



OFFICIAL REPORT

OF THE

STATES OF GUERNSEY

SCRUTINY

COMMITTEE

Security of Strategic Air Links

HANSARD

Beau Séjour Leisure Centre, Guernsey, Friday, 5th June 2015

No. 3/2015

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Members Present:

Chairman: Deputy Paul Le Pelley
Deputy Peter Sherbourne
Deputy Arrun Wilkie
Deputy Barry Paint
Deputy Lester Queripel

In attendance:

Mr Mark Huntington (*Principal Scrutiny Officer*)
Mr Alistair Doherty (*Advisor*)

Business transacted

Procedural – Remit of the Committee3

Mr Hart was called at 2.00 p.m

EVIDENCE OF Mr Malcolm Hart, Former Managing Director, Aurigny Air Services Ltd3

Deputy Ogier, Mr Lewis and Mr Le Ray were called at 3.00 p.m.

EVIDENCE OF Deputy Scott Ogier, Minister, Public Services Department, Mr Adrian Lewis, Chief Officer, Public Services Department and Mr Colin Le Ray, Airport Director 13

The Committee adjourned at 3.35 p.m. and resumed its sitting at 3.50 p.m.

Deputy Stewart and Mr Moriarty were called at 3.50 p.m.

EVIDENCE OF Deputy Kevin Stewart, Minister, Commerce & Employment Department and Mr Jason Moriarty, Chief Officer, Commerce & Employment Department 19

Deputy St Pier and Mr Ford were called at 4.38 p.m.

EVIDENCE OF Deputy Gavin St Pier, Minister, Treasury & Resources Department and Mr Alastair Ford, Principal Assistant, Treasury & Resources Department28

The Committee adjourned at 5.24 p.m.

Scrutiny Committee

Security of Strategic Air Links

The Committee met at 2.00 p.m. at Beau Séjour Leisure Centre.

[DEPUTY LE PELLEY *in the Chair*]

Procedural – Remit of the Committee

5 **The Chairman (Deputy Le Pelley):** Good morning. I would like to welcome everybody here today, elected representatives, our witnesses and members of the public. Our session today is the third hearing forming part of the Scrutiny Committee's Inquiry into the Security of Strategic Air Links.

 Please note that filming and photography are strictly prohibited, and can I ask anyone who has any mobile devices to please put them to silent. It is essential during our session that the Committee is able to
10 hear from our witnesses without any interruption from the public gallery.

 Following this event, the Committee will assess the information gained throughout the review to decide whether it requires further clarification by witnesses in any area, and subsequently will publish its report in due course. Thank you.

 I now turn to our first witness.

Mr Hart was called at 2.00 p.m.

EVIDENCE OF Mr Malcolm Hart, Former Managing Director, Aurigny Air Services Ltd

15 **Mr Hart:** My name is Malcolm Hart. I live in Guernsey and have done so since the year 2000. I was part of the management team who bought Aurigny in 2000 and therefore probably part of the catalyst for the States of Guernsey acquiring Aurigny back in 2003. I stayed for another 10 years and I am now an interested bystander in the air transport infrastructure of the Island and the Bailiwick as well.

20 **The Chairman:** Thank you very much for coming today. Deputy Sherbourne.

Q189. Deputy Sherbourne: Mr Hart, thank you very much indeed for attending this afternoon and also for your submission.

25 The first sentence in your submission was focused on the licensing policy that the Island runs. You feel very strongly about this, that it should be maintained, but I wonder if you can elaborate on the reasons why and perhaps also explain why you feel that the licensing should be appropriate for any airport in the UK, which is the current arrangement.

30 **Mr Hart:** When I first came into the airline industry 32 years ago it was overregulated, we had to have licence hearings for fare increases, for change of frequency on services, and this was with the authority in the UK, the CAA. That was wrong and has been changed and Europe has gone through a complete liberalisation of its air transport laws. However, that is for a major population centre. My view is that when I came to Guernsey it was a bit of an anachronism that we still had air transport licences. I would get letters from the Head of the Guernsey Transport Board, berating me for only operating three frequencies on any
35 particular day when it should have been four, which I found interesting. But in many ways I came to appreciate that it was absolutely right.

 For a jurisdiction of 60,000-odd souls to have the alternative, which is the open skies philosophy, where anybody can come and go at any time of the year, depending on what they see as opportunities, I think just does not work for a very small community. I think I would draw you, as I did in my submission, to the

experience of the Isle of Man. I think in this very room, together with Derek Coates from Blue Islands we had a meeting of Deputies, back in 2008 or 2009, when the Minister for Commerce & Employment had brought through a paper suggesting that Guernsey take up open skies rather than the licensing system. I – self-interest – was a part of that, of course, from Aurigny’s point of view; that was my job, but much more than that... And I think that is where I can bring some value to this Committee. I do not have that self-interest any more but I still believe passionately that an Island of 60,000-odd people – and a Bailiwick, of course; remembering Alderney – has to have some control over its air transport infrastructure. It is too fragile a flower and I am not sure that...

If I have got a message to deliver today it is about the fragility of air services to the Island. The margins in regional aviation are tiny. On a very good year you will make 2% on a very high-turnover but a very high-cost business, and when you have a lot of capital-intensive investment in that business it does not take much on your revenue line to take you into serious trouble. That is why small airlines tend to come and go. I think that it is very important that Guernsey – and the Transport Board, by way of another name, whatever happens in the future – remembers that. I think continuity of services to the Island should be uppermost in their mind, rather than what serves the Island’s best interests for the next six months. I quote in my submission, if you remember, Flybe being licensed on Manchester, which is a summer-only service purely designed to do Aurigny damage. It had no economic value to Flybe whatsoever, but they were so disgruntled by the States buying Aurigny in 2003 that they were very keen to take action to try and damage our business, and the States facilitated that, which, for me, when I am working very hard to try and run the Island’s airline... You can imagine how I felt about that. It was not very clever, in my view.

So the licensing system being retained can be increased vigorously with a view to the continuity of services to the Island – what is in the Island’s medium-term interest, rather than what is in the interest of the next three months. I think if you and your colleagues have that philosophy in mind then the Island will be well set.

Q190. Deputy Sherbourne: I want to press you on the second part of my question, which was whether this should be applied to every airport. Would it be possible to have a mix and match, with open skies for the non-lifeline links, the strategic links remaining licensed but with more flexibility with regard to other routes?

Mr Hart: I think that would be relevant, Peter, if it were the case that any airline which was interested in flying to Guernsey would be put off by making a licence application. I just do not believe that is the case. Anybody who came here who had an idea of a new service or a new route or to develop one of the non-lifeline routes should quite rightly get a licence. I just know that, having been in the industry for so long and knowing how it works, nobody is going to be put off by sending in a licence application – nobody.

Q191. Deputy Sherbourne: But licensing policies can be extremely bureaucratic, and this is not a criticism of the way that it is operated in Guernsey, but we do have an odd situation with regard to three different government departments having a finger in the pie of aviation policy, and that creates problems.

Mr Hart: I take you to the restructuring of Government in 2004. For air transport licensing to end up in Commerce & Employment was ridiculous, but it had to go somewhere. I think that is bureaucratic. But is it really bureaucratic? It would never stop an operator who was hungry, who saw an opportunity, who saw it was going to add value to his business by taking on a route, would not be put off by sending in a licence application.

Q192. Deputy Sherbourne: So if we were actually to look at ways to streamline the process to make sure that it was less bureaucratic, what would your advice be?

Mr Hart: The less bureaucracy the better. I am not sure that the bureaucracy to which you refer is as great as it maybe appears in your mind. It is not overly bureaucratic. It is not a hard process for any competent airline to go through. It is not an off-putter for people to come to Guernsey. That is a mistake, an error, in my view, that I hear people say regularly, that ‘Oh, it’s the licensing system that puts people off coming.’ It is not.

Q193. Deputy Sherbourne: And you do not see a problem with regard to the diverse interests in aviation policy?

Mr Hart: I do not, actually. It would be better, and I have always believed that perhaps an airline should have a one-stop shop person in Guernsey we can speak to. Usually at a regional airport that would be the airport director, who would have control over rebates that would be offered for a new service, etc. That is

not the case in Guernsey, but for some good reason in that the airport is a publicly owned facility so he has to have a political master. But, again, in my experience I have never found that to be an onerous problem for somebody who has got a good idea that could add value to their airline, and they would not be put off by that process.

Q194. Deputy Sherbourne: Even though one of those government departments has two responsibilities that could be seen in conflict regarding licensing and promotion.

I will move on because I am conscious that we have got a lot to get through. Is there a viable alternative to public ownership of Aurigny?

Mr Hart: No

Deputy Sherbourne: Can you expand on that?

Mr Hart: Absolutely. One small story I wanted to tell you today, which part exemplifies the fragility of the transport network... I received a call, on holiday during Easter 2003, from British Airways, saying they were pulling out of Guernsey and if Aurigny were interested in taking the service over they would give us four pairs of slots at Gatwick *gratis* as part of the deal. So I phoned my shareholder, Close Brothers Private Equity, and said, 'We have an opportunity here. It's going to take about two or three million quid in investment, because we have to re-fleet, train pilots, etc.'; the Saab 340 was too small and they decided to... they had a few conferences that evening and I was told that no, we would not go forward with that opportunity with BA. We would tell BA thanks, but no thanks. Flybe would be the only operator on Gatwick but Aurigny would have the upside of the Stanstead operation, so we would get some upside, which meant no capital investment by the shareholder, and some revenue improvement for them I guess was quite attractive.

I went to bed that night very unhappy with that phone call. I thought it was not the right thing for either the company or the Island where I had already lived for a few years and got into what was in Guernsey's best interest. The following morning, on my own initiative, I phoned a Member of the States and took him into my confidence and told him what the potential withdrawal of British Airways was going to mean for the Island, which he fairly knew anyway.

Seventeen working days later the business was bought by the States and it was bought simply for this one reason: that no jurisdictional body of government or anything can control slots at an airport. The only people who can control slots are an AOC holder – an Air Operator Certificate holder. Therefore, if a government wants to control slots it has to own an airline. If you just keep it as simple as that it is very straightforward. It was kicked to death in 2010 when the Minister at that time, Charles Parkinson, decided that that was something that he preferred not to have and to give Aurigny to Blue Islands. After five or six weeks of tortuous to-ing and fro-ing he got the right legal advice, which told him there was no other way. You could have a golden share arrangement, where you could sue somebody if they lost you the slots, but by that time you could bet money that the slots had gone. What good is that for the strategic interest of our Bailiwick? No good at all. So that is the reason why. There is, as I see it, as the law stands at the moment, no alternative to public ownership of Aurigny.

Q195. The Chairman: I was just going to clarify that Jersey does not own an airline, does it?

Mr Hart: No.

Q196. The Chairman: Is Jersey at the mercy of British Airways and easyJet for its strategic air link to Gatwick?

Mr Hart: Of course it is. I think you have to also remember Jersey's passenger numbers are basically double ours. The population is 50% more, but their inclination to travel and the wealth on the Island are greater than Guernsey's and therefore the air transport market is about double what we have on this Island – 2 million to 1.8 million passengers a year. Whether that is getting into the territory of allowing open skies I do not know, but it has always been a philosophical direction from Jersey right from the start, because we asked Jersey if they would like to take part in the ownership of Aurigny years ago and it was pretty much, 'No, we'll just let the market take its place,' and it has had the ups and downs that go with that. I do not know if Jersey is big enough to sustain an open skies policy with the size of its market. My own view probably is that it is not and they are at the risk of the market, but particularly I draw you to the Isle of Man as a comparison for Guernsey, and that is what can happen. If you go open skies you do not own your own airline and the next minute you are completely in trouble, and that is what has happened to the Isle of Man.

Q197. Deputy Sherbourne: What is your view on the objectives set by T&R for Aurigny, the targets? It is very limited, in a way, on price.

Mr Hart: I am not really able to comment on that. I am not party... This was done post my time at Aurigny, so it is not something I am confident to comment on.

Deputy Sherbourne: Well, perhaps you could comment on the responsibility of Government – obviously, with such large amounts of money involved – to at least try and establish benchmarks for companies to work to as part of the Government system. It seems reasonable to me that that should happen.

Mr Hart: I would not demur from that at all. I think that is a perfectly reasonable comment.

Q198. Deputy Sherbourne: So, bearing that in mind, do you think that it is realistic to expect Aurigny to break even by 2016, which is the actual target set at the moment?

Mr Hart: The monopoly to Gatwick is the key element of that. I was in the business for thirteen years and probably for the last six or seven years the general number was the loss of, say, £1 million – nine hundred thousand/a million pounds – and that was basically serving Alderney. Everything else more or less paid for itself, but the Alderney operation would lose, and as an accountant you could make the numbers say anything you want but as the Chief Executive of the group, that is what my guts told me. The money was going through to keep the Alderney operation going, and for me that was part of the remit of the organisation, and that was to serve the Bailiwick – what I believed Aurigny should be doing.

The decision of Flybe to sell the slots at Gatwick and depart the scene should give Aurigny an opportunity to be a profitable business, and therefore I would be pretty amazed if they did anything other than make money by the timescale you suggest.

Q199. Deputy Sherbourne: There has been a new committee set up by T&R to monitor this. Would you have welcomed that?

Mr Hart: I would indeed. I think the closeness of T&R to the board of Aurigny was never a very comfortable exercise either for them or for us, and I think delegation of that to another committee is absolutely the right thing to do.

Q200. Deputy Sherbourne: Thank you very much.

I mentioned conflict of interest within government departments, but what about the position that the Government is in, in that there is a conflict between owning your runway and your airline? Can you just give me your thoughts on that?

Mr Hart: Well, is it conflict, really? It is not unusual in island communities throughout the world to own your airport and own your airline. I know in the Channel Islands we have a very determined philosophy of ‘if the Government should not be involved it should not be involved’, and I completely support that – I think anybody would support that – but if we look at Europe, because we are so close to it, it is completely deregulated. There are very few. Government ownership of airlines being completely frowned upon is no longer the case, particularly in the flag-carriers. But that is really a tiny smidgen of the European air transport network. We are much more akin to island communities throughout the world, and it is absolutely not unusual for airports and airlines to be owned by the jurisdiction that they serve, because without them where does that jurisdiction go?

