



APPLICATION TO VARY AIR  
TRANSPORT LICENCE GTB90

28<sup>TH</sup> MARCH 2018

## Contents

Introduction .....	2
Recent History of the Guernsey – Jersey Air Transport Market .....	3
The Blue Islands – Aurigny Block Space Codeshare .....	3
Cessation of the Blue Islands and Aurigny Codeshare.....	4
Variation to Flybe Inter-island Licence GTB 28.....	4
The Impact of New Entrants .....	5
The 2017 Inter-island Market State .....	6
Blue Islands’ Current Guernsey to Jersey Licence GTB 90.....	7
Application to Vary Licence GTB 90 .....	8

## Introduction

Blue Islands holds an air transport licence (Licence: 90) authorising it operate aircraft on passenger scheduled services between Guernsey and Jersey (“the Licence”).

On 8 August 2011 the Licence was varied by the Commerce and Employment Department so as to be made subject to a condition **“That a service is operated on 364 days of each calendar year consisting series of a minimum of six rotations per day on weekdays (except public holidays) and three rotations per day on weekend days and public holidays and which is provided using aircraft with a minimum capacity of 14 passenger seats”**.

Since this variation the environment within which these services are operated has changed as Blue Islands explains below.

This Application is made by Blue Islands for the variation of the Licence so that the above condition is removed.

By its recent Decision (no GTB 155) the Transport Licensing Authority (“the Authority”) has licensed WO1 Limited (“Waves”) unconditionally (with regard to frequency of service or capacity) to operate aircraft on passenger flights between Guernsey and Jersey.

In its Decision in respect of Waves the Authority expressly recognised that the Waves services will compete with Blue Islands’ scheduled services and noted the potential detriment to Blue Islands services to which Blue Islands drew attention in its representations in respect of the Waves application. The Authority recognised and took account of Blue Islands’ stated need to review its current levels of service if the application were granted (paragraph 9.4(a)), concluded that there is a potential impact on incumbent operators (paragraph 9.15), and recognised a potential reduction in service by Blue Islands (paragraph 9.25).

In addition to the likely impact of the Waves services Blue Islands notes that the Guernsey – Jersey air transport market has undergone significant changes in recent years, detailed further below. These changes have resulted in the current Blue Island’ licence to operate between Guernsey and Jersey, GTB 90 (the licence), no longer appropriately reflecting the market state.

Blue Islands applies for this variation of its Licence in order to afford it the flexibility required to best serve the market in this new environment without being required to operate capacity so far in excess of demand as to render viable operations impossible.

## Recent History of the Guernsey – Jersey Air Transport Market

### The Blue Islands – Aurigny Block Space Codeshare

In 2014, Blue Islands and Aurigny entered into a block space codeshare arrangement on the inter-island market in order to stem the significant losses that both carriers were making on the route.

Until the codeshare, capacity was well in excess of demand with fare levels well below sustainable levels as both carriers competed for a market that simply could not sustain the capacity in place. This view was endorsed by CICRA by way of a competition regulation exemption for the block space codeshare arrangement.

In order to avoid a situation where one carrier was forced to withdraw their service entirely, the block space codeshare arrangement allowed for ongoing competition whilst mitigating the losses experienced by both carriers and bringing the capacity on offer back in line with demand.

This arrangement was successful in its objective of bringing about a sustainable market state, although it was not without its critics and challenges. The travelling public were frustrated by the need to check availability on two websites for the same “physical” flight and the arrangement was criticised extensively by the then Commerce and Employment department amongst other public bodies because of this.

In addition, the schedule approved by CICRA had to be adhered to, which resulted in a lack of flexibility for Blue Islands and Aurigny to deploy additional capacity into the market where it was required.

## Cessation of the Blue Islands and Aurigny Codeshare

On the 18<sup>th</sup> of January 2016 Blue Islands and Aurigny announced that they would not renew the block space codeshare agreement beyond its initial term ending the 16<sup>th</sup> March 2016. Aurigny would continue to provide handling services in Guernsey and Blue Islands would continue to operate the services. However, all seats on the aircraft would now be sold by Blue Islands.

This decision was not one taken lightly by either carrier. However, the negative feedback and public criticism of the block space codeshare detailed above, along with the fundamental market shift brought about by the revision to licence GTB 28 (detailed below) resulted in both carriers accepting that the block space codeshare was no longer the right option.

## Variation to Flybe Inter-island Licence GTB 28

Historically, Flybe were able to offer a set number of seats (10% of capacity) for point to point inter-island travel on its “triangle” services between the Channel Islands and Exeter and Birmingham.

