



House of Commons  
Northern Ireland Affairs  
Committee

---

**Air Transport Services  
in Northern Ireland:  
Government Response  
to the Committee's  
Eighth Report of  
Session 2004–05**

---

**Fifth Special Report of Session  
2005–06**

*Ordered by The House of Commons  
to be printed 12 October 2005*

**HC 529**  
**Published on 28 October 2005**  
by authority of the House of Commons  
London: The Stationery Office Limited  
£0.00

## 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).

### Current membership

Sir Patrick Cormack, MP (*Conservative, South Staffordshire*) (Chairman)  
Mr David Anderson, MP (*Labour, Blaydon*)  
Gordon Banks, MP (*Labour, Ochil and South Perthshire*)  
Mr Gregory Campbell, MP (*Democratic Unionist Party, East Londonderry*)  
Rosie Cooper, MP (*Labour, West Lancashire*)  
Mr Christopher Fraser, MP (*Conservative, South West Norfolk*)  
Mr John Grogan, MP (*Labour, Selby*)  
Mr Stephen Hepburn, MP (*Labour, Jarrow*)  
Lady Hermon, MP (*Ulster Unionist Party, North Down*)  
Meg Hillier, MP (*Labour/Co-op, Hackney South and Shoreditch*)  
Dr Alasdair McDonnell, MP (*SDLP, Belfast South*)  
Stephen Pound, MP (*Labour, Ealing North*)  
Sammy Wilson, MP (*Democratic Unionist Party, East Antrim*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at:

[www.parliament.uk/parliamentary\\_committees/northern\\_ireland\\_affairs.cfm](http://www.parliament.uk/parliamentary_committees/northern_ireland_affairs.cfm)

### Committee staff

The current staff of the Committee are Mr James Rhys (Clerk), Hugh Farren (Attached Second Clerk), Dr Aileen O'Neill (Committee Specialist), Paul Derrett (Committee Assistant), Julia Kalogerides (Secretary), Jessica Bridges Palmer (Media Officer), Jim Lawford (Senior Office Clerk).

### Contacts

All correspondence should be addressed to the Clerk of the Northern Ireland Affairs Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 2172/3; the Committee's email address is [northircom@parliament.uk](mailto:northircom@parliament.uk)

# Fifth Special Report

---

The Committee published its Eighth Report of Session 2004-05 on 14 April 2005. The Government's response from the Office of the First Minister and Deputy First Minister, was received in the form of a letter and memorandum on 18 July 2005. The response is published as an appendix to this report.

## Appendix

---

### GOVERNMENT RESPONSE

#### *Airport Issues*

**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)**

The Government welcomes the Committee's recognition of the environmental concerns of local residents who live near Belfast City Airport and the positive efforts being made by the airport to address the environmental concerns of local residents. For its part the Department for Regional Development will continue to interface with residents and BCA management, in relation to its responsibility for noise issues.

**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)**

The Committee's recommendations in respect of the Department of the Environment's responsibilities are very helpful and in line with current Departmental thinking and are to be welcomed.

The Department of the Environment is presently considering a number of options on how best to progress the review and a Ministerial decision is expected shortly.

**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)**

The Government notes the Committee's comments on the growth potential, investment plans and need for greater passenger volume, with associated retail and related spending, of Belfast International Airport. The Government also notes the Committee's recognition of the significant benefit enjoyed by Belfast International Airport from the Northern Ireland Air Route Development Fund.

**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)**

The Government notes the Committee's recognition of the competitive challenge of Dublin Airport to Belfast International Airport, irrespective of the support from the Route Development Fund for additional routes out of Belfast International Airport.

**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)**

As was pointed out in evidence to the Committee, the loans in question were taken out at fixed rates that were favourable compared to the then current market rates, and are matched by corresponding loans taken out by the Northern Ireland Consolidated Fund.

The early redemption of these loans would attract a redemption penalty. This would be a cost to public expenditure and could also result in State Aid issues. The Department of Finance and Personnel can only set aside a redemption penalty if it is content that such action will be beneficial to the overall public finances of Northern Ireland, as opposed to only the benefit of the relevant borrower. Setting aside the redemption penalty would simply have the effect of transferring liability from the borrower to the Northern Ireland Public Expenditure allocation, that is, there would be a Public Expenditure cost.

The Government has already given substantial capital support to the City of Derry Airport, which would otherwise have added to the burden of the Derry City Council ratepayers, and recently announced the decision in principle to provide further funding.