Again, I take you back to the Isle of Man. What the Isle of Man did, classically as a mistake, was go with open skies with no insurance policy. They have no ownership of an airline and therefore, when the perfect storm arrived of Flybe getting into a lot of trouble, all of a sudden they have got 80-odd per cent of their market under the control of an airline that is about to go bust. I bet the deputies were not sleeping very well when that was all going on.

Q201. Deputy Sherbourne: Is that an example of a lack of political involvement? Should there be more?

Mr Hart: No, it is a political decision to not get involved. The decision was made: abandon route licensing and go to open skies; therefore it is not our problem anymore – until it is their problem, and then it is a major problem.

Q202. Deputy Sherbourne: Absolutely.

Aurigny has a difficult role to fulfil with regard to its responsibility for social provision as well as business. Obviously, the economy is very important but there are other aspects, which are the lifeline links to Southampton, Exeter and so on. What about the sustainability of the company, bearing in mind those diverse responsibilities and challenges?

Mr Hart: I think if the company retains the goodwill of the shareholder, which is the States, and much more importantly the community, who see that the airline is doing well and is serving the community, and by dint of its monopoly on Gatwick is probably profitable, then I do not see any reason for that sustainability... I think the social obligations for the airline were always something I took very seriously. I am a sportsman and I completely agree with what Stuart Falla said here some months ago – which is pretty unusual, I have to say, between Mr Falla and myself. I completely agreed with him on the lack of service to the sporting community and I think, running the airline, you have to have one eye on what is the right thing for the airlines. Yes, you have got self-interest in your duty to the company and to your shareholder, but you also have to have an eye on the wider context, and I think those social obligations... One figure I was always very proud of: when the States bought Aurigny there was a poll of 1,000 people or so, saying, ‘Do you believe it is the right thing for the States of Guernsey to be owning Aurigny?’ I think in 2004 the answer to that was 50%. We did the poll every two years. We paid for it but it was independently managed. The year before I left we asked the same question again – do you believe it is important that the States of Guernsey own Aurigny – and 92% said that they did. That made me proud because I had delivered something that the Island thought was of value and strategically hugely important for them.

I have not been working for a couple of years now, but I had a 30-year career, 25 of which were as CEO, and probably the most important thing I did in that career was the Gatwick slots, the control that Guernsey has over its future, because I fear for the Island’s finance centre if links are lost. They have a position in the Isle of Man now where you cannot get to London before lunchtime from the Island. Just imagine the damage that that is doing to people who are thinking of setting up businesses there or going to see a branch of another business there. It is significant. Guernsey has not got that problem and I am very proud of that.

Q203. The Chairman: You mentioned Mr Falla in your testimony there. Mr Falla likened Aurigny services to something like a bus service. Do you agree with him?

Mr Hart: A very sophisticated, expensive and complicated bus service, because otherwise I would not have a job if it was easy, but yes, I... A bus service – no, I do not completely get the analogy.

I think one thing I do feel strongly about – and I philosophically agree, unusually, with Stuart on – particularly is the Jersey-Guernsey route: the deal for Blue Islands to be operator and a codeshare would never have been done in my day. I thought it was a terrible deal and the service as a result... The number of people who meet me in the street, whom I have never met before... I meet them on the beach when I am walking my dogs and I get harangued by people saying, ‘I cannot get a seat to Jersey, the service has gone completely...’ whatever. There are sporting clubs which cannot go back and forward. That, I think, is an eye off the ball. That decision was not taking into account the best interests of the islanders in the round.

The Chairman: Why is it so bad then?

Mr Hart: Because people are not getting the service they need, neither from a business perspective nor from a social perspective. Clubs cannot get back and forth, people cannot get where they want to be when they want to be there. That is no good for business.

Q204. Deputy Sherbourne: The States have recently published a Tourism Strategy, and one of the questions raised in that strategy is whether to table a debate on the length of the runway and whether we should extend it. I know there are other issues with the instrument landing system equipment as well. Could you just talk us through your thoughts on that?

Mr Hart: Yes. Briefly, when I took the job in 2000 there was great agitation for a longer runway. The flavour of the month for the coming years was 50-seat jets, which would need a longer runway. I did not think 50-seat jets had any longevity in our market. I did not think they were economically sustainable with the cost of pilots, etc. and infrastructure costs in Europe; and I was right – they came and went. So I have never been sold on the fact that a longer runway would materially change the quality and the value of the operations to the Island, and I am on record as saying, when I was in the job, ‘Don’t spend my taxpayer’s money lengthening the runway, because it’s a waste of time,’ and I still believe that to be the case.

Q205. Deputy Sherbourne: So you would not consider the approach by easyJet, or at least the States' approach to easyJet... I am not sure about that... that the reason easyJet actually backed out was to do with the runway length? Obviously in Guernsey there is a rumour mill.

Mr Hart: Yes, I would not be telling the truth if I did not say that I thought that the lengthening of the runway from an easyJet perspective was a factor. However, that was not the main factor. EasyJet have a finite amount of slots at Gatwick, they go into markets that they are going to make money on, and I do not believe that they saw Guernsey as a real market which they could sustain and make money on year-round.

They could come in, Peter, on a July, August and September basis, but I doubt very much whether they would be here in February and November.

Q206. Deputy Sherbourne: Gatwick is our major lifeline link, I suppose – I think it amounts to forty-odd percent of travel – and you emphasise the importance of it. Should we be willing to lengthen the runway simply to be able to use larger aircraft and then receive more people from a major partner in that way?

Mr Hart: No, because the aeroplane Aurigny has is the Embraer 195 – 132 seats. That is a pretty big capacity for an Island of 60,000 souls. It is a lot of capacity and it manages in the year quite nicely. So I do not really see that... The cost of the runway lengthening I think is immaterial and I think it is a red herring. I do not think members of my community... I am the chair of judges for Europe's *Airline of the Year*, so I see what is going on in the industry and what is still going on, and I do not see that as being a major off-putter for somebody who is sitting there thinking, 'I wish I could fly to Guernsey and I wish the runway was longer.' I do not see that level of demand in the industry of 2015. It is not there.

Q207. Deputy Sherbourne: How about the other part of the question, regarding the Instrument Landing System?

Mr Hart: Anything that could be done to help the fog travails of the Island should be very welcome and I think technology will do that. We will get to head-up displays for pilots in the fullness of time. I firmly believe that that will be the case, but technology is just not there yet – but I think we live in hope. Probably well after my time, but I think we will get there. So I have always... And again I am not totally competent to comment as to why we cannot have CAT 3 and CAT 3B in Guernsey, but I believe it is the topography of the land, the closeness of the runway to the sea and the beams that would have to go up would make it very difficult, if not impossible, for that to be the case. Therefore, the old technology of CAT 1, CAT 2 and CAT 3 has to be put to one side and it has to be head-up displays and it has to be a whole new philosophy of navigation and landing, and I do not think... We will get there – I am absolutely sure we will get there and Guernsey will get there as well – but it will not be in the next couple of years.

Deputy Sherbourne: Well, I hope so. Thank you very much.

Q208. Deputy Paint: Can I ask you, Mr Hart, the panel were told by Mark Darby that Aurigny did not consult with customers before timetable changes and appeared to think that any suggestion of this was unrealistic. What do you think of that?

Mr Hart: It depends. If you were talking about a direct consultation with the general public before a timetable change I think I have got to agree with him – I think that is a very difficult thing to achieve. If a timetable change is made without any knowledge or consultation of people who count – travel agents who produce a lot of business, key business and frequent business travellers – then that is probably a mistake. So it can be done but not through a national poll of putting an advert in the press saying 'We're thinking of moving the twenty past ten to ten to eleven – what do you think?' Your business is never going to get anywhere doing that.

Deputy Paint: So it would be dependent on circumstances?

Mr Hart: I think targeted. We would always do that. You are mad if you do a timetable change and do not have any taking into account of 'How are my customers going to feel about that?' I would like to think that that is a process that they still would go through, but they certainly should do.

Q209. Deputy Paint: Going back to securing air routes, to secure current air routes and develop new strategic air routes to the Island are top priorities of the Tourism Strategy. Do you have any suggestions how new routes could be developed?

Mr Hart: No, because it is not something I have greatly thought about, I have to tell you. I think one of the other key things that I wanted to say to the panel today... There are two. One is about the licensing, and I think I have made my view on that, hopefully, fairly clear.

The second thing is the importance of tourism to the Island. It drives me mad, because all I do all day is walk my dogs and play golf and the number of people who say to me, 'I wish we could have a new service to Luxembourg or Amsterdam. Think of all the tourists that will come in from Paris.' It is complete nonsense.

Firstly, on tourism, tourism is hugely valuable to Guernsey and I do not think that message really gets through. People think Guernsey... it was tomatoes and then we had a bit of a dabble in tourism when the ferries came, and British Rail gave everything away for nothing. There was a big tourism industry. Now that has gone and we are all about finance. The value of tourism – that bulge that one gets from June, July, August and the first half of September – pays for the rest of the year. If you do not get that bulge you have had it, and I do not think the general population of Guernsey actually gets the fact that they can go to Gatwick on 21st November, which is a totally dead time – it is before Christmas, there is no half term, the numbers are dreadful, and they can still get to Gatwick six times a day and they can still get to Southampton five times a day. That is all down to the June, July, August and September effect of the tourism market coming in. Tourism is hugely important for Guernsey and I really cannot stress, in my view, how important that is.

The second thing is... and we have tried it. We flew to Amsterdam when I was one of the buyers for the business and I have never seen anything like it. Usually when you start a scheduled service the graph goes like that: year 1, year 2, year 3. Year 3, if you have got a good route, tends to be maturity. From there on you have got a chance of making money. Amsterdam was completely the opposite way. It started off, year 1, like that, and then year 2 went like that and then year 3 went like that. I could not quite get my head round what was going on. The issue was that people in Guernsey had been to Amsterdam once and they did not want to go back, and I would get questions like, 'Well, can you go somewhere else now, because I've been to Amsterdam?' That does not quite work.

The serious problem I have is that the biggest market for the Channel Islands, and particularly Guernsey, in my view, is the south of England. It is not Scotland, because it is too far away and it is difficult to get here as well, but the biggest population is the 11 million people round Greater London. Guernsey has a much better chance of seriously adding value to their tourism product in numbers by exploiting the key markets that they have got at the moment.

Over the years I have heard about... The Tourist Board at one point were going to spend money on the Paris Metro system – on the boards as you are going up the stairs saying welcome to Guernsey. Come on, are Parisians really going to say, 'Well, I need to get out to Guernsey. Where is it? Never heard of it. Wasn't that ours at one point?' It is not going to generate a lot of business. The main business... And this is a very serious point now and I hope I am making it reasonably so that it makes sense. Exploit the key markets that we have already got. Starting off a new one from Leeds or Humberside is not going to add value on a year-round basis to this Island.

Q210. Deputy Paint: Do you see the use of government-funded route subsidies resulting in successful, sustainable expansion and growth?

Mr Hart: Absolutely. You are talking about a fairly left-wing view here, which is not my experience of what we have in Guernsey, so I would be interested if that ever got to fruition. But yes, if the Island ever got itself to the stage where things were really bad, then I think that is something that should be contemplated. But I think everybody should understand as well... If you look at the numbers that have come through Guernsey over the last 10 years they are fairly stable. We get 910,000, 930,000, 860,000, but it should be round about the 900,000 mark and it has been that way for years and years, and I think if we can keep it at that level you might get another ten or twenty or thirty thousand, but the spend to get another another ten or twenty thousand probably makes it uneconomic for the Island to contemplate.

Q211. Deputy Paint: Yes, well, then that goes to the issue of whether subsidies should be linked to performance targets?

Mr Hart: Oh, absolutely. Anybody who does not do that is mad.

Q212. Deputy Paint: Are there lessons to be learnt from Jersey on air route subsidies?

Mr Hart: Well, Jersey gave a subsidy, didn't they, I believe, apocryphally, to somebody who was operating to Heathrow – it was British Midland, I think; it was – after the main Heathrow service some years ago, before the demise of BMI. There was a late-night one off Jersey and the first one back in the morning. I do not know if money was paid for that; I would suspect there probably was, but it did not add any value. Getting to Heathrow at eight o'clock at night is not really what anybody wants to be doing so, and Heathrow is a pipedream for these Islands anyway. It is too expensive and the runways are so stretched that small aeroplanes of 150 seats and below are just totally uneconomic.

Q213. Deputy Paint: Does the limited demand on the London City service show that there is no real substantial demand for other routes and reinforce that we need to focus on Gatwick?

Mr Hart: I do not know, actually, what numbers on London City have been or are. I am not party to them, so it is difficult for me to comment on that. But if the corollary of your question is, is Gatwick hugely important and needs to be loved and looked after, the answer is very much yes.

I suppose one thing is... We got four pairs of slots from BA and we have added, or Aurigny had added two on in my time, so there are six pairs of slots at Gatwick, and if there was a seventh my expectation would be a seventh at Gatwick would produce a lot more tourism and business for the Island than once a day from Leeds. That is where my money would lie. If I were a betting man then that is where I would put my money if that were the case.

So if that answers your question about just how important Gatwick is and the potential upsides of doing more at Gatwick, I think the results for the Island would hopefully be very strong.

Q214. Deputy Paint: The States caps the fares on the London Gatwick route. Do you believe they should?

Mr Hart: I see it very difficult for them to do that. You can cap fares but capacity management... I am going to get a bit technical here, so I hope that I do not bore you, but you can cap a fare but how the airline's management chooses to allocate different fares that are available on any route is the key to it. So they could say, 'Yes, we'll cap our fare at such and such, but instead of making cheaper fares available we'll make less of those available and make them more available in the medium range,' so that the net revenue effects on the airline are nil and it does not make any difference, but you have ticked the box as opposed to... So anybody who wants to regulate fares has to get a lot more sophisticated than saying 'cap your fares at that'. Anybody can get round that system if they put their mind to it.

Q215. Deputy Paint: Yes, so it really comes down to who should fund this capping – would it be the taxpayer or the fare payer?

Mr Hart: Absolutely, yes.

