



OFFICIAL REPORT

OF THE

STATES OF GUERNSEY

SCRUTINY

COMMITTEE

Security of Strategic Air Links

HANSARD

St Pierre Park Hotel, Wednesday, 22nd April 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*)
Mrs Anna Henry (*Scrutiny Officer*)
Miss Suzanne Randle (*Scrutiny Officer*)

Business transacted

Procedural – Remit of the Committee3

Mr Parkinson was called at 9.01 a.m.

EVIDENCE OF Mr Charles Parkinson, former Minister, Treasury & Resources Department3

Mr Falla and Mr Harry were called at 9.30 a.m.

EVIDENCE OF Mr Stuart Falla, MBE, Chairman, Guernsey Sports Commission, and
Mr David Harry, Chief Executive Officer, Guernsey Sports Commission8

Mr Mills was called at 9.52 a.m.

EVIDENCE OF Mr Peter Mills, Guernsey International Business Association 13

Mr Rowbotham, Mr Robins, Mr Le Page and Mr Wheadon were called at 10.28 a.m.

EVIDENCE OF Mr Tony Rowbotham, President, Guernsey Chamber of Commerce, and
Mr Tim Robins, Mr Rob Le Page and Mr Luke Wheadon, Guernsey Chamber of Commerce20

The Committee adjourned at 10.50 a.m. and resumed its sitting at 11.00 a.m.

Mr Jehan, Mr Ferbrache and Mr Le Ray were called at 11.00 a.m.

EVIDENCE OF Mr Jehan, Mr Ferbrache and Mr Le Ray, Guernsey Airport Consultative Committee....25

5 *Mr Darby and