**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)**

**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)**

The decision in principle to provide funding to the City of Derry Airport is subject to a number of conditions. One of these is that satisfactory State Aid clearance is obtained from the European Commission. This is being taken forward by the Department for Regional Development and the Department for Transport, which leads on United Kingdom air transport issues with the European Commission. Once formal notification has been made, the timetable for a response is a matter for the European Commission.

As regards the other main conditions, these issues are matters in the first instance for Derry City Council. Specifically, as regards the question of governance, both the Government and the Government of the Republic of Ireland have endorsed the conclusion set out in the Report of the Steering Group established by the former secretary of State.

The Steering Group Report identified a range of possible options available to Derry City Council to improve governance arrangements. Northern Ireland Departments will provide help to Derry City Council as it addresses this matter.

### ***'Leakage' to Dublin Airport***

**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)**

**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)**

The Government notes the Committee's recognition that there are a significant number of people from Northern Ireland who will continue to choose to use Dublin Airport because of the range of services it can offer. The Government is conscious that decisions about which airport to use are motivated by a range of factors which may not be directly amenable to policy influences such as the relative attractiveness of offers being made by airlines and tour operators and currency exchange rate fluctuations.

As noted by the Committee, the Department for Regional Development last tried to quantify the extent of 'leakage' to Dublin in 2001. This was preparatory to responding to the national consultation on The Future Development of Air Transport in the United Kingdom – the precursor to the Air Transport White Paper, The Future of Air Transport, published in 2003. There are currently no plans to repeat this exercise.

However, officials from the Department for Regional Development, the Department for Transport (London) and the Department of Transport (Dublin) are in the early stages of investigating the issues involved in Northern Ireland 'leakage' via Dublin, its impact on passenger forecast modelling and whether there is a need for a regional/all-Ireland co-ordination strategy. The outcomes of this investigation will assist Government in developing the necessary policy reactions to the 'leakage' problem and feed into the planned review of the Air Transport White Paper in 2006.

The Government notes the Committee's comments on Air Passenger Duty. The Government announced in the 2005 Budget that it was freezing Air Passenger Duty, and will continue to keep all aspects of Air Passenger Duty under review as part of the normal Budget process.

### ***Route Development Fund***

**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)**

Contrary to the impression formed by the Committee, the activities of the Route Development Fund have not been ad-hoc or haphazard, but rather have reflected an interaction between the core objective of the Fund and the reality of the aviation marketplace. Moreover they have been directed towards securing an economic, as opposed to a social benefit, for Northern Ireland.

The need to improve air access to Northern Ireland was recognised as a strategic objective for Northern Ireland in the Programme for Government (Northern Ireland Executive), the Regional Development Strategy (Department for Regional Development) and the Tourism Strategic Framework (Northern Ireland Tourist Board).

Notwithstanding this, prior to launching the Route Development Fund in September 2003, considerable analysis of the market was undertaken. This analysis considered those un-served routes most likely to deliver benefits in terms of business users and inbound tourists, the potential demand on each route, and the carriers that might serve them. Therefore before the Route Development Fund was launched, Air Route Development (Northern Ireland) Ltd. had a clear understanding of the range of routes which it might be possible to develop. In addition Invest Northern Ireland and the Northern Ireland Tourist Board were consulted on those destinations considered to be of greatest potential benefit, based on inward investment and inbound tourism criteria, respectively.

A key principle of the Route development Fund is that it must not discriminate between one sector of the market and another, or one airport and another. Thus the fund must work with the market (i.e. both airports and airlines) rather than seeking to influence route development activity by focusing effort in one sector of the market over another. This principle was, and is, central both to United Kingdom Government policy and emerging guidance from the European Commission.

Consequently in operating the Route Development Fund, Air Route Development Ltd. could not pursue an explicit strategy of targeting specific routes as to do so would have been to discriminate against other routes which may not have been “targeted”, but which nevertheless promised economic benefit to Northern Ireland. Recent growth in the market in Northern Ireland, like the rest of the United Kingdom (and Europe) has been driven by low cost and no frills airlines. Thus the routes that have developed from Belfast by easyJet reflect entirely the market which that airline serves and the network it operates. In all probability the airline would have chosen to expand elsewhere had it not been for the Route Development Fund investment.