Q216. The Chairman: In your view, should Alderney's air routes be provided under a public service obligation?

Mr Hart: Absolutely.

The Chairman: What service levels should be guaranteed by this?

Mr Hart: It is unquestionable that Alderney needs... You will know a lot more than me in detail in terms of the population decline and general economic decline of the island over the last few years, and if the obligations under the Agreement are still there then Guernsey has a part to play in that. One can operate as efficiently and as best you can, but we are just not going to make any money doing it. Throughout Europe and in Norway, Sweden and Denmark it is perfectly legitimate for small island communities to be served by a public service obligation, so absolutely, yes.

In terms of frequency, again it changes at different times of the year. August in Alderney is completely different from February in Alderney, so again that is the beauty – *should* be the beauty – of Aurigny serving the community. When I was there, there were six Trislanders so you did have the capacity to do 14 round trips from Southampton at the beginning of Alderney Week and the end of Alderney Week. Whether that capacity is still there or not, I do not know and, it is not my place to know. That was the beauty of it, but without question Alderney needs public service obligation contracts to be put in place to sustain the viability of the island, in my view.

Q217. The Chairman: In your view, should the amount of subsidy for these routes be published?

Mr Hart: Absolutely.

The Chairman: Assuming that that is the case, what responsibility would the States of Guernsey have if Aurigny does not break even on the Alderney routes?

Mr Hart: After having had the subsidy? I think you change the management.

Q218. The Chairman: What do you think of the claim made by Aurigny and T&R that the Alderney routes lose circa £900,000 a year?

Mr Hart: I would not demur. I think that is accurate – or it was. Sorry, again, I am two years out of the business so things may well have moved on, but that was certainly the number that I had in my mind.

Q219. The Chairman: In your view, should Aurigny's accounts be made public?

Mr Hart: Well, they are, aren't they? We did always publish our numbers through the States Report in the Budget.

The Chairman: I think that might have been a global figure, but should there be a breakdown?

Mr Hart: If an airline – and it is a contentious thing – is owned by a jurisdiction, a community and a government, absolutely. In the past, what I would have objected to, and would still object to, is confidential information, by route, being made aware to my competitors by being put in the public domain. When they do not have to publish their figures, why should Aurigny? I think the Government owes a duty of care to the airline as well to not damage... which I felt the Government got wrong a few times during my tenure, where action was taken to damage Aurigny simply because of this embarrassment about owning the airline, which is a nonsense for me. If you are owned by the Government and there is taxpayers' money being put in to keep this business going, then I think you have a duty to be as open as you can be from a financial point of view, as long as... At the stage where it gets down to route analysis and revenue and yields per route, I think that is a step too far and I think management would have every right to object to that. But in terms of a general overview of the profit and loss account balance sheet, absolutely that should be in the public domain – and I am sorry, but I thought that was, actually.

Q220. Deputy Sherbourne: Just hearing you speaking about duty of care, we have a duty of care to Alderney as well as to Aurigny, and it is a difficult balance. What sort of impact do you think the purchase of the Dorniers and the problems that Aurigny are facing now with regard to even procuring the right aircraft has had on Alderney?

Mr Hart: I will declare an interest: I am an Alderney fan. When I took over the business I was intrigued by this island. My predecessor in the job hated Alderney. He hated the people because they all complained... Therefore I was intrigued to visit the Island and it was a place I came to like very much. I spent a lot of time with Sir Derrick Bailey, who was the founder of Aurigny, and got to understand what the *raison d'être* of the business was, and a lot of it was to serve the community.

I have my own view: this rush to get rid of the Trislanders without, it would appear, a good plan being in place has damaged Alderney a lot. It has been very disappointing and should not have been the case.

Q221. The Chairman: In your view, was the transfer to Dorniers over Trislanders a good decision?

Mr Hart: That is a very interesting question, Paul, which I - I have to be very careful how I answer.

The Trislander is a unique aeroplane. It is old, it is costly to maintain and it is noisy, and it is an anachronism in 2015. However, it has played its part in these Islands' life for a very long time and I could not see what the alternative was. Trislanders were getting old, but we re-lifed the wings in my tenure and gave them a few... Britten-Norman are a difficult company to deal with to get spares, but we had always managed that somehow anyway. Aurigny had the world's largest holding of Trislander spares and the intellectual property over all of the engineers who knew how the aeroplanes work. I suppose I would be the first person to agree that the Trislander should be changed when I was clear that there was a reasonable

economic alternative that would do as good a job, and I never got myself to that stage; and frankly, in my own opinion – and this is absolutely my own opinion – the Dornier is not the aeroplane either. It is too old. The aeroplane is not dreadfully younger. I do not know the serial numbers of Aurigny's; I just happen to know that they have not been made for years and they were not a successful aeroplane. You could argue the same for the Trislander, but they found this niche in these Islands and came to serve them very well. So any change of the Trislander needed to be thought through, considered carefully, and have a plan.

The Chairman: They do well in the Scottish Islands as well.

Mr Hart: They do indeed.

Q222. Deputy Paint: What do you think of the suggestion that Alderney should run and manage its own airline?

Mr Hart: Intriguing, I think. *(Laughter)*

Deputy Paint: Would you like to expand on that?

Mr Hart: Completely unworkable, in my humble opinion. I have a lot of respect for the people there and I know where they are coming from. They feel hurt, they feel probably abandoned and without a voice to listen to them and, seeing their population decline and the economic decline, it must be an incredibly frustrating time to be an Alderney resident who cares about their island.

John Cadoret worked for Aurigny for many years, a man I have a huge level of respect for, but the practicality of maintenance, crew, management for such a small business... It would have to be a public service obligation with material input from the Government, I think, in order for that to work, because my guts just tell me it would lose a lot of money.

Q223. Deputy Sherbourne: Yes, I just want to expand on that. We have spoken about subsidies. If, for example, the Guernsey Government decided that this £900,000 loss each year could actually realistically be given as a subsidy to an independent company, would that make it viable?

Mr Hart: I would have to say that I would think that the loss for an independent company would probably be a good deal north of £900,000. That was only the case...£900,000...back then. If you really went and allocated it out completely it was probably more than that, but we had the general... We had the Guernsey-Jersey route, so the aeroplanes had good frequency. We could use Guernsey-Jersey, then up to Dinard and Guernsey onward. If you had just been serving Alderney-Southampton and Alderney-Guernsey, I think the loss would be materially more than £900,000. I am not party to the figures, so therefore I am talking out of turn. I am only telling you what my view is and what my gut is telling me, having been involved in it for more years than I care to think about, but I think it would be materially more than that.

The Chairman: Thank you very much. We have one last question from Deputy Paint.

Q224. Deputy Paint: What is your opinion on extending the Alderney runway?

Mr Hart: Economically unviable, probably, would be my view. I would like to see it done...I think Alderney could be in danger of almost being a St Kilda at some point, where the spiral goes down and down and down until there is nobody left. Whether an extension of the runway would materially make a difference, I do not know. Would you be able to get an ATR in there? But that is a material change of the runway. I am not even sure if the land is there. I am not sure how easy the purchase of it would be. So would the Alderney runway extension be a good thing? Yes, probably. I have my doubts as to the economics of it and what we would get in return for it.

Q225. The Chairman: Are there any comments you would like to finish with?

Mr Hart: Yes, I think just to reiterate my key points. One is on licensing: manage it well, but keep it. An island of 60,000 souls needs control over its air transport infrastructure. Everybody who thinks I am talking nonsense, point yourself towards the Isle of Man.

Secondly, tourism is hugely important for the Island and I think the more I say it to people perhaps the more it will get there, in my own small way. I think it is undervalued for the Island. I do not think that residents of the Island really get the fact that they have a whole lot of benefits in terms of being able to

travel, being able to get a job, because finance companies come here because there is a level of connectivity that without tourism simply would not be there.

590 **The Chairman:** Thank you very much indeed.

Deputy Ogier, Mr Lewis and Mr Ray were called at 3.00. p.m.

**EVIDENCE OF
Deputy Scott Ogier, Minister, Public Services Department,
Mr Adrian Lewis, Chief Officer, Public Services Department and
Mr Colin Le Ray, Airport Director**

The Chairman: Good afternoon. If you would like to introduce yourselves, then we will start.

Deputy Ogier: Scott Ogier, Minister for Public Services Department.

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Mr Lewis: Adrian Lewis, the Chief Officer of the Public Services Department.

Mr Le Ray: I am Colin Le Ray, Airport Director for Guernsey and Alderney Airports.

600 **The Chairman:** Thank you. I would now like to invite Deputy Queripel to start the questioning.

Q226. Deputy Queripel: Good afternoon, gentlemen. Do you think Guernsey Airport is currently fit for purpose; and, if the answer is no, how much of an influence can PSD actually have in making improvements?

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Deputy Ogier: Well, given the investment that we have had over the last decade, I think Guernsey Airport is extremely fit for purpose. It has been rebuilt in nearly every way conceivable with new runways, new RESAs and a new airport terminal. I think it is the most fit-for-purpose set of aviation receptacle facilities that we have had on the Island ever.

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Q227. Deputy Queripel: So what are your views on extending the runway?

Deputy Ogier: Extending the runway? I think the York Aviation report was clear, in that currently there is not a need to extend the runway. The current provision of services into Guernsey is quite reasonable for the runway that we have. In the future, if there is a drift towards larger aircraft with heavier payloads, it may be that we have to look at that sometime in the future, but currently the business case for an extended runway could not be made.

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Q228. Deputy Queripel: We have been told that cancelled flights are a deterrent to business. So, with that in mind, do you think there is an economic case to upgrade the instrument landing system at the airport? Also, can you tell us, please, why do you think that the system has not been upgraded to a much higher standard?

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Mr Le Ray: Well, in fact, if I can take that one, Guernsey operates at a Category I instrument landing system, which is the very lowest level. Category II improves the decision height by a margin, it is a fairly narrow margin, but Category II brings with it obligations to increase the amount of land and airspace around the airport with this sterilised form – the fact that those decision heights are taken at a much later point. The effect of sterilising land and airspace around Guernsey's perimeter means that we would invariably have to go in and spend quite a lot of money on purchasing property and realigning roads, as well as upgrading our equipment within the airfield.

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If one looks at the typical weather statistics for Guernsey over a long period, say a 30-year average, the number of hours that would be gained by a change from Category I to Category II, I think, from memory, on average is something like 42 hours in total over a year, and those 42 hours are spread over thirty-something days. So we could go ahead and spend a considerable sum of money – and I would anticipate that would be in the millions – to gain approximately 42 additional hours of flying in an average working year. So I will be hugely surprised if the economics of that would justify the expenditure.

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Q229. Deputy Queripel: Can you tell me, please, what is your understanding of the reason why easyJet did not pursue operating the Guernsey to Gatwick route?

Mr Le Ray: I will take that one as well, because I was a member of the panel who was involved in the negotiations with easyJet.

EasyJet were quite prepared to go through a route transport licence process. They had begun that process with Commerce & Employment. They had, before that, evaluated the suitability of Guernsey Airport, both in terms of its facilities and its arrangements on the ground, as to whether it could be accommodating to easyJet, and having passed those tests they then submitted a route licence application to run the Gatwick route.

The reason they withdrew, I think, related to concerns, which were flagged at a very *late* stage for easyJet, in respect of the potential for the States to look at putting a solus agreement, effectively a preferred operator, on the Gatwick route. As soon as easyJet were made aware of that, as far as they were concerned that created a degree of uncertainty for them and they decided to withdraw their route licence application.

Q230. The Chairman: You mentioned that there was 42 hours loss of time for flights to land. How many flights would that actually have affected?

Mr Le Ray: It depends when the 42 hours were in terms of the time of the day. So it would be very difficult for me to assess that, particularly as the 42 hours is a 30-year average.

Deputy Ogier: Can we talk about the migration between the various categories of the ILS?

Mr Le Ray: Yes. So, effectively, what we generally find in Guernsey is under certain weather conditions we are completely clamped. We are down to the deck, which is effectively what CAT III instrument landing systems would provide you with some resilience against.

We generally are moving from clear visibility with no restrictions to completely on the deck. The 42 hours is usually a transition between no fog and thick fog. So we don't then spend a lot of time in CAT II conditions. We spend a lot of time in CAT I and very little time, thankfully, in CAT III. We spend very little time in between, and that is partly because of our altitude and partly most of the time we are actually in cloud rather than fog. So with the cloud sitting over the top of the Island – hill fog, effectively – that narrows that window down to just being a transitional phase rather than necessarily a pattern that we sit in for a long period of time.

Q231. Deputy Queripel: Commerce & Employment are responsible for promoting and providing air links to and from the Bailiwick, but are also responsible for air route licensing. That seems to be a case of one Department having to manage conflicting roles. Could you give us your views on that, please?

Deputy Ogier: I think they handle that by Chinese walls within their Department. A certain number of political representatives sit on the route licensing panel and others do not, which enables them to continue with their dual function. I think the States Review Committee has recognised that they have a potential conflict in that area, which is why they are suggesting that the licensing be dealt with in a different way with effect from next year.

Q232. Deputy Queripel: My next question focuses on landing charges. The structure of the charges at Gatwick discourages the use of smaller aircraft because the airport wants to see more passengers carried on larger planes. Can you tell us why your landing charges are structured in the way that they are here in Guernsey, please? I ask that question because the Chamber of Commerce suggested to us that a charge be levied on each passenger carried on an aircraft.

Mr Le Ray: Okay, well, it is at the moment, so effectively we have a fixed charge and a variable charge. The fixed charge relates to the aircraft and it is based on the fully laden weight of the aircraft, so whether it is travelling with one passenger or 113 it will pay the same fixed charge. On top of that we then levy a variable charge, which is based on the number of passengers that it carries. So, typically, if we took the most common aircraft type of Guernsey, which is an ATR, that will pay something in the region of, I think, £200 for the fixed aircraft, then if it had say 70 people on board that would be about another £300, and so the total cost of landing the aircraft is £553.