In October 2015, this restriction was removed and Flybe were then empowered to sell as many seats on these services for inter-island travel as they wished. The result was a huge shift in availability in the market with additional capacity being introduced to the market at peak travel times. The table below shows the Flybe inter-island schedule at the time of writing for the week commencing 26<sup>th</sup> March 2018:

		Mon	Tue	Wed	Thu	Fri	Sat	Sun
<b>GCIJER</b>	08:10	X	X	X	X	X		
	16:00	X	X	X	X	X		X
	17:10						X	

<b>JERGCJ</b>	08:20	X	X	X	X	X		
	16:30	X	X	X	X	X		X

Figure 1 – Flybe schedule loaded for sale for the week commencing 26<sup>th</sup> March 2018

A total of 23 flights are offered by Flybe between the islands in this sample week, with an aircraft capacity of 78. Before the licence variation then Flybe were able to offer 8 seats per flight, or 184 seats per week, for point to point travel between the islands.

The variation in the licence means that Flybe’s available capacity on the inter-island market could increase some 10 fold to 1,794 seats per week. Whilst of course some of these seats will be taken by passengers travelling from and to the UK airports, even were only 50% of the seats on Flybe aircraft to be available for inter-island travel this would result in the provision of nearly 780 seats in the market every week at peak travel times from Monday to Friday.

Figure 2 below shows the increase in Flybe’s market share since this licence revision

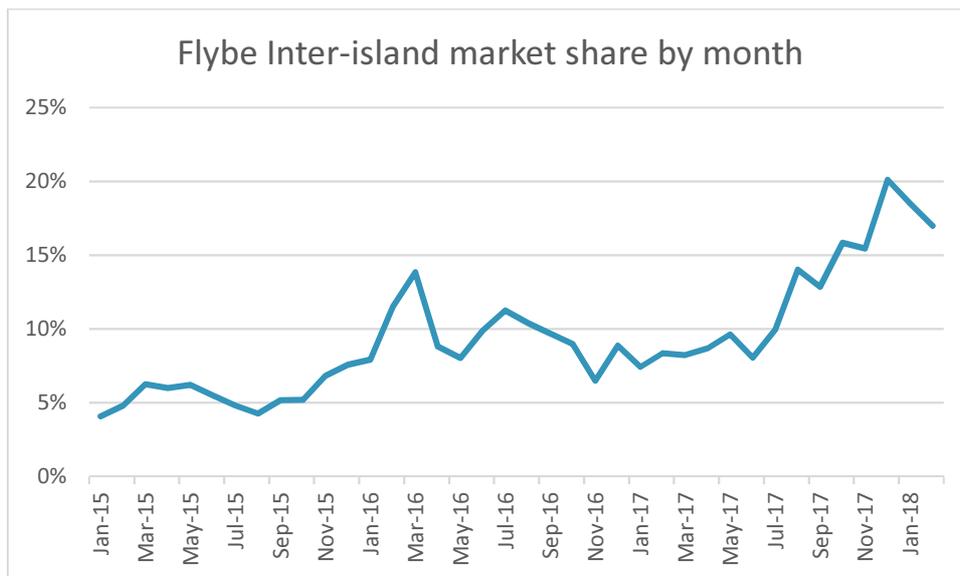


Figure 2 – Flybe inter-island market share by month

The impact of this licence variation is clear, particularly in the latter half of 2017, presumably due to a concerted market share acquisition strategy being deployed by Flybe. The effect of this is increased pressure on Blue Islands services as passenger numbers reduce. In response, Blue Islands must either reduce frequency or increase fares to maintain a financially sustainable service.

### The Impact of New Entrants

From October 2017, Waves entered the market with an “on-demand” air taxi product. As was subsequently established, the service was not truly fitting with this description given the sale of individual seats.

According to statistics available from Guernsey airport, some 6% of the inter-island market travelled with Waves in November and December 2017. Now that Waves licence has been granted, there is no reason to expect that this will not be the case going forward.

In addition, it should be noted that during 2017 97% of Waves services operated within two hours of Blue Islands nearest service, with 59% operating within 30 minutes. It is therefore reasonable to assume that Blue Islands load factors and passenger number will come under further stress from the licensing of Waves.