As explained in evidence to the Committee, in respecting the above principle, Air Route Development Ltd. has however sought to maintain close contact with all the major carriers in order to keep abreast of their route development plans and to identify possible opportunities. For instance, Air Route Development Ltd. identified that the market between Northern Ireland and the United States was un-served and that a number of airlines - and Continental Airlines in particular - were developing strategies of serving United Kingdom and European regional airports to their respective United States hubs. The Route Development Fund developed a highly effective strategy which ensured that Belfast was included in their strategic development plans, and resulted in Continental commencing services in May 2005.

Air Route Development Ltd. also sought to interest European network operators in developing routes from Northern Ireland to a number of key business destinations and hubs in Continental Europe. This included holding detailed discussions with airlines such as Air France, Lufthansa, and SN Brussels. However, to date, these airlines have not indicated a desire to serve Northern Ireland, which again reflects the market in which Northern Ireland is competing.

Finally, with regard to the Committee's point that new routes are seen as an end in itself, the development of direct air services was an important strategic objective for Northern Ireland. However each route was also appraised to assess its net economic benefit to Northern Ireland. A number of other routes were put forward which, although these may have offered a social benefit, because no net economic benefit could be demonstrated, investment was not made by Air Route Development Ltd.

**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)**

While it would be ideal to have double daily flights on every route so as to enable day returns, it became clear in discussions with airports and airlines that no carrier was prepared to provide such services at this time. The market is simply not robust enough to support it.

The ability to enable a day's business to be transacted is only one of the criteria used to determine route investment. A daily direct service still represents a major improvement over no direct service at all. Independent economic appraisal confirmed that single daily flights were likely to provide a net economic benefit to Northern Ireland and it would have been damaging to our efforts to secure new links to refuse funding purely on the grounds that a day's business necessitated an overnight stay.

It also has to be recognised that the Route Development Fund has transformed the whole aviation scene in Northern Ireland by giving business people direct access to a whole range of destinations which previously necessitated a much greater amount of time being spent in travel.

**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)**

The value of onward connections and interlining is fully recognised and is one of the factors that score positively in the Air Route Development assessment framework. Amsterdam was already served from Northern Ireland by easyJet prior to the inception of the Fund, which prevented Air Route Development Ltd. from approaching KLM. However significant efforts were made to try and secure hub connections by means of Air France and Lufthansa. Unfortunately neither carrier so far has been persuaded to introduce services to Northern Ireland.

As explained in response to recommendation 10 above, it is one of the key principles of the Route Development Fund that public support is offered to all carriers on the same basis. This point was emphasised in the European Commission's ruling on the Manchester Airport case regarding incentives provided to Continental Airlines in the mid 1990s. Had Air France been prepared to introduce a new service to Paris, it would have been discriminatory not to make the same support available to another airline, such as easyJet. The fact that easyJet did take up an offer of assistance on the Paris route reflects the trend in the aviation market across Europe over the last number of years, in which all the growth has been driven by expansion of low cost airlines.

It is not possible therefore within European Commission rules to prioritise (say) a full service network airline over point to point low cost airlines on a given route as to do so would be discriminatory. In an ideal world a given route would have both types of airlines serving it, however, the market in Northern Ireland has, so far, been unable to sustain this.

**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)**

Noted: the new service commenced on 27 May 2005 and has been widely regarded as a major achievement in terms of the operation of the Route Development Fund. In addition to providing a direct service to North America, as the Committee has observed, it will deliver significant connectivity benefits given that Newark is also a major United States hub airport.

The success in securing this route is a result of the combined efforts of many different public and private organisations in Northern Ireland and would not have happened without the Route Development Fund acting as a focus of concerted effort to secure the service.

**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)**

As explained in the written Memorandum submitted to the Committee, the need for improvement in Northern Ireland's strategic transport links has long been a strategic priority for Northern Ireland. The Route Development Fund has succeeded in significantly improving those links, and by facilitating the growth in in-bound tourism, as well as in other ways, is already making a valuable contribution to the Northern Ireland economy.

As outlined in evidence given by the Department of Enterprise, Trade and Industry to the Committee, the Route Development Fund scheme is monitored closely. Each month airlines provide confidential data to Air Route Development Ltd. setting out passenger volumes, load factors and in-bound and out-bound flows. If a service is not meeting its forecast level of (say) inbound traffic, this information is fed directly to Tourism Ireland so that more targeted and focused marketing effort can be made. For those routes not yet launched, forward booking data is being collected to provide an early indication of passenger flows and also to assist in the development of the marketing plan. Thus investment made by the Route Development Fund is co-ordinated with marketing efforts by Tourism Ireland.