The more people you put on it, the lower the rate, or the more people you can spread a fixed charge against. Equally, the fewer you carry, the more it costs per head if you are calculating it entirely on that basis. We have done various modelling from time to time to see whether we shift the balance to take more

of the risk onto the airport and to determine more of the charge on a per-passenger basis, but of course we have a high degree of fixed costs at Guernsey Airport and we have greater certainty of covering those costs if we have a fixed charge which applies on a per-aircraft basis, rather than relying too much on the variable.

We do alter the charge, I will say, for the distance of the destination. So, for example, where Alderney is concerned we would charge a lower rate than the UK rate, and that kind of recognises, to a certain degree, our obligations inter-island to facilitate travel.

Q233. The Chairman: What are you trying to deter and what are you trying to encourage?

Mr Le Ray: With that charging regime? Well, we are trying to encourage better load capacity on aircraft. It may not be obvious from that charging regime, but it is obvious when we consider some of the arrangements that we have put into place to try and facilitate new routes or to try and encourage fleet upgrades on existing routes, whereby we will take a hit on the fixed charge and maintain the variable, and that is all around trying to encourage new traffic or more traffic on existing routes.

Q234. Deputy Queripel: I have two questions on the situation in Alderney. The States of Alderney claim that there has been underinvestment in the airfield in Alderney in recent years, so my first question is: are PSD addressing that issue? My second question is: do you think there is a case to extend the runway at Alderney Airport?

Deputy Ogier: Well, what we can say Guernsey is doing with regard to Alderney is looking at what options we have and what business cases exist to refurbish the runway and pavements in Alderney to provide a modern fit-for-purpose landing surface. That is currently going through the States capital investment portfolio process, and this was as a result of the debate in December of last year. So work... whilst we continue to maintain the runway, the new runway has a fixed length of period over which it can operate. Guernsey's has reached that and so it was refurbished. Alderney is approaching the point at which it requires a resurfacing. That is the project which we are currently looking at.

As with roads and airfields and tarmac, there comes a point where you can no longer patch. If the top layer surface is wearing away in a variety of locations, then simply to patch up no longer represents the most efficient use of the limited funds available and it becomes the best option to resurface, and that is what we are looking at in this case.

Deputy Queripel: Thank you, gentlemen. I have no more questions.

Q235. The Chairman: The airport treats all airlines equally: does it have to? And if you had a free hand, what might you do differently on charging?

Mr Le Ray: Do we have to treat all airline charges in a comparative manner? My belief is yes, we do. Why do we have to do it? For me, it is an ethos, really. I do not believe that the potential ownership or the fragility of an airline, whether it be national or local, should be taken into account. We have a published tariff of charges and, for us, it is the tariff which applies.

If we have a situation arising where one particular airline is prepared to take a risk – and that risk may be associated with upgrading its aircraft to better service the Island, it might be a risk based on trying a new route, it may be a risk on trying to put in additional offers which would encourage more traffic to use the airfield – then I think PSD as a board would, with some testing of that logic, be quite prepared to perhaps burden themselves with a slightly greater element of risk than otherwise would be the case. But that principle would apply irrespective of the airline and irrespective of the ownership.

Q236. The Chairman: So would the airport welcome charter services? Would it be willing to adjust landing fees downwards to offer incentives?

Mr Lewis: On occasion the airport does vary its landing fees, depending on new routes that it wishes to facilitate. So, for example, in the past, where we can see that the possibility of taking passengers from one route is low and a new service is being implemented, we would look at our landing fees in the light of this for a fixed period to help that new route develop.

Mr Le Ray: Zurich and Stuttgart have started this summer as charter operations and they are enjoying a rebate on that basis.

Q237. The Chairman: Okay. Well, my last supplementary. Treasury & Resources sets targets for Aurigny, but your submission makes no mention of any targets that PSD sets for the airport. Who is the airport designed to serve and how is it meant to go about doing it?

Mr Lewis: While the airport is a service to the Island of Guernsey, the Public Services Department is mandated to oversee the operation of the air fare and, as such, on a monthly basis in our information packs we give out a series of information on the airport, which includes passenger numbers, profit and loss accounts, cashflow statements and so on. So we have a number of key performance indicators that we hold the airport to account to on an operational basis.

Q238. Deputy Wilkie: Good afternoon gentlemen. We understand from the Guernsey Airport Consultative Committee (GACC) that the supply of fuel at the airport has been made more complex and costly through a complicated supply chain. What are the reasons behind this and what investments are needed by PSD in aviation fuel facilities?

Mr Le Ray: I will take that one. Actually, the supply chain for Guernsey Airport is the same as the supply chain for the rest of the Island, and so many, not all but many of the supply chain logistics which apply to aviation fuel also apply to heating oil, petrol and diesel that is used within the Island, and that really is a combination of factors involving... Sometimes it is the harbour – the size of ships that we get onto the Island and the relative difficulties that those ships sometimes have in using larger refineries in the UK. So getting the fuel to the Island in the quantities it arrives and the manner it arrives certainly does create some additional logistical difficulties with the fuel companies, and therefore cost.

When it arrives on the Island, aviation fuel is then effectively wholesaled and retailed by Rubis and there is no competition on that. The whole matter of aviation fuel supply and pricing has recently been reviewed by CICRA. The results of that review are online, but in essence CICRA has found that it has not discovered any anti-competitive behaviour on the part of Rubis in supplying the fuel chain. It has made a few recommendations in manners in which the retailing could be made potentially less costly, but that would include some fairly major service cuts as far as the airport was concerned. So, for example, aviation fuel may be limited to nine to five, seven days a week, rather than at the moment from six thirty until nine, day to day, but we are only talking pence per litre. There is not a significant nugget that would result in much cheaper fuel.

The perception, I think, is created by the fact that aviation fuel in Guernsey was always a lot cheaper than it is now when compared to the UK. We are now, in most cases, about the same price as the UK. The problem is that it used to be a lot cheaper, and that was around the previous owner of the aviation fuel supply company taking perhaps a more holistic view to its overheads because it was part of a multi-national organisation, rather than necessarily a single Island-based profit centre.

Q239. Deputy Wilkie: Okay. Why does PSD identify Commerce & Employment as the Department to lead on an overarching strategy for air links? What role should Policy Council and the External Transport Group play?

Deputy Ogier: The External Transport Group is a group of politicians and staff made up of both Public Services Department and Commerce & Employment. It exists in order to help formulate policy in limited areas, which will feed back to both Departments, so ultimately there are no decision-making powers. Any recommendations that come from External Transport would have to be fed back to both Departments.

Commerce & Employment is mandated for policy development in this area and the Public Services Department is not; therefore ... *[Inaudible]*

Mr Lewis: I think it is correct that the mandate of the Commerce & Employment Department defines it as responsible for external transport links; therefore it takes the lead on that one. But, clearly, the connection with Public Services is that they could go out and find or persuade 10 new airlines to come to Guernsey, and they get here and the airport physically cannot cope with them. So the view is that the two have to work in partnership. But the External Transport Group, effectively two sub committees of the States, the PSD Sub Committee and the Commerce & Employment Department, are having to meet together and it works very effectively, but the PSD's view, or mandate, in relation to external transport links is very limited. It really rests with the Commerce & Employment Department.

Q240. Deputy Wilkie: Does the proposed governance restructuring of the States offer more opportunity for a more co-ordinated policy for air links?

Deputy Ogier: I am not sure that is exactly clear yet. I think one of the pieces of work we are doing is understanding whether the bringing together of an airline and an airport under one States Committee represents a conflict of interest or represents great opportunity for Guernsey. I am hoping it represents great opportunity for Guernsey, but then we are early days and we do not yet know what will ultimately be passed with regard to those recommendations, but at this early stage we are working hard to understand what opportunities exist.

Q241. The Chairman: Who is proposing that now? What you just referred to, coming together and working out whether it should be a good policy or not. Who is actually driving that?

Deputy Ogier: The States Review Committee brought forward their proposals, which include bringing together a new States Trading Board which will have shareholder responsibility. They would take over the shareholder responsibility from the Treasury & Resources Sub Committee under the new Trading Board, but would also be responsible for the oversight of Guernsey Airport at the same time.

So, where currently there exists a situation where the Sub Committee of Treasury & Resources holds the shareholder or executes the shareholder responsibility in that Department on behalf of the States, and the Public Services Department maintain and run the airport, if the States Review Committee proposals go through, those two entities would be together under the same umbrella. We are not yet sure how that would work. I personally think it holds great opportunities for Guernsey, which have to be carefully managed with Aurigny.

You may want to look at the purpose of Aurigny in a strategically different way, and it may well turn out as an enabler for Guernsey, whereas currently it works hard to maintain its lifeline links only.

Q242. Deputy Wilkie: It appears your submission says that route development policy failed for lack of adequate funding. So how much more funding would have been needed for it to succeed? What do you make of Jersey's experience of investing in new development?

Mr Le Ray: We went through quite a detailed piece of work with some external route network specialists – certainly before the last Election, so I guess in 2002 – and we had a sum of money which was earmarked for redevelopment opportunities; it was a six-figure sum. We were working very closely with a number of airlines, both existing airlines in Guernsey but also potential new operators, to look at a few options.

The key message we got back was that the sum that we had set aside would not be sufficient, nor would it be sufficient over a long enough period of time, and bearing in mind this was the best part of 12 years ago, I think the view was that we would need a minimum of £2 million to £3 million over three years to develop a route that was of sufficient frequency and of sufficient interest to become sustainable in the third year of operation – largely self-sustaining in the third year of operation.

That said, we did try Paris, under a limited scheme with Flybe, and that lasted probably one season, from April to October, before eventually Flybe pulled it because their view was that they could use the aircraft on other routes more profitably.

So my own view, in terms of quantum, is I think it would be several millions of pounds over several years. The challenge – and hopefully we captured this in our submission – is that we have to be very careful about doing this that you do not then dilute other routes, and that was borne out in some of the testimony you have heard this afternoon. The risk is that in promoting a new route you dilute the services on other existing routes and that overall your headcount does not increase.

Jersey had quite an experience of this. If you look back to I think the two or three years from 2011 to 2014, they invested a considerable sum of money on route development that did nothing to their numbers. In fact, we spent very little and we fared better over that period, in term of passenger numbers, than Jersey did. So you have to be very careful that you are targeting your route development funds in an appropriate manner that generates additional traffic and it just simply does not dilute other routes.

Q243. Deputy Wilkie: Yes, leading on to that, you describe in your submission the passenger transport market for Guernsey as 'fixed', but what are the variables and what could be changed to increase the size of the market in Guernsey?

Mr Le Ray: The variables are the residents' propensity to travel. I think on the Tourism Strategy and the air route strategy we are dealing with numbers of about 6.7 for residents' travel journeys per year, and the probability is that if you were to lower fares you would encourage people to travel more often – certainly

residents. So there is a correlation between profits, reductions in fares on the part of airlines, and our general propensity to travel.

The other factor is visitor numbers, and visitor numbers in terms of generating additional new traffic, either through charter operations or through scheduled services at the peak months. The challenge with that, of course, then knocks on to bed nights and is there sufficient accommodation on the Island, and certainly the development in the shoulder months is one area which I know the Air Route Strategy is going to seek to develop. So can we extend the season beyond June to September in order to fill the vacant bed nights that exist either side of that in an effort to drive up the numbers still further?

Q244. Deputy Wilkie: You have mentioned there that the new routes largely take passengers from existing routes. Where are the opportunities for real route growth?

Mr Le Ray: Well, the current Air Route Strategy that we are developing as part of the External Transport Groups identified through resident surveys the number of potential opportunities. They could be north of the border, and I know that that is not fully explored yet. Dublin is another opportunity and certain routes into Europe have been identified. They are all long sectors, so there are challenges and costs involved in travelling to those sectors at the moment through Gatwick, or by road or by rail, which are – or by catching another flight – your logical way of getting to those destinations. So the idea of a direct service is something which has some attractions to residents – not necessarily that it will cost less, although it probably should be theory, but actually so that the connection times are greatly improved. There are connections through Dublin, of course, to America for business travel. There are some links, I understand, in the finance industry between Guernsey and Ireland as well and a level of travel through Gatwick already between Guernsey and Dublin. So some of these factors begin to play in.

The other element of it is to then use tour operators in Dublin, or north of the border or in Europe to generate resident travel in the other direction, so to try and get the route to stand the greatest chance of success is about trying to develop markets at both ends, i.e. for residents' travel as well as business travel.

Q245. Deputy Wilkie: Do you think that Aurigny's London City route has simply taken passengers from the Gatwick route?

Mr Le Ray: If you bear with me for 10 seconds, I can give you some facts on that. There is some evidence to suggest that the number of passenger movements on London City is similar to a decrease on Southampton and on Gatwick. It is early days, because we have only just had a full 12-month run with no Flybe on Gatwick, but there is some suggestion that there is some migration across, which is not a surprise.

Q246. Deputy Wilkie: What is PSD's view on adopting an open skies policy?

Deputy Ogier: As an Island jurisdiction we are extremely dependent on our external links, and the possibility of cherry-picking routes in the air as well as on sea exists and could well damage the year-round service. So PSD's position on open skies is that at this stage we do not think that with a small island community it would necessarily result in the benefits that could be achieved in other jurisdictions.

Q247. Deputy Wilkie: What would be wrong with an approach that specifies strategic or lifeline routes but allowed open skies for the rest?

Mr Le Ray: What would be wrong with that? I guess there is an inference that the strategic routes would be subsidised in some way and therefore that the cost of air fares to those strategic routes would probably be lower. I think that would put a dampener on anybody else trying to operate routes other than those, because it is effectively an unfair playing field. I think you would struggle to get passengers to pay more to fly direct.

Deputy Wilkie: Thank you. That is all from me.

Q248. The Chairman: Would you like to make a final statement?

Deputy Ogier: I would. PSD is very grateful for the opportunity to present its thoughts on the future strategy to you today. As an Island community, I am sure, like me, you will be acutely aware that we are highly dependent on our air links for business, leisure, cargo and medical transportation, as well as for social wellbeing.

The current air route network provides visitors, residents and businesses alike with year-round connectivity to a wide range of destinations. In our view, the air transport licence regime endeavours to

protect what the Island currently takes for granted in terms of year-round connectivity to a wide number of destinations for a resident population of only 60,000.

Where opportunities exist, we facilitate and nurture an environment in which new air links can develop without destabilising existing services; but there are essentially tensions of sustainability, competition and connectivity.

