in air services generally throughout Europe, particularly by low cost airlines.

We are aware of some 25 new routes in Northern Ireland announced since the launch of the fund with nine of these supported by the Fund. It is difficult to assess how many of these supported routes would have commenced without funding. While the overall aims and objectives of the Fund are commendable, we have serious concerns about how they have been applied in practice and believe that the maximum potential economic benefit may not have been achieved for Northern Ireland. (Paragraph 61)

17. We recommend that, before any additional funding is provided for route development, a thorough, robust and independent review be carried out into the operation of the scheme to date and its potential to contribute further to economic development in Northern Ireland. (Paragraph 62)
18. We recognise the importance of passenger survey data and would encourage the CAA to include Northern Ireland airports in a further survey at the earliest possible opportunity. (Paragraph 66)
19. We recognise the crucial importance for Northern Ireland of maintaining access to Heathrow and the difficulties in developing a mechanism to protect this service. We welcome the continuing overall commitment to Northern Ireland by bmi, and the reassurance that there is no immediate threat to its service to Heathrow. However, we urge the Minister for Regional Development, in conjunction with the Department for Transport, to explore and develop contingency plans to protect the service. (Paragraph 68)
20. We consider that the extent of potential connecting benefits at other European hubs may be illusory if the onward service from that hub is not flown by the main carrier or one of its alliance partners. This point is made by the CAA in its Regional Air Services Study. Heathrow will continue to be the main airport enabling Northern Ireland passengers to make onward global connections, although increasing congestion in the near term may make alternative options, where they exist, more attractive. (Paragraph 71)
21. We recognise the growing importance of air freight services to enable the business sector in Northern Ireland to compete in the global market, and we commend the current study by the CBI and Belfast International Airport. (Paragraph 75)

# Formal minutes

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**Wednesday 6 April 2005**

Members present:

Mr Michael Mates, in the Chair

Mr Roy Beggs

Mr Tony Clarke

Mr Stephen Hepburn

Reverend Martin Smyth

Mr Hugo Swire

Mark Tami

Mr Bill Tynan

The Committee deliberated.

Draft Report (Air Transport Services in Northern Ireland), proposed by the Chairman, brought up and read.

*Ordered*, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 79 read and agreed to.

*Resolved*, That the Report be the Eighth Report of the Committee to the House.

*Ordered*, That the Chairman do make the Report to the House.

*Ordered*, That the provisions of Standing Order No. 134 (Select Committees (reports)) be applied to the Report.—(*The Chairman.*)

*Ordered*, That the Appendices to the Report be reported to the House.—(*The Chairman.*)

[Adjourned till a date and time to be announced by the Chairman.]

# Witnesses

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## Wednesday 10 November 2004

Sir Roy McNulty and Mr Alex Plant, **Civil Aviation Authority** Page

Ev 7

## Monday 29 November 2004

Mr Herbert L McCracken and Mr Robert Barnett, **Cultra Residents' Association**, and Mr David Babington and Mr Roger Watts, **Kinnegar Residents' Action Group** Ev 29

Mr Alan Walker and Mr Eddie Lynch, **General Consumer Council** Ev 39

## Tuesday 30 November 2004

Mr Richard Sterling and Mr Garvan O'Doherty, **Londonderry Chamber of Commerce** Ev 46

Mr Kieran O'Brien and Mr George Johnston, **Stop Eglinton Airport Evictions Group** Ev 55

Mr John Devine, **City of Derry Airport**, and Councillor John Kerr, **Derry City Council** Ev 65

## Wednesday 15 December 2004

Mr Mike Rutter and Ms Sara Randall-Johnson, **FlyBE** Ev 75

## Wednesday 12 January 2005

Mrs Doreen Brown and Mr Brian White, **Department for Regional Development**, Mr Robin McMinnis, **Department of Enterprise, Trade and Investment**, and Mr Harry Baird, **Planning Service, Department of the Environment** Ev 80

## Wednesday 19 January 2005

Mr Brian Ambrose, Mr Alan Young, Mr Brian Carlin and Dr Chris Lundy, **Belfast City Airport** Ev 95

Mrs Barbara Anderson and Mr Denis Galway, **Confederation of British Industry Northern Ireland** Ev

## Wednesday 23 February 2005

Mr David McMillan and Mr Chris Cain, **Department for Transport** Ev 106

## Tuesday 1 March 2005

Mr Albert Harrison and Mr Uel Hoey, **Belfast International Airport** Ev 131

Rt Hon. John Spellar MP, **Minister of State, Northern Ireland Office**, Mrs Doreen Brown, **Department for Regional Development**, Mr Robin McMinnis, **Department of Enterprise, Trade and Investment**, and Mr Harry Baird, **Planning Service, Department of the Environment** Ev 145

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10 FlyBE	Ev 73
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12 Belfast City Airport	Ev 91
13 Belfast City Airport, supplementary memorandum	Ev 93
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15 Department for Transport	Ev 110
16 Belfast International Airport	Ev 122
17 Belfast International Airport, supplementary memorandum	Ev 128
18 Department for Regional Development, Department of Enterprise, Trade and Investment and the Department of the Environment	Ev 142
19 Ulster Unionist Party	Ev 150
20 Councillor Ken Robinson MLA	Ev 152
21 Mr Billy Armstrong MLA	Ev 152
22 Dr Esmond Birnie MLA	Ev 153
23 Antrim Borough Council	Ev 156
24 Royal Society for the Protection of Birds	Ev 157
25 InterTradelreland	Ev 161
26 London Redhill Airport	Ev 162
27 Mr Trevor Evans, Donnybrewer Residents	Ev 163
28 Jet2.com	Ev 164
29 EasyJet	Ev 166
30 Bmi	Ev 168

# Reports from the Northern Ireland Affairs Committee since 2001

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The following reports have been produced by the Committee since the start of the 2001 Parliament.