In this context it is noteworthy that the Northern Ireland Tourist Board have seen a 63% increase in enquiries through their website this year, compared with the same period last year, with a large proportion of these enquiries coming from the United States of America and the new European air access destinations. There has also been a 59% increase in the number of French visitors coming into Northern Ireland compared to 2003 when there was no direct air service. This is reflected in the Northern Ireland Tourist Board's regular surveys of airport gateways which are also used to monitor the development of new services.

It will be clear from the above that extensive monitoring arrangements are already in place. The Civil Aviation Authority will be undertaking a detailed survey of passengers using Northern Ireland's airports next year, which will provide further information on the profile of passengers using the routes supported by the Route Development Fund. As more information is gathered, quantification of economic benefit (e.g. in terms of additional visitor numbers) is refined and can be considered in future economic appraisals.

On the issue of appropriate targets, it is important to understand that the decision to invest in a route, and by an airline to launch a route, is based on the best available data at the time that decision is being considered. Like any investment decision, there is an element of risk, and a key principle of the Route Development Fund scheme is that risk is shared between the airline, airport and the Fund. The risk to the public sector, in terms of investment, is relatively low compared to the level of investment made by airlines when commencing a new service.

If mechanisms were put in place which resulted in funding being withdrawn if non-route specific targets (e.g. job creation at the airport) were not met, this would increase the risk to airlines and act as a disincentive for them to start routes. Indeed it would be extremely difficult to get airlines to commit to start services in such circumstance.

Each funding decision is made using consistent investment and economic appraisal criteria and only those proposed routes which will deliver a measurable economic benefit to Northern Ireland are supported. All routes being considered for support are

subject to independent economic appraisal, which inter alia considers issues such as passenger traffic volumes, business journey time savings, business linkages (including export and Foreign and Direct investment opportunities) and potential tourism benefits. The appraisal also follows Her Majesty's Treasury Guidelines and, as noted below, the Route Development Fund scheme will be subject to a post project evaluation in due course.

**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)**

So far there is no evidence in the United Kingdom that Route Development Funds have distorted the market. In the case of Northern Ireland, our analysis of the international market in 2003 (when there was only one scheduled international service) strongly suggests that the market was under-served and that limited intervention could help resolve this issue. By implementing the fund and working with the market, Air Route Development Ltd. have ensured that Northern Ireland now has an international network comparable to similar sized regions elsewhere in the United Kingdom and Europe.

It also has to be remembered that it is a condition of the Route Development Fund that any investment support is provided for a limited period (3 years). Moreover it is not envisaged that the Route Development Fund scheme will continue indefinitely; indeed, as the Committee is aware that a review of the operation of the Route Development Fund scheme was announced earlier this year.

**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)**

The application of the 'additionality' test as part of the investment appraisal process is specifically designed to ensure that funding is required to secure a particular route. Moreover there is no evidence to support the suggestion that the maximum economic benefit may not have been achieved through the operation of the Route Development Fund.

The Route Development Fund has to date invested in nine routes comprising six international routes from Belfast International Airport, two domestic routes from the

City of Derry Airport and one domestic route from Belfast City Airport. Apart from the strategic value and economic benefit of the routes themselves, these investments have delivered a range of other economic benefits in terms of job creation and improved the prospects of growth in the tourist industry. Moreover there can be no doubt, that without the Route Development Fund, easyJet would simply not have started routes from Belfast as the risk for the carrier would have been too great.

Those routes that have been supported by the Route Development Fund have all been independently appraised and that appraisal demonstrated a net economic benefit to Northern Ireland. Air Route Development Ltd. has sought both to maximise the economic benefit that could be delivered through expansion of the network of air services from Northern Ireland, while at the same time minimising the cost to the taxpayer by limiting, through negotiation, the amount of investment required to secure a particular route.

**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)**

A review of the operation of the Route Development Fund scheme was initiated by Air Route Development Ltd. prior to the commencement of the Committee's inquiry, using methodology consistent with that used for a similar review in Scotland.

The terms of reference for this review have already been shared with the Committee and it will be clear from these that it entails a thorough and detailed examination of the operation of the scheme, recent trends in aviation industry, regulatory developments, bench-marking against other regions, structural issues and an analysis of network gaps. It also involves sharing best practice gained from the operation of other similar Route Development Funds. The review is mainly a fact finding exercise; a degree of independent rigour is provided by the involvement of Professor Brian Graham of the University of Ulster who has been tasked with quality assuring the review findings. Moreover the findings of the review will be subject to close examination by the Department of Enterprise, Trade and Investment and will also be shared with the Department of Transport.