This review of the air route strategy has to take into account often competing demands of stakeholder engagement, given the wide and varied interest on air routes both within the States and outside. This, in turn, reflects Government's often competing considerations in owning an airline, running the airport, managing the route licensing policy and encouraging the visitor economy and business connectivity to the Island.

The place of open skies, the ownership arrangements of the airport and Aurigny and the economic sustainability of these as an enabler of the local economy, as well as lower air fares, are all worthwhile considerations. The Department believes that a reasonable outcome will be a balance of a combination of issues, rather than what we see as the potentially more nuclear option, such as moving to complete open skies with the inherent risks such a move would carry for the Island's year-round connectivity.

However, the Department does wish you every success in scrutinising and analysing how these can best be balanced.

Thank you.

The Chairman: Thank you very much indeed.

The Committee adjourned at 3.35p.m. and resumed its sitting at 3.50 p.m.

Deputy Stewart and Mr Moriarty were called at 3.50 p.m.

EVIDENCE OF

**Deputy Kevin Stewart, Minister, Commerce & Employment Department
and Mr Jason Moriarty, Chief Officer, Commerce & Employment Department**

The Chairman: We have now come to our penultimate session today, and we are going to hear from members of the Commerce & Employment Department.

Welcome. Please introduce yourselves, and then we will start.

Deputy Stewart: Deputy Kevin Stewart, Minister for Commerce & Employment.

Mr Moriarty: Jason Moriarty, Chief Officer, Commerce & Employment.

The Chairman: Deputy Paint.

Q249. Deputy Paint: Good afternoon, gentlemen.

For an island the size of Guernsey and the size of its population, many would consider that we are well served by our air links. What is your view?

Deputy Stewart: I would tend to agree with you. However, as I always used to say in business, the room for improvement is the biggest room in the world. That is why Commerce & Employment is undertaking a piece of work at the moment. We are looking at the air links, working very closely with industry, to see what opportunities there might be both in business and for leisure visitors and for Islanders themselves, and that piece of work that we are undertaking at the moment should be completed towards the autumn.

Q250. Deputy Paint: Would you consider that public expectation in some areas is too high?

Deputy Stewart: I imagine with all industries that serve the public that is very often the case. I think when you are a public-facing business it is always very difficult, particularly at times of peak demand, and for airlines – for example, at times of half-terms and peak holidays – you cannot resource it with both capital or human resource for the peaks. So, inevitably, at times you often hear it said – for example, half-term, where there is high demand for flights – that often the fares may be slightly higher than people want to pay because of that increased demand, or there may not be the availability. But I think that is the case not

only with airlines but with all public-facing businesses. If you have to really work to what is your general level of demand, it is very difficult to cope with those peaks.

Q251. Deputy Paint: Thank you. Did Commerce & Employment consult with the Public Services Department, T&R and the airlines on the new Tourism Strategy?

Deputy Stewart: I did not put the Tourism Strategy together, but I can probably bring in my Chief Officer to better answer that.

Mr Moriarty: Yes, certainly if you look at the Tourism Strategy it sets out that one of the key deliverables is to increase the number of visitors by 2025. I think certainly what the strategy does is it sets out the intention at a strategic level and sets out that that has been a key aim of the Tourism Strategy under the wider Economic Development Strategy. If you look at the economic development framework, then strategic and security of aviation links, in terms of all transportation links to the Island, is of crucial importance. So the detail of what those links would be... obviously the ETG and the work between PSD and C&E is paramount, and indeed any potential approach to T&R over the Economic Development Fund... if it felt that there was a route that would warrant that level of investment, where it could show an economic return, those consultations would take place in due course. That would come as a result of the detailed recommendations that come out of the strategy, of which tourism is an integral part.

Deputy Paint: So what you are actually saying is there have not been consultations yet, but there will be.

Mr Moriarty: Yes.

Deputy Stewart: I think what I would like to add to that is that, when you have a high-level piece of strategy like that, those consultations going forward as you put a strategy in place are always there at an informal level anyway. So, for example, I – and I probably shouldn't, really, but I tend to share an awful lot with the Treasury & Resources Minister when these things are being put together, because I like to read the road ahead. An example of that was when we were putting together the whole economic development framework. I kept the T&R Minister fully briefed so that I then would not have to wait another year for him to read the strategy and then put something in his Budget and have to wait eight months just because I had not kept him in the loop.

I think that within the States of Guernsey people always seem to think there are very formal mechanisms, and yes there are, but what we should not forget is there are a lot of informal mechanisms, and I have a very good relationship with Deputy Ogier and with Deputy St Pier, so I think whilst these things are in place they are discussed, certainly at Minister level and with some members of the Board.

Q252. Deputy Paint: Thank you. What will be, in your opinion, the main challenges facing the Tourism Strategy action plan, with regard to airlines?

Deputy Stewart: I think it is more about opportunities, and that is what we are looking at at the moment. We have earmarked some potential targets for development both within the UK and in Europe, we have seen the development of our charter routes this year, and I think it is about looking at those opportunities.

I think certainly some of the difficulties are... if you start to open up one route, could that then impinge on already established routes? These are all the things we have to be cognisant of. If we were to subsidise or give some sort of benefit to a new route, what could be the market impact on a nearby airport where we have... or an airport within the same region perhaps? That piece of work is being done at the moment and we have already identified several targets, both within the UK and within Europe as well.

Jason, I do not know whether you could add to that, really.

Mr Moriarty: In terms of the Tourism Strategy, I think it is important to say that when you are looking at the potential for new routes, and also looking at the security and the delivery of existing services, you have to take the tourism and the aims of objectives of that increase and you have to put it alongside your resident population who travel, which makes up 53% of our travel, and also your business travel, which obviously is resident and inbound. Because of the size of our resident population, the three different aspects need to be taken together to look at what is viable in terms of potential new opportunities. So, if you look at tourism, you can look at where the demographics are, where your catchments are, where would be the best places for potential routes, but that in itself will not be sufficient. You need to look at resident behaviour and also the behaviour of sea as well as air, to look at the demographics and forward predictions around

population to see whether there is going to be an increase. All of those different aspects have to be taken in the round in order to see what will potentially be viable in terms of growth.

Q253. Deputy Paint: Turning to Aurigny's codeshare and branding, we have heard that Aurigny is lacking in both. What is your opinion on this matter?

Deputy Stewart: This is with the code-share with Blue Islands to Jersey?

Deputy Paint: Yes.

Deputy Stewart: I think it is fair to say that both the C&E Board and the External Transport Group are not particularly happy with how that appears to be working, and there needs to be more work done around that.

There are several types of code-sharing, and this is not perhaps code sharing as most people would understand it. Effectively, what we have got are two disparate booking systems that do not talk to each other, that are sharing a plane. So, particularly for larger groups, what you are looking at is... You may find that you can get four people booked on Blue Island and then it comes up full, and some people, particularly if you are off Island, may not be aware – if you are a sporting group doing both islands, coming from the UK – that you then might have to go to the Aurigny site.

So it is, I think, generally felt that it is extremely clunky and generally felt that is not particularly working that well, and that is something that we are working on at ETG and have raised with both the airlines. Certainly what would be an improvement is that at least if there was one single booking system it would make it a lot easier.

Mr Moriarty: One of the reasons was around CICRA and looking at competition issues. You have got two competing airlines and that was one of the main reasons to ensure that there is still competition on the route, albeit that they share the aircraft and with a number of seat allocations for both.

I think, as the Minister says, those discussions have taken place and we understand that, looking at the frequency and looking at volumes, there is capacity in the midday flights and it is something at certain times of the day either side where you will find that those flights are full, making it more difficult to find some tickets to go in either direction for business or for leisure travel.

We have been told, with sufficient notice, that the airlines will consider and be able to potentially put on additional flights for special events or group bookings, but in the main you do realise that this does cause pinch points during the year that were not there before, and this is being reviewed as part of the ETG's work.

Q254. The Chairman: When the Aurigny representatives appeared before the panel they said that they thought it uneconomic for Aurigny to enter into interlining arrangements with other carriers for the purpose of, say, checking baggage through to the final destination.

Your Department is responsible for the economic development of the Island, as you have mentioned a couple of times now: do you think these matters should be decided by Aurigny alone?

Deputy Stewart: That is their commercial viewpoint. I think perhaps, the way that we now book our travel and the way that airports are changing, interlining arrangements are less important. You will actually find that, for example, if you were to book easyJet, they do not actually interline with themselves. Certainly I looked to go from Jersey to the UK and then fly with easyJet from the UK onto I think it was Spain – they do not interline with themselves.

The issues around interlining... For example, Gatwick now has Gatwick Connect, which I have used and is extremely good: you just plonk your bag and go through. The other issue with interlining is really around Airline Passenger Duty (APD), which I will be pursuing with the current Government.

This is where Guernsey is losing about £3½ million to £4 million a year to HMRC through Airline Passenger Duty that we cannot reclaim and have no way of getting back, even though we have fulfilled the requirements of the Finance Act 1994 and its amendments. We have been in discussions now with HMRC, who have successfully kicked the can down the road, but we are still pursuing it and we will pursue it more vigorously with the new government, because if you fulfil a federal requirement of not staying in the UK for more than 24 hours, you should not be due to pay the APD. So, for two adults going to America, flying economy, that would be in the region of just over £150 that we would pay to HMRC, which technically under the law is not due. So that is an important point with interlining and something that I am pursuing extremely vigorously.

1115 The other thing about interlining is that it is a question of... what I have heard from Aurigny is if there is fog here in Guernsey, and that is outside of their control but someone, say, has booked two business-class tickets to Sydney and missed that connection to Sydney, then they may be liable to pick up that for actually what is not a very big fare. However –

Q255. The Chairman: Can't they insure for that?

1120 **Deputy Stewart:** Well, they have said it is too expensive. I think one of the reasons why we have not pursued that more vigorously is because of the way that people tend to now book themselves online. One of the things, actually, that does frustrate me a little bit about Aurigny is their website is not mobile enabled, so if you try and book a ticket on your iPad or mobile phone it is nigh-on impossible.

1125 I think the interlining is much more important from an Airline Passenger Duty point of view; that is where there is a real saving for passengers, both incoming and for our own citizens, and that is where we are losing a huge amount of money.

1130 **Q256. Deputy Paint:** Commerce & Employment has stopped providing financial subsidies to encourage air route development. Would Commerce & Employment revisit that business decision?

1135 **Deputy Stewart:** We are revisiting that. We are looking at whether there is potential to pump prime new routes, but again I think we have to be very careful that what we do not do is just damage an existing route, but we are looking at that. There are actually now the funds available through the Economic Development Fund and we have made it known to Treasury that we may well want to use some of that money to help with some new route development. So the answer to that is yes.

1140 **Mr Moriarty:** If I could just add to that, from the money that that would... the approach that would be from the Economic Development Fund it has been made very clear that the business case would have to be extremely robust to show how that could generate additional incomes into the Island, albeit from existing or new business relationships, through inbound tourism, to show how that growth would take place. So it would not be necessarily from additional marketing. We would have to have a very clear case as to, in addition to the routes that are already serving Guernsey, how this would add considerable value from an economic development perspective.

1150 **Q257. The Chairman:** Could something be done by Commerce & Employment in the way of airline fares to perhaps include an amount which would cover a reciprocal health agreement? Would that market be deemed to attract additional people travelling to the Island?

1155 **Deputy Stewart:** I very much doubt it. My personal opinion – it is not a Board opinion, because this is not something that has been discussed by the Commerce & Employment Board – is that for anyone who does not travel with proper travel insurance it is not a very sensible thing to do, and, to be honest, travel insurance is relatively inexpensive. My personal opinion is... it is not the Board's, but I think half a million pounds could be probably spent in a much better way, and I very rarely come across tourists who have said, 'We're not visiting the Island because you haven't got a reciprocal health agreement.'

1160 **Mr Moriarty:** Certainly from the Department point of view, we researched this some time ago when the Island no longer had a reciprocal health agreement, and there were a negligible number of approaches to the Department. The tour operators did not report any adverse comments from visitors and, as the Minister says, when you look at the cost... what we were advised was that whilst other destinations of the Crown Dependencies at the time did still have some sort of reciprocal health agreement it was always advised that those passengers who were travelling to the Island on vacation or business had travel insurance in addition, because it simply does not cover all aspects of health treatment, should it be needed.

1165 **Deputy Stewart:** Repatriation being one of them.

Q258. Deputy Paint: How does Commerce & Employment respond to Charles Parkinson's suggestion about an approach applying time-limited, performance-focused route subsidies?

Deputy Stewart: It is not something I am really aware of, and I would have to look at those proposals before really commenting, but it sounds like something that would be quite clunky to manage.

Deputy Paint: Yes.

Mr Moriarty: I think immediately I feel that you can have visitors to the Island, who may be high-end visitors who are staying for two nights and just would stay... and are spending a considerable amount of money on eating and dining and their accommodation, and possibly buying gifts or retail on Island. So actually you could have others who would seven or 14 days, who would be on a minimal budget for that period of time. So I think that, as the Minister says, it would be very difficult to calculate how you would subsidise and rationalise that, but I do not necessarily think that people's behaviour is working that way.

Deputy Stewart: It is certainly something that he has not made me, as Minister, aware of, and I certainly have not had any correspondence on that.

Q259. Deputy Paint: I think he actually mentioned it when he came to address this Committee. Can Guernsey learn from Jersey's experience with air route subsidies?

Deputy Stewart: Often we are compared to Jersey, but I think you are comparing apples with pears. We are 63,500 people, and Jersey is over 100,000. It is a very different market; it is a lot more critical mass. I think what we are looking at, with the review that we are doing now and the previous work that we have done is really what is appropriate for Guernsey. I think what is hugely important is ensuring that whatever we have in place is sustainable, and it is that long-term sustainability in the air routes which is one of the key areas of focus.

The Chairman: Deputy Wilkie, as People's Champion for Disability, would like to ask you an additional question.

Q260. Deputy Wilkie: Yes, we were just talking about the reciprocal health agreement before. I can see it is the Commerce & Employment view that maybe it would not be commercially viable to bring it back in, but what about the Islanders who are disabled and cannot get insurance, and those in the UK who cannot get insurance to travel between the islands, bearing in mind that Guernsey and the UK have quite strong links?