## Session 2004–05

First Report	Electoral Registration in Northern Ireland	HC 131
Second Report	The Parades Commission and Public Processions (Northern Ireland) Act 1998	HC 172-I
Third Report	Northern Ireland Department's 2002-03 Resource Accounts	HC 173
Fourth Report	The work of the Committee in 2004	HC 262
Fifth Report	The Functions of the Office of the Police Ombudsman for Northern Ireland	HC 344
Sixth Report	Waste Management Strategy in Northern Ireland	HC 349-I
Seventh Report	The Functions of the Northern Ireland Policing Board	HC 108
Eighth Report	Air Transport Services in Northern Ireland	HC 53-I
First Special Report	Social Housing Provision in Northern Ireland: Government Response to the Committee's Sixth Report of Session 2003-04	HC 225
Second Special Report	Electoral Registration in Northern Ireland: Government Response to the Committee's First Report of Session 2004-05	HC 448

## Session 2003–04

First Report	The Committee's work in 2003	HC 146
Second Report	The separation of paramilitary prisoners at HMP Maghaberry	HC 302
Third Report	Introduction of the Aggregates Levy in Northern Ireland: one year on	HC 395
Fourth Report	The Compensation Agency	HC 271
Fifth Report	'Hate Crime': The Draft Criminal Justice Northern Ireland Order 2004	HC 615
Sixth Report	Social Housing Provision in Northern Ireland	HC 493-I
First Special Report	Government Response to the Committee's Eighth Report on The Illegal Drugs Trade and Drug Culture in Northern Ireland, Session 2002–2003	HC 180
Second Special Report	Government Response to the Committee's First Report on the Work of the Committee in 2003	HC 510
Third Special Report	The Separation of Paramilitary Prisoners at HMP Maghaberry: Government's Response to the Committee's Second Report of Session 2003–04	HC 583
Fourth Special Report	Introduction of the Aggregates Levy in Northern Ireland: one year on The Government's Response	HC 666
Fifth Special Report	'Hate Crime' the Draft Criminal Justice Northern	HC 954

	Ireland Order 2004 Government Response	
Sixth Special Report	The Compensation Agency Government Response	HC 955

### Session 2002–03

First Report	The Impact in Northern Ireland of Cross–Border Road Fuel Price Differentials: Three years on	HC 105–I
Second Report	Annual Report 2002	HC 271
Third Report	The Police (Northern Ireland) Bill	HC 233
Fourth Report	The Control of Firearms in Northern Ireland and the draft Firearms (Northern Ireland) Order 2002	HC 67–I
Fifth Report	Forensic Science Northern Ireland	HC 204
Sixth Report	The Illegal Drugs Trade and Drug Culture in Northern Ireland: Interim Report on Cannabis	HC 353–I
Seventh Report	Peace II	HC 653–I
Eighth Report	The Illegal Drugs Trade and Drug Culture in Northern Ireland	HC 1217–I
First Special Report	Government Response to the Committee’s First Report: The Impact in Northern Ireland of Cross–Border Road Fuel Price Differentials: Three Years On	HC 412
Second Special Report	Government Response to the Committee’s Third Report: The Police (Northern Ireland) Bill	HC 555
Third Special Report	Government Response to the Committee’s Second Report: Annual Report 2002	HC 583
Fourth Special Report	Government Response to the Committee’s Fourth Report on the Control of Firearms in Northern Ireland and the Proposed Draft Firearms (Northern Ireland) Order 2002, HC 67–I, Session 2002–03	HC 677
Fifth Special Report	Government Response to the Committee’s Fifth Report on Forensic Science Northern Ireland	HC 722
Sixth Special Report	Government Response to the Committee’s Sixth Report on the Illegal Drugs Trade and Drug Culture in Northern Ireland: Interim Report on Cannabis	HC 935
Seventh Special Report	Government Response to the Committee’s Seventh Report on Peace II	HC 1077

### Session 2001–02

First Report	Introduction of the Aggregates Levy in Northern Ireland	HC 333
Second Report	The Financing of Terrorism in Northern Ireland: Interim Report on the Proceeds of Crime Bill	HC 628
Third Report	Introduction of the Aggregates Levy in Northern Ireland: The Government’s Response	HC 713
Fourth Report	The Financing of Terrorism in Northern Ireland. Volume II of this Report (HC 987–II) includes the Government Response to the Second Report, Session 2001–02, The Financing of Terrorism in Northern Ireland: Interim Report on the Proceeds of Crime Bill, HC 628	HC 978–I

First Special Report	Government Response to the Committee's Fifth Report, Miscellaneous Financial Matters, Session 2000–01, and the Government Response to the Committee's Third Report, The Northern Ireland Office 2000 Departmental Report, Session 1999–2000	HC 332
Second Special Report	Government Response to the Committee's Fourth Report, Legal Aid In Northern Ireland, Session 2000–01	HC 400
Third Special Report	Government Response to the Committee's Second Report, The Parades Commission, Session 2000–01	HC 401
Fourth Special Report	Government Response to the Committee's Third Report, Relocation Following Paramilitary Intimidation, Session 2000–01	HC 461
Fifth Special Report	Government Response to the Committee's Third Report, Introduction of the Aggregates Levy in Northern Ireland, Session 2001–02	HC 1118