Arrangements will be made for the Committee to be informed of the outcome of the review in due course. In accordance with best practice, a further separate assessment of the overall effectiveness of the Route Development Fund is planned later, once the various routes have become fully operational and have had the opportunity to bed down.

### **Global Connections**

**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)**

The Civil Aviation Authority has begun discussions with interested parties regarding the scale and scope of the 2006 regional Airport Surveys. Detailed proposals are being sent to Belfast International, Belfast City and City of Derry airports. Surveys will proceed assuming an acceptable level of private funding. The expectation would be that the Civil Aviation Authority would run the survey between January and December 2006, with the following levels of interviews for the airports in question:

- Belfast International – around 11,000 interviews
- Belfast City – around 8,000 interviews
- City of Derry – around 5,000 interviews.

The Civil Aviation Authority are unable to programme this survey earlier due to the long lead time required for agreeing finance, hiring and training interviewers, obtaining the necessary security clearances and ensuring that the intended survey time-frame is sensible and compatible with other surveys being undertaken.

**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)**

The Government welcomes the Committee's recognition of the importance for Northern Ireland of maintaining access to Heathrow and bmi's continuing overall commitment to Northern Ireland.

The tools available to the Government to protect slots for Northern Ireland at Heathrow are limited. Under current European legislation, it is only possible to ring-fence slots that are used to service a route on which a Public Service Obligation has been imposed. Before a Public Service Obligation is imposed several important criteria must be satisfied, the most relevant being the maintenance of an adequate service. The current understanding of service adequacy, based on European case law, includes the consideration of all air services between a city pair and not two particular airports.

The Committee has recognised that Northern Ireland, and Belfast in particular, is well served with air services to the London airport system as a whole, and as such the existing

Public Service Obligation mechanism cannot be used to safeguard access to Heathrow via Belfast for Northern Ireland.

A further option to safeguard Northern Ireland's Heathrow access is to use slot allocation policy. Slot allocation policy at congested airports is governed by a European Regulation, which is underpinned by International Air Transportation Association Scheduling Guidelines. The European Commission has recently consulted on amending the slot allocation Regulation to introduce market mechanisms into the slot allocation process. The Government's response argued for a provision that would enable bodies other than airlines to trade in slots. This would then provide a mechanism for regional bodies to invest in access to that airport by 'holding' those slots.

The European Commission has not yet responded to the consultation and so there is still uncertainty as to how this review will move forward. However, the Department for Transport will continue to liaise closely with the Commission and other Member States to ensure that any amendments to both this Regulation and the Regulation governing the imposition of Public Service Obligations recognise the importance of regional access to London's hub airports.

In discussing this issue, it is also relevant to consider the Government's policy in providing new capacity at the South East airports as stated in the Air Transport White Paper 2003. This new capacity would reduce the pressure on the slots currently used by regional air services and would be allocated in line with the policy outlined in the governing slot allocation Regulation at that time.

The White Paper supported the provision of a new runway at Stansted in 2012 and also, providing that strict environmental conditions can be met, a new short runway in 2015-2020 at Heathrow. It is worth noting that this new runway will be unsuitable for long-haul operations. Studies are also being carried out on whether mixed mode operations can be introduced in Heathrow in advance of a new runway, which might also provide new capacity from 2008. Any policy developments regarding new capacity at Heathrow will be announced in the Review of the White Paper in 2006. If the decision is made that further runway development is not possible at Heathrow, land for an extra runway has been safeguarded at Gatwick.

The Government would wish to assure the Committee that the Department for Regional Development and the Department for Transport will maintain an active interest and involvement in seeking to safeguard Northern Ireland's access to Heathrow.

**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)**

The Government notes the Committee's comments on the importance of Heathrow as the main airport enabling Northern Ireland access to global destinations.

The Government is also mindful of the wider message in the Civil Aviation Authority's Regional Air Services Study that connections via other hub airports to certain destinations could be quicker than connecting via Heathrow, and, in terms of travel-time savings, could be valuable to the air traveller.

### ***Air Freight***

**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)**

The Government welcomes the Committee's recognition of the importance of air freight services to Northern Ireland and their commendation of the joint CBI/Belfast International Airport study.