Deputy Stewart: I actually have not had any representations, or as a Board I cannot remember having any representations or any evidence of figures of the numbers of people that might actually fall into that category, but certainly we would listen if those were presented to us.

Mr Moriarty: It certainly has not been something that has been presented to me. If you are looking at where insurance has been an issue it tended to be with the elderly, who would perhaps go over a certain age where they would find it difficult to purchase mainstream insurance online at a reasonable cost, where the cost sometimes escalates slightly. But again, the cases that were actually reported were few and far between and it was not deemed to be an issue to the extent which would warrant the levels of investment that we are talking about to reinstate the reciprocal health agreement.

Q261. Deputy Paint: Commerce & Employment lobbied for the development of the London City link. Has the slow uptake of this service led you to reassess the importance you attached to the claims by local businessmen that there was significant demand for this new route?

Deputy Stewart: We spoke to all of the airlines as ETG earlier this year, and at the time that was one of my questions, Deputy Paint, to Aurigny. Their reply to me, if I remember it correctly, was that they were at that time at about 30%, something around that, but they said it was on target to what they expected. I think what I would say to business is it is like anything else – you use it or lose it. I think some of the feedback has been around timings and I think that I have encouraged... *[Inaudible]* to feed into Aurigny, and it is really... I think that, at the moment, I have not heard anything to the contrary, but hopefully when we next speak to Aurigny we will understand whether they are still on target with their business plan. But it does take quite a while to build up capacity on a route.

Mr Moriarty: I think certainly when we did the air route survey last year there were already plans by that point to implement the London City route, which was excellent news. London City was highlighted by the business community as a crucial development. I think it is excellent for the business of the Island, the financial services and wider. If you look at London City in collaboration with the other London connectivity that we do have, I think it is enviable for a jurisdiction the size of us from a business perspective and I think it is a great asset to our Island business.

Q262. The Chairman: Just in regard to what you said about ‘using it or losing it’, Mr Hart told the panel that ‘using it’ was at the expense of the Gatwick and Southampton routes as there seemed to have been a dip in the Southampton passenger figures. Any comment?

Deputy Stewart: I think it is probably too early to say. I do not know whether there is evidence to support that.

Certainly Gatwick is the most important route. I think one of the things that we must recognise is the fact that we own not the airline but those slots. It is the most important piece of route security that we have and is extremely... I know that other jurisdictions envy that, because over the next 10 years the pressure on those southern airports, Gatwick and Heathrow, is going to be massive. The Davis Report still has not been yet published. It is due to be published now, but then the government will have to make a decision whether it is Gatwick or Heathrow. Even so, there will not be a spade in the ground before 2025, from my understanding of meetings with both Heathrow and Gatwick. The ETG have met with both of those – Gatwick on several occasions; and Heathrow, we spent a day there discussing it.

Heathrow is already full. The only way to get another slot is to buy an airline or hope someone pulls out and you are first in the queue. Gatwick is pretty much full. Unless you want a slot at three o’clock in the afternoon in the winter, Gatwick is pretty much full as well. Airlines over the next 10 years operating out of those airports *could* decide to move from one route to a more profitable route because they have nothing else to do, so the fact that we own our slots is something that should give both the public and the business community a huge amount of confidence, because they cannot be taken away. If it was an airline that was serving us, they may well choose not to fly to Guernsey and use that slot to fly a new Airbus 380 to Nanjing, because the slot fits anything. So I think that is a huge advantage that we have over jurisdictions, that security.

Q263. The Chairman: Are you happy that Aurigny stays in States ownership in perpetuity?

Deputy Stewart: My personal view is – the view of the Board and I am certainly sure it is of ETG – with the pressure cooker that you have now in the south of England on slots, owning our own airline, being able to control that lifeline link, the most preferred route for business and tourism and our own citizens into London, is a real feather in Guernsey’s cap. I think if I were sitting here as Minister of Commerce & Employment and I had another airline flying in and out of Gatwick, knowing what I do know about the pressure on those routes, I would be extremely nervous because I would be scared that one morning, maybe two years down the road or three years down the road, I could get a call from that airline saying, ‘Ever so sorry, but from next week we are not flying to you,’ or ‘We’re reducing our rotations by half because, actually, the only way we can get a slot out of Gatwick now is to take this one, and that’s the only way we can open up our new Middle East route.’ So security is everything for us as an Island.

Mr Moriarty: Can I just say that I think it is an asset. I think it is around the visibility and ensuring that we are marketing the right places. I think as well what is important, as well as having Aurigny, choice, affordability of other airlines and it is about encouraging that and to look at new opportunities within all the airlines that support the Islands. But I would agree – I think having Aurigny, at a time when the aviation market continually changes at a fast rate, - Aurigny is a constant for the Island, which I think is a good thing.

Q264. Deputy Sherbourne: Good afternoon, gentlemen. The responsibilities for air links are shared between three government departments. Deputy Stewart mentioned that he had got a jolly good relationship with the Ministers. That is great, but are there problems that arise from those devolved responsibilities? Do you see any problems? Can you give us any examples?

Deputy Stewart: A lot of work is done at officer level, so it is probably helpful if Jason responds initially to that.

Mr Moriarty: Yes, I think if we take responsibilities for air route development and the security of aviation links, I think that the close working relationship that we have with PSD works well. I think that it is extremely important that if you enter into negotiations or discussions with either route potential from existing carriers or from new carriers you have to work very closely and you have to work around that, because the airport could potentially offer route concessions or opportunities for holiday periods, for landing fees or for new entrants from routes that have not previously been covered. Whereas from Commerce & Employment Department we will have the evidence around the Tourism Strategy and being able to sell Guernsey as a wider business destination. So actually I think it can work in merit, and as long as you have got the two working together to develop a sort of business proposition it works really well.

I think we have to work much more vigilantly to ensure that the governance is appropriate and that no conflict is around the air route licensing panel and the work that we do. Obviously, that priority sits with Commerce & Employment. We believe that we manage that appropriately. We have written to the States Review Committee and have done so a while ago, as a Board, and the Board asked for that to be directed to say that we believe that having both under the mandate was not the way forward for any future machinery of government. But again, we have managed that. The decision-making around the air route links licensing panel is done at arm's length from the Commerce & Employment Board. In this instance, neither the Minister nor myself would ever see any correspondence with regard to air route licensing. It would only be those political Members who sit on air route licensing and one secretary who works for that Board, who then governs that process with the applications and any representation that is made. So we do manage it effectively. Occasionally it has been challenging. We have taken advice to make sure that the governance is followed, and I think that is probably where that has been food for thought that we have needed to ensure that we follow the process appropriately.

Q265. Deputy Sherbourne: Can I say that in your submission, which was extremely thorough and a really good read, very interesting as a layman, you did make quite a point about that conflict. I was not previously aware, but I believe the States had actually made arrangements, or agreed that that aspect of your work was to be transferred to the Office of Utility Regulation (OUR), but there was not the funding available for that to happen, so we are still in limbo as far as that is concerned. How do you feel, politically, about that?

Deputy Stewart: Yes, that was back in, I think, 2009 or 2010, if my memory serves me well. Basically, I agree because, obviously, with the submissions we have made to the States Review Committee. My Chief Officer and I were discussing it before we came in, because actually, on air route licensing we can only answer top-level questions because I could not even tell you what day they meet or when they last met.

I think when we asked the airlines about it they were fairly 'vanilla' in their responses, to be honest, neither one way nor the other, but to be fair, standing from the outside looking in it is kind of air route licensing light. I do not believe anything has been turned down in the last three or four years, and I think probably we are looking at that now as part of our review in what is appropriate and what suggestions we can make. But certainly I do not think licensing should sit with the Department that is promoting new routes. I do not think that is sensible.

Q266. The Chairman: If I may interject, you mentioned avoiding conflict. Would placing both Aurigny and the airport under the new Trading Supervisory Board create a potential conflict?

Deputy Stewart: Possibly it could.

Mr Moriarty: I find it quite difficult to answer it in any great detail without knowing the structure and the governance around how that trading entity would work, but I think on a day-to-day basis Aurigny would be run as a separate company and you would only have your shareholder to give overall strategic shareholding direction, so I do not imagine that conflict would occur, but it would be down to how that was set up.

Deputy Stewart: It is how the governance was put in place.

Q267. Deputy Sherbourne: The External Transport Group is a forum basically, no more. Should it be?

Deputy Stewart: You say it is a forum, no more. It is expedient, and I think it is one of those committees that actually really helps joined-up government and it helps decisions to be made in a much more timely fashion.

Trying to get joint Board meetings – and we have done this before with SSD and T&R and other Boards during this term – is hugely difficult, given people’s diaries. What we can do with ETG is basically have Ministers, Commerce & Employment – at the moment it is both Deputy Ministers – and then whatever officers are appropriate for the context of that Board. We can get a fairly good steer on what would be acceptable by both the C&E and the PSD Boards, so actually I do not think there is anything that we have decided on or recommended to the PSD Board or the C&E Board of a policy or strategic nature which has been rejected. So I actually think it is one of those groups, forums, whatever you want to call it, that actually helps grease the wheels of government and enables meetings to take place in a much more focussed fashion. We report back to our Boards. Both the C&E and PSD Boards, as far as I am aware, think that it works particularly well, and trying to get diaries for four Boards... sometimes we have been looking at months ahead. I know: we have tried it before.

Q268. Deputy Sherbourne: Ok, so you are happy with it, but at the moment any joint decision-making that goes on in ETG is not binding on the individual Departments – not at the moment. You have explained that you take the suggestions back and then talk to your Boards about it. Isn’t there some mileage in giving it more teeth so that it is binding on Departments to work to similar policies?

Deputy Stewart: No. I think you are looking for a problem where there isn’t one. Normally what happens after an ETG, particularly on an urgent matter, is that that would be brought to the next Board of either PSD or C&E, which is never more than a week away, or could be circulated by e-mail on a particularly urgent matter, and Members could then be briefed individually by their Minister as well, should it be particularly urgent. So I do not think that to constitute something with a lot of teeth and to go through all that process and to give it some sort of mandate... The Boards have their own mandates. What they do is they send key members to the ETG to weigh up the evidence, look at things and report back. A lot of the time it is just reporting back on quite routine matters. From time to time we do have to deal with some much more urgent and pressing issues, but it is one of those committees or forums that I can say in this term I think has been one of the most effective, and I think most members of ETG would agree with that and the Boards.

Q269. Deputy Sherbourne: Thank you very much. I mentioned the excellent quality of the submission, but there was one omission that stood out, which was that you made no mention at all of potentially extending the runway. Can you just talk us through the reasons why it was left out of the submission or your current thinking on it?

Deputy Stewart: It is a matter of record that, right at the beginning of this term – I believe it was June or July, around that time – this Commerce & Employment Board did write to PSD to suggest that, whilst Lagan had their infrastructure in place, it may well be prudent to lay the foundations for extending the runway at least.

I think that is part of this review we are looking at, in terms of the type of aircraft that can utilise our runway at the moment and the aircraft which it excludes fully loaded – so that is the caveat – and what may be economical. So that is a piece of work that we are now doing, and certainly I know GIBA and a lot of other organisations have views on that, so part of our review, which will be out in the autumn, will be looking at the appropriateness of the runway.

Q270. Deputy Sherbourne: And the electronic equipment, the CAT II, is there a possibility –

Deputy Stewart: The Instrument Landing System (ILS)?

Deputy Sherbourne: Yes.

Deputy Stewart: Yes, that as well has been mentioned.

Q271. Deputy Sherbourne: How about Alderney and your discussions as a Board with regard to the possibility of extending the runway there, refurbishing it or providing an alternative north to south?

Deputy Stewart: Probably that sits much more within... We are advising as Commerce & Employment on Alderney’s economic development programme. Our only real involvement so far has been a piece of work that was delegated to us by Policy Council, which was to look around what should be in place in terms contractually for an airline, whether that should be the status quo, whether that should be a memorandum of understanding with a service level agreement or a public service obligation. My Board was

unanimous and we wrote to Policy Council, who I think, from memory, were unanimous around PSO, as were the Alderney Liaison Group, because I think with the PSO it is a contractually, legally binding agreement which will give certainty to the residents of Alderney.

In terms of what the appropriateness is or is not of the current runway infrastructure that is part of a wider question for Alderney and PSD.

Mr Moriarty: If I can just add to that, certainly from an officer perspective I am advised that work has primarily been done by the Airport Director with PSD around the technical aspects of what that would mean around the approaches and what would be the purpose of the various options.

The only other piece of work that we have been involved in is a commissioned piece of work with Frontier Economics to look at the role, the importance of the runway within economic development for Alderney. So basically the recommendations and the outcomes of that report were that of course the runway and that air transportation and connectivity is important, but equally it needs to be backed up with robust and great ideas to help develop the economy.

Q272. Deputy Sherbourne: Thank you. Your submission gives a definition of strategic links. Why don't you list them and limit maybe route licensing to those solely, rather than to every UK airport? It is paragraph 4.1 of the submission.

Deputy Stewart: 4.1, thanks, that is helpful.

Mr Moriarty: Can you repeat the question in relation to the air route licensing panel for me, please?

Deputy Sherbourne: Yes, certainly. You have published the definition of strategic air links. Why don't you list the strategically important airports and limit the route licensing to them rather than the blanket route licensing that we have at the moment? In other words, is there a need for blanket route licensing? Could there be an open skies policy for some routes?

Mr Moriarty: I guess the definition that we have gone for is really defining in terms of the criteria that we would look at, the strategic role we were looking at to regional versus national airports. I think that one of the discussions that... something at political level, if you are looking at what defines that strategic connectivity will be whether looking towards the future air route licensing potentially should only be on some of the more marginal routes rather than on what would be the primary routes, and, as the Minister mentioned before, looking at a lighter touch where there is competition or there is greater vulnerability on some of those routes and whereby what we would term 'cherry picking' in the shoulder months would not be a good thing to ensure year-round sustainability of that route, which is *really* important.

So it may be that that may be a way to go. It really depends on the analysis of where, but it is a consideration looking at it as a two-tier or three-tier approach rather than a blanket approach.