## The 2017 Inter-island Market State

There is a common misconception that capacity is a limiting factor to inter-island travel. This is simply not the case, the table below shows the Blue Islands load factors by month for 2017:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
<b>Passengers</b>	6,964	6,412	8,544	6,953	7,704	8,523	7,727	6,702	7,966	7,668	8,092	5,132	<b>88,387</b>
<b>Capacity</b>	12,600	11,344	13,232	12,964	12,838	13,890	14,124	13,404	14,188	13,250	13,664	9,608	<b>155,106</b>
<b>Load Factor</b>	55%	57%	65%	54%	60%	61%	55%	50%	56%	58%	59%	53%	<b>57%</b>
<b>Empty Seats</b>	5,636	4,932	4,688	6,011	5,134	5,367	6,397	6,702	6,222	5,582	5,572	4,476	<b>66,719</b>

Figure 3 – Blue Islands load factor 2017

There were a number of contributing factors to the above 57% load factor:

1. Exogenous market contraction causes such as increased prevalence of video conferencing, rationalisation of corporate travel budgets and consolidation of pan-island office structures
2. Increased market share prevalence coming from Flybe
3. Competition from new entrants such as Waves
4. Increase in the capacity provided to the market by Blue Islands following the deployment of the larger 68 seat ATR-72 aircraft at peak travel times to further ensure that capacity would not be a limiting factor
5. Move from Blue Islands towards a sustainable financial output following the removal of the million pounds plus subsidy (by way of Aurigny and Blue Islands losses) seen in previous years

It should be stressed that there is a great deal of disparity between load factors at different times of the week on the inter-island market. The peak AM and PM travel periods on weekdays can often be close to sold out whilst the off peak middle of the day and weekend flights will often fly more than half empty.

The critical point is that the provision of the market frequency at these off peak times is entirely dependent on high load factors and strong financial performance at peak times. In essence, the high performing peak flights subsidise the low load factor loss making off peak services.

Taking this fact to its logical conclusion then, any threat to the performance of the peak flights results in Blue Islands no longer being able to sustain the poor performance off peak flights and the level of frequency currently provided.

## Blue Islands' Current Guernsey to Jersey Licence – GTB 90

The current Blue Islands licence to operate to Jersey was issued in 2011 and contains the following frequency and capacity stipulations:

- Six rotations per day on weekdays (except public holidays)
- Three rotations per day on weekends
- Minimum capacity of 14 seats per aircraft

These stipulations no longer mirror Blue Islands' service offering on the route.

Blue Islands now operate 46 seat ATR-42 and 68 seat ATR-72 aircraft on the Guernsey to Jersey route exclusively.

The table below compares the actual standard schedule operated by Blue Islands against the stipulations of licence GTB 90:

	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Week Total
<b>Rotations</b>	5	5	5	5	5	4	3	<b>32</b>
<b>Seats per Movement</b>	46	68/46	68/46	68/46	46	46	46	-
<b>Total Seats</b>	460	636	636	636	460	368	276	<b>3,472</b>
<b>Licence Stipulation</b>	168	168	168	168	168	84	84	<b>1,008</b>
<b>Seats in Excess of Requirement</b>	292	468	468	468	292	284	192	<b>2,464</b>
<b>% of Requirement Offered</b>	174%	279%	279%	279%	174%	338%	229%	<b>244%</b>

Figure 4 - Blue Islands' 2017/2018 standard schedule capacity provision

As can be seen, there is a significant disconnect between the licence stipulation and the capacity provided by Blue Islands in the market, so much so that Blue Islands offer more than double the stipulated capacity level.

## Application to Vary Licence GTB 90

As a result of the significant increase in seats available in the point to point inter-island market offered by Flybe, the licensing of a new entrant in Waves with a resulting increase in their market share and the exogenous contraction of the market, Blue Islands applies for all frequency and aircraft capacity requirements to be removed from its licence GTB 90.

The above variation is in line with the recent precedent set by the granting of GTB155 to Waves without frequency and capacity stipulations. This variation will allow Blue Islands to adjust its schedule to best meet market demand while maintaining a viable operation.

Clearly, it would be unjust for one market participant to be forced to offer a minimum service while other operators are free to operate as they choose. It is unreasonable to insist that Blue Islands offer the minimum service while allowing market entrants to “pick and choose” their operation, potentially limiting to peak travel times only where flights are most likely to be profitable.

Blue Islands remains committed to the inter-island market and wishes to continue to serve the market with an appropriate level of capacity. The current licence held by Blue Islands however does not provide the flexibility required to ensure that the Blue Islands service continues to be viable for the future against a back drop of increased competition from Flybe and Waves.

By granting this application the Authority will provide Blue Islands with the flexibility that it requires to ensure the ongoing commercial viability of its inter-island services by removing the onerous frequency and capacity requirements currently placed upon to which other operators on the route are not subject.