Q273. Deputy Sherbourne: Thank you. Are you aware of the reasons for easyJet's decision not to operate from Guernsey?

Deputy Stewart: Actually, I am not, really, (*Laughter*) but you were part of the discussions, weren't you?

Mr Moriarty: Yes, just for the Scrutiny Committee I think it is important to reiterate here that the Commerce & Employment Board were conflicted out on the majority of the discussions because, until the latter stages – and indeed there were conflicts down to the States debate because of the air route licensing issues and, should the air route licensing panel have needed to sit, you have got three members of the Commerce & Employment Board that sat on there. Advice from St James' Chambers was that Commerce & Employment did not actively take part, so we worked with PSD at officer level on that matter, and actually the Minister and one other Member were briefed outside of those Board meetings.

Certainly at the end result an in-principle licence application had been made. My understanding is that operationally it was possible to land, not perhaps fully loaded but that was not the reason why...I think, potentially when they looked at the commercial decisions...but we were never provided with any formal responses to the reasons why they decided to withdraw their application.

Q274. The Chairman: Would you like to add anything else before you go?

1475 **Mr Moriarty:** Only just really to reiterate, I think, from the Commerce & Employment Board's
perspective and working with other Departments, just to reinforce the importance of strategic air links for
the Island. I know it is stating the obvious, but it is a key aim within our economic development framework.
Now that we know that there is potentially the vehicle to fund new strategic links that can be identified as
being of economic importance to the Island, the Board will give due consideration to that, and I think that
that is important. Before we have been able to do that it is absolutely essential that we scrutinise, we look at
the evidence and we look at what is a very complex picture to understand where there are viable new
1480 opportunities that do not conflict or draw away from the existing number of routes that we have into the
Island.

The Chairman: Thank you both very much indeed.

Deputy St Pier and Mr Ford were called at 4.38 p.m.

EVIDENCE OF
Deputy Gavin St Pier, Minister, Treasury & Resources Department
and Mr Alastair Ford, Advisor, Treasury & Resources Department

1485 **The Chairman:** Welcome to our last session this afternoon. If you would like to introduce yourselves,
then I will hand you over for questioning.

Deputy St Pier: Gavin St Pier, Minister for Treasury & Resources.

1490 **Mr Ford:** Alastair Ford, Principal Assistant to the T&R Board.

The Chairman: Thank you very much indeed. Deputy Wilkie.

1495 **Q275. Deputy Wilkie:** You have previously stated that Aurigny was purchased as a strategic
investment to protect the Island's long-term social and economic wellbeing, but you also acknowledged the
proven risk that privately held airlines cannot be expected to put the Island's strategic, economic and social
requirements for access to a London hub airport ahead of their own commercial interest. This would seem
to add up to a confident and unapologetic acceptance of Government's role in air link policy, yet the
impression may be given that, as a whole, the States lacks the courage of its convictions. For example,
should the States, through HSSD, be paying high fares to Flybe or Blue Islands for transport of medical
1500 patients to be treated in Southampton and Exeter hospitals, when the States in its entirety, owns an airline
which could fly to those airports as a social service?

1505 **Deputy St Pier:** A very good question. Clearly the main objective of acquiring the airline was securing
the Gatwick route, and I think the challenge we have, as Government and shareholder, is treading that
balance between securing that principal objective of what we have termed the 'lifeline link' to Gatwick,
which I guess we now call the strategic air link, as against disrupting the normal commercial market, and I
think one of the challenges is how we manage that potential conflict between those roles. In other words,
maybe because we own an airline, should we be seeking to compete against every other airline operating to
the Island? I suppose that is the question.

1510 **Q276. Deputy Wilkie:** What are the long-term plans for the future of Aurigny?

1515 **Deputy St Pier:** The prime objective remains the security of the Gatwick route. Obviously, when the
airline was acquired we had four pairs of slots and we now have six pairs of slots, and really the airline's
operation is built around servicing those – and then we will talk about Alderney perhaps separately.
Undoubtedly, the airline is subscale in terms of contingent operation. You will be challenged to find
another commercial airline of the size of Aurigny with a single jet and multiple types of aircraft. So that
poses real challenges in terms of the engineering support and brings with it some disproportionate cost
burdens.

1520 So, really, much of the other part of the route network, in terms of flying to East Midlands, Bristol and
the other airports, is ensuring that we can obtain the maximum contribution to the fixed costs of that prime
objective of securing the Gatwick route.

Q277. Deputy Wilkie: Do you want Aurigny to stay in Government ownership? When we talk about the long-term future, is the plan for Aurigny to stay in Government ownership or is Aurigny going to be sold off at a later stage?

Deputy St Pier: All the analysis would show that the only safe way to ensure that you retain the slots into Gatwick is to fly them, and the only way that we could be sure as an Island and as a community that those slots are retained for the benefit of the Island is if we own the airline that flies those slots. So I cannot envisage circumstances in the short to medium term where we would be looking to change ownership of Aurigny at all.

In the longer term, with radical changes to airport infrastructure in the London area once the UK government have made up their mind, whether that would change our view or not I do not know, but in the foreseeable future I cannot see any viable alternative other than us retaining direct ownership of Aurigny in order to secure those slots and not put those at risk.

Q278. Deputy Wilkie: So if the Government is to have long-term ownership of Aurigny, should we be looking at ways that we can give the taxpayer better value for money. For example, Southampton and the hospital route - rather than giving those fares to other airlines? Is that worth exploring? Is that being explored at the moment?

Deputy St Pier: Yes. Again, if you look over the history of States' ownership, the airline has had a much broader route network in the past and it has contracted a little, and obviously it is a constantly evolving scene. The whole airline industry is quite a dynamic one.

Yes, the answer is the airline is constantly looking at new opportunities and new routes, and it is all around the financial dynamics of a particular route and if it makes sense to the incremental acquisition of an aircraft, leasing a new aircraft: if you do that to fly one particular route, how are you going to use it when you are not flying that route; are you going to obtain a contribution on another route – if so, what would that be? You can see that evolution playing out in the decisions around going into London City, then subsequently the decision to lease an aircraft and then going out to secure that route and then looking at Leeds-Bradford as another way to use the aircraft in the fleet. So the airline is constantly keeping those kinds of issue under review.

But, of course, in terms of direct competition on some routes, whether it is into Exeter or Southampton or elsewhere, the cost of competing is one of the factors that have to be considered as well. We have seen the cost of competing on the Gatwick route and what that did to both competitors during that period of competition, when fares became uneconomic – good for the passengers, but actually it was clearly uneconomic for the airline, which is obviously one of the reasons why they finally withdrew.

Q279. Deputy Wilkie: The airlines make that decision, but are Aurigny taking into consideration any savings that might be made to Guernsey Plc or is the decision taken purely on a commercial basis? Are we getting involved enough from a Government perspective, or aren't we?

Deputy St Pier: I think again that one of the challenges we have is always that balance between us providing a strategic direction and guidance, and a steer as to what we were expecting as shareholder and getting involved in the management of the airline.

Clearly, I would say that this Treasury & Resources Board has sought to be more active in the matter of all the shareholdings, including Aurigny and in seeking to articulate more clearly objectives for the airline. I think it probably in the first period of ownership the objective was really just try not to lose too much money. Now, through the process of developing a memorandum of understanding and so on, we are seeking to articulate and set down what our objectives are. Part of the rationale for doing that is that that will help the public debate around actually what is the purpose of the airline. We see it as a community airline, rather than being a commercial airline. It is there to serve a community purpose. But actually in order to have a sensible dialogue about the future role of the airline, we need to be able to clearly articulate what we believe are the objectives, as the shareholder, and we will then expect others to come in and ask the kind of questions that you are asking, and as a Government we could then seek to develop policy accordingly. But at the moment what we are seeking to do is discharge our role as the shareholder.

Q280. Deputy Wilkie: Okay. What, for you, are strategic air links and what are lifeline air links?

Deputy St Pier: I suppose I felt the language had changed a little. Previously the references to 'lifeline' air links had become regarded as our 'strategic' air links. Undoubtedly, however you choose to define it, I would say the Gatwick air link has to fill a gap, the criteria of being both, in terms of its importance to the economy, the community and everything else.

Our focus very much, as I said earlier, has been on Gatwick and on Guernsey-Alderney, regarding everything else as being commercially driven, rather than strategically driven. Clearly, what is strategic for the Island again is one of those things that we regard as being... Others may well have a view, whether it is Commerce & Employment or others, but our focus has been on those two routes as being the lifeline links, and that, in a sense, we regard as being our key objective.

Deputy Wilkie: Do you have different policies for each one?

Deputy St Pier: For those two routes?

Deputy Wilkie: Yes, for one which is considered strategic and one which is considered lifeline. Are there different policies in place for the Gatwick route verses perhaps the Birmingham route?

Deputy St Pier: Yes, as shareholder we are saying that one of the objectives is you must continue to fly the Gatwick route and maintain those slots, that is one of your objectives; and then we also seek to set objectives around maintaining the link from Guernsey to Alderney. Beyond that the decisions are commercial decisions, so we have not sought to define a requirement to fly to Birmingham or East Midlands or any other destination. Those are, as I say, part of the operational management of how it is best to use that aircraft, rather than being driven by strategic objectives set by us as shareholder.

Q281. Deputy Wilkie: That takes me on to my next question. In a situation where the States owns both the airport and the airline, what operational independence should Aurigny have?

Deputy St Pier: Operational independence? I think operational independence should be there, irrespective of whether there is an issue with the airport or not. I think that is the purpose of the Board, to manage an airline or whatever business comes to be. I do not think the fact that there is States ownership should interfere in that operational independence.

Q282. Deputy Wilkie: But should we have more political involvement in timetabling, setting capacity at peak times and fair capping, which we obviously do already?

Deputy St Pier: Political involvement in timetabling – it sounds like an absolute recipe for disaster to me! That is a highly operation issue. You have clearly got to know the industry, the management, the people and all the rest of it.

One of the issues we are looking at in relation to Guernsey-Alderney is, as we develop the security on that link, developing a memorandum of understanding, and that will seek to set out expectations – for example, in relation to frequency of flights. But I think you can draw a distinction between setting an objective at that level and seeking to timetable.

I suppose I am saying that there are some grey areas, in terms of the limitations between what would be appropriate for the shareholder to set as an objective versus what management must be left to do.

Q283. Deputy Wilkie: Should the government keep on pretending that Aurigny is a commercial operation, or should we come out and say it is not commercial?

Deputy St Pier: It is quite clearly a commercial operation, as all our other assets are. They are commercial operations. The fact that they are owned by the States and have community responsibilities does not take away from the fact that they are commercial operations and *should* have commercial objectives, and the management should be measuring the delivery of those objectives.

Q284. Deputy Wilkie: Charles Parkinson told us that the States of Guernsey has several levers it can use to influence the air service provision. Is that how T&R sees its role; or who is, or could be, pulling the levers?

Deputy St Pier: What examples were there?

Deputy Wilkie: Well, levers such as fare capping and, as we have just talked about, looking at more political involvement in setting a minimum amount of flights per day on a route – that sort of thing.

Deputy St Pier: I think under our system of government it is has to involve several different areas. I do not think it would entirely appropriate for Treasury, in its shareholder function, to be making all those decisions. You obviously have had evidence from Commerce & Employment. Clearly there are wider

economic development issues around air links and one would expect input from that Department on, for example, the frequency of flights and route network of fares and so on.

So at the end of the day it has got to be a balance between... Clearly, you could fly anywhere and charge very little for it, so long as we were prepared to cover the financial consequences of that. So I think our role would be very much advising on the financial implications of a preferred route for direction of travel. If that is what the States wanted to do, in terms of providing a highly subsidised route and fare network, then we would clearly be in a position to advise the States on all the financial consequences of that. But I do not see it as being... Ultimately, I think it would have to be a collective enterprise to make those kinds of decision, rather than being an assumed responsibility of each individual Department.

Q285. Deputy Wilkie: I just want to explore what difference the subcommittee has made to Aurigny's relationship with T&R. Aurigny told us that it is not a shadow board, so what is it? What problem was it intended to solve, and how do we know that it is working?

Deputy St Pier: It is a very good and fair question. I think it was set up quite intentionally *not* to be a shadow board, recognising that the board were there as directors with their corporate responsibilities and all that goes with that and the operational responsibility for the airline. So the supervisory aspect of that subcommittee is all around seeking to discharge the role of shareholder, and in particular the greater clarification around what the objectives should be for the assets which the supervisory subcommittee were after.

I think you probably need to look back and think about what the relationship was like before, which was largely, I would say, hands off. As you may know, for a short period before I was elected I was actually a member of the Aurigny board and so I saw it from the other side of the fence before coming into Treasury, and that rather informed my thinking about perhaps how I saw the relationship ought to operate and the direction that we have taken since 2012. It appeared to be quite a hands-off relationship, which was to pitch up once or twice a year, at the AGM, and really the key objective was to try not to lose too much money. I think that worked, in the sense that actually, because of the limited financial disclosure – you know, one line in the accounts on page 68, namely 52, which simply said how much the overdraft had gone up by – there was very little oversight really, either public or otherwise. So I think it was quite an easy relationship in that sense, quite a soft relationship probably for management.

So I think now the shareholder is much more active. There is much more regular dialogue between the management and the Department. The development of the business cases for the Dornier, for the Embraer – all of those things we have been much more closely involved with. We have regular meetings at supervisory subcommittee level and at board level, so it is a much more dynamic relationship. In terms of what we have to show from that, we do have the memorandum of understanding. It has now been agreed. It has not yet been signed; it is on the verge of being signed. That will obviously be in the public domain fairly shortly. The whole setting of objectives around the Gatwick route – and you have referred to some of those – I think has come out of that process as well.

Q286. Deputy Wilkie: Where does T&R obtain its own specialist knowledge and experience, independent of Aurigny, in order to make sound decisions for Aurigny and its future?

Deputy St Pier: Again, with all our shareholder functions there will times when we do need specialist input. In the process, for example, of developing the business case for the recapitalisation of the airline, which will come to the States later this year, we have sought to take advice from BDO in testing the financial assumptions that Aurigny have used, and some of those are quite specialist to the nature of the industry. So the answer is that, as we do elsewhere, we will need to bring in and will continue to need to bring in specialists as and when, but it is very much on a case-by-case basis.

Deputy Wilkie: That is the financial speciality. What about the technical speciality?

Deputy St Pier: Clearly, the main responsibility for us as shareholder is ensuring that we have got a balanced report and that we have got the right expertise around the board table. We regard that as being one of our key responsibilities, the appointment of the board. But in terms of airline technical or aero-engineering expertise, I cannot think of circumstances in the last few years where we have felt we needed that as shareholder.

Q287. Deputy Wilkie: What about when purchasing a new aircraft?

Deputy St Pier: Yes, that is where we have got to make sure that you have got the right people at the board table, as opposed to... Again, if we were seeking to second guess all those decisions again, that is

where I think we would be starting to be in shadow board territory, and that is not the role we seek for ourselves.

1710 **Mr Ford:** No, absolutely. I think if you look at the question of the purchase of the new jet for Gatwick there were some very key requirements for that aircraft in terms of capacity, all those kind of issues, that obviously it was very easy for us to test with Aurigny whether that was acceptable.

1715 In terms of the relative performance of the aircraft that they looked at, then, as the Minister has said, I think there was a high degree of confidence around the T&R table that Aurigny had the right expertise to make those kinds of judgements. T&R's involvement was clearly around assessing the financial side of the business case and the overall impact it had on the performance for the airline, and again testing the options that they had looked at, whether it be leasing, buying outright, all of those kind of things, which obviously is easier for us, given the skills of Treasury to assess those kind of issues.

1720 **Q288. Deputy Wilkie:** Where is the line drawn between the supervisory and shareholder role and operational matters? If I can contextualise that, are timetabling matters operational? We have talked about that but was Aurigny's decision to purchase the Dornier completely operational, or did T&R intervene at all?

1725 **Deputy St Pier:** No, I think, as Alastair has said, a very similar process of Aurigny as the technical experts looking at the alternatives, and clearly they went through that process. They demonstrated to us that they had gone through that process as part of presenting a business case to us. Obviously, we knew what the options had been and why they had eliminated certain options. So, again, the decision of leasing versus buying, understanding the financial impact of that, we would expect them, through their finance director, to take the lead on in terms of demonstrating the actual impact on their business, and clearly we are in a position to test that. So in terms of your question, would we interfere – is 'interfere' the word you used?

1735 **Deputy Wilkie:** Intervened.

1740 **Deputy St Pier:** Intervened. No, I would describe it perhaps as being an iterative process of discussion. So it is not that we just turn up one day thump a business case on the table and say, 'Can we get some money, please?' It was much more a process over a period of time. So we understood what the nature of the challenge was, what options they were going to look at, what options they came back with and why things had been eliminated. So it was much more of a collaborative process than one of intervention, obviously, which again I think reflects the nature of the relationship from the beginning – you are quite heavily involved in that process.

1745 **Q289. Deputy Wilkie:** Aurigny's monopoly position on the Gatwick route has meant that T&R have become a more proactive shareholder than has been the case in the past. What part has the subcommittee played in this transformation?

1750 **Deputy St Pier:** Quite significant. In terms of if you are looking at the fare levels and setting those targets as objectives, the subcommittee has been very heavily involved in that process, because it understands the nature of the challenge of having the States-owned airline flying 50% of Island traffic into the Island from a single entry point. We clearly recognise the challenges of doing that, which comes back to whether it is competition on other routes. Clearly, at the moment, it is on that particular route.

1755 **Q290. Deputy Wilkie:** What involvement did T&R have in the decision to start the London City service?

1760 **Deputy St Pier:** Again, one of consultation and dialogue. I suppose a key element of the relationship, which we should have mentioned before, is a no-surprises-type principle, so we would not want to wake up one morning and learn of something key from the radio or from newspapers. So, in that same spirit, yes, again very much a process of Aurigny presenting the rationale for why they felt that a route into City was appropriate, us probing what the risks were of that, in terms of the financial obligation that is being taken on and what would that ultimately mean for the financial performance of the airline overall. Again, options in terms of different types of aircraft and different ownership types and so on. So again, involved, but ultimately an operational decision of the board.

1765 **Deputy Wilkie:** That is all from me.

The Chairman: Thank you very much. Deputy Queripel.

Q291. Deputy Queripel: Thank you, Mr Chairman.

My first question focuses on the finances of Aurigny. Bearing in mind that Aurigny is currently a loss-making enterprise, do you think it is realistic to expect them to break even by 2016, and will T&R intervene if they do not break even?

Deputy St Pier: The objective of breaking even is... I think we have to separate out the Alderney routes, because I think there is no expectation that they can break even on the routes, and therefore our expectations are that the airline will break even, excluding any exceptional accounted items or (inaudible)... The reason we have sought to set that delineation is because otherwise we will end up cross-subsidising all the other routes – we will end up cross-subsidising the Alderney routes. So we feel we need to get to a much more transparent process of support for the Alderney routes.

But in relation to everything else, no, we believe – again, based on the dialogue with management – that it is not an unreasonable objective to be heading towards a breakeven position in the not-too-distant future, again recognising that that is not an insignificant challenge for an airline which is subscale with one aircraft and the normal fixed costs associated with that and so on. So it is a challenge, but it is not unachievable.

In terms of intervention, again it would depend very much why they did not achieve a particular objective. If it is driven, for example, by changes in the structure of landing charges at Gatwick, or fuel duty or fuel prices which have been clearly costed outside the airline's control, then I suspect T&R would have a different view to those costs which it is in a better position to control. So, again, it is really understanding the reason for any underperformance, and that again we would regard as being a supervisory subcommittee responsibility to drill down and understand why a business is underachieving overall.

Q292. Deputy Queripel: You mentioned the Alderney routes. I want to ask some questions about the Alderney air links, because it is reported that Aurigny make a loss of approximately £900,000 a year on the routes.

Deputy St Pier: Yes.

Q293. Deputy Queripel: Why isn't a subsidy paid to Aurigny to operate the air links to Alderney?

Deputy St Pier: It is a good question. Really because of the way the States chose to finance the airline for the last 10 years, which has simply been to allow it to clock up a borrowing facility, initially under a commercial lender and more recently with funding directly from a loan from Treasury. So, in essence, because the States have said, 'You will be funded by an overdraft.'

As I said, my view and my Board's view and our objective is to get to a position where we do have much more transparent direct subsidy through a public service obligation type relationship, which again there are good reasons for doing, not only in terms of transparency and public understanding and that goes with that, but also in terms of, I would argue, providing better financial discipline as well, because you are clearly providing a particular sum for a particular purpose and you are in a better position to judge whether they have achieved that or not. So that is the direction we want to go in; that is our objective.

Q294. Deputy Queripel: You mentioned the public service obligation, but our understanding is that that sort of obligation applies to routes within the EU, bearing in mind that going to Alderney is not an EU route. Can you clarify whether or not PSO rules would apply to that route?

Deputy St Pier: Of course, there is the Alderney-Southampton route, which does go into the EU, so strictly speaking Guernsey-Alderney is within the EU and therefore the PSO, the full panoply of an EU-type PSO process and all the regulation around that would not apply, but we have got to be cognisant of that – Southampton as well.

But you are in a much better position to advise on the technical side of that.

Mr Ford: Yes, I think absolutely, as the Minister says, we need to be cognisant of the EU situation on the route into Southampton. That does not mean we have to replicate in all its glory the EU PSO system. I think that the discussions we have been having are moving towards a light-tough PSO system, which certainly the Law Officers think we can incorporate within our air transport licensing system in Guernsey in such a way that it would also satisfy any concerns around EU competition going into Southampton.

I think it is important to remember though that whilst you could treat the Alderney-Guernsey route separately, in terms of seeking to package them together under a PSO system that does also afford the opportunity to make sure that anybody who bids for that gets greater economies of scale. If you dealt with

the two of them separately you would arguably have to have two completely separate set-ups for it; whereas, obviously, if they are combined together you can combine the aircraft and the resourcing for those routes and you will get better economies on it. So although legally you might be able to treat them differently, there might be very good financial and operational reasons why you still want to keep them as a single package.

Q295. Deputy Queripel: My next question focuses on the issue of the service level agreement being established with Alderney. Can you tell me what stage you are at with that, please? Who is actually involved in the process and who is going to agree the eventual service level?

Deputy St Pier: Yes, it is actually taking the form of a MoU – a memorandum of understanding – and we envisage it being a tripartite relationship between the States of Guernsey as shareholder, the States of Alderney as clearly an interested party on behalf of the community of Alderney, and the airline. We are at the stage where a draft has been prepared which Treasury and Resources has taken the lead on. We will kick that around with the airline and we expect to sit down with the States of Alderney in the next couple of weeks with a view to finalising it as quickly as we are able to.

Q296. Deputy Queripel: Do T&R have a moral obligation to maintain an air link with Alderney; and would you have any concerns if another company, instead of Aurigny, were to take over the route?

Deputy St Pier: I do not think T&R have a moral obligation to maintain air links with Alderney, but I suspect the States of Guernsey have an obligation, moral or otherwise, to maintain transport links to the Island, and given that there are limited other options I think it probably is an obligation of the Bailiwick to Alderney.

Sorry, the second part of your question?

Deputy Queripel: Would you have any concerns if another company, instead of Aurigny, were to take over the route?

Deputy St Pier: The issue there... Again, clearly if we were to go into a PSO-type process – PSO at Whitehall or however you wish to describe it – then one would expect that to be a process of inviting tenders for airlines to come in and provide a particular service. Clearly, as part of assessing those tenders and those bids I would suggest both communities would want to ensure that whoever was going to operate that route was able to do so sustainably and would not be jeopardising the security of those links in the medium to long term.

So I think, clearly, going back to the whole rationale behind the ownership of the airline, it gives us much greater security that we can address those kinds of risks because we own the airline. Clearly, if other parties are involved, you have not got quite that level of comfort, and so it would be, I would suggest, an obligation of all parties concerned to ensure that whoever is maintaining that link is able to do so sustainably.

Q297. Deputy Queripel: It has been reported that passengers are encountering problems when trying to book flights to and from Alderney, due to insufficient capacity on the aircraft. Do you see that as a responsibility of Aurigny to resolve this problem, or will T&R get involved at some stage?

Deputy St Pier: Again, I think we would seek to limit our involvement seeking to define the service levels that we would expect as shareholder and so we see the mechanism in the short term doing that through the MoU process and in the long term through a PSO-type process. So, having defined those expectations, obligations and having a wish to define it, we would then expect the airline to actually operationally manage that, so we would not be... so access to a particular seat on a particular flight would not be the level of detail we would get involved with.

Mr Ford: I think it might be helpful just to observe that, again I am conscious that it is a draft that still needs to be talked about with the States of Alderney, but the current draft of the MoU that we have been working on with Alderney, without actually specifying in detail what the timetable should be, certainly talks about level of frequency, capacity of the aircraft and the overall capacity that would be provided on the routes during the course of a year, and then compares that, as the current draft does, with historic passenger numbers. So, although we are not looking at it on a flight-by-flight basis, we are certainly very conscious that we need to make sure that over the course of a year or a set period there is sufficient capacity on there to serve the certain demands on the route.

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Q298. Deputy Queripel: Mark Darby, the CEO of Aurigny, stated in the media that Aurigny's accounts are not published because T&R have made the decision not to publish them. Is that actually the case; and if it is, could you explain why T&R made that decision?

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Deputy St Pier: I think it is a decision which... it is a position that we have noted. My particular Board has not actually considered either publishing or not publishing. We will continue the prior practice. However, you may recall that I did answer a question in response to my statement in the Assembly in April on this very issue. I have no particular concerns about the publication of financial information around Aurigny. I think there was a view perhaps in the past that there was commercial sensitivity around publishing results, particularly, I suppose, when there was competition on the key route, i.e. the Gatwick route. I do not believe those issues, if they did exist, are as current now as perhaps they might have been. So certainly we are considering, or we will consider – as, again, from the undertaking to the Assembly in April – the publication of the information, but in exactly what level of detail and what form... we have not gone into that level of detail. We have not had that dialogue in any depth with the company at this stage.

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Q299. Deputy Queripel: What are your views on extending the Guernsey Airport runway? Do you think there is a business case for it?

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Deputy St Pier: It is not a matter that Treasury & Resources have given great consideration to as a Board. Clearly, the Deputy Minister, as a former pilot and somebody who was on the Public Services Department in the last term, has been on public record several times in this term questioning the runway and arguing that it should have been made longer when the opportunity was there. Clearly, there are significant challenges in seeking to address that now, given the financial consequences of doing so.

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It is not an issue which the Treasury Board have given a great deal of consideration to, but I am very conscious that easyJet were on record in the media as having cited the limitations of the runway as being one of the factors that may have prevented them actually getting through their licence application. Clearly, we are also conscious that when Aurigny were looking at the options for the jet they were very limited in their options, given the length of the runway. So I suppose it quite clearly is an issue, but in terms of how to address that, that is not something that we have given much consideration to.

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Q300. The Chairman: Well, thank you very much for attending. Before you go, is there anything you would like to add as a final statement?

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Deputy St Pier: No. I think our objectives, I suppose, for the rest of this term would be to ensure that the airline is properly recapitalised – that has been something that has been outstanding for a number of years – so there will be a States report on that in the next few months. That will then enable us also to migrate the company from Jersey back to Guernsey and to perhaps also consolidate the group. As I mentioned, we have got a three-company structure, which ultimately we do not need, and the cost to cover that. It would also better enable us to provide a better framework once the airline is on a sound financial footing, having recapitalised it, to cope with issues such as the PSO and ensure that the support that is given to the airline is open and transparent. We can then – going back to Deputy Wilkie's minor question earlier – have a much more informed debate about the role of the airline as a community airline and to what extent we want to use it – whether it is for flying patients to Exeter, or to open up a new route to Frankfurt or wherever it happens to be.

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So I think we see ourselves as helping, in our role as shareholder, to position the business so that it is in the right capital structure and enables us to have that sensible dialogue.

The Chairman: Thank you. That concludes our business for today.

The Committee adjourned at 5.24 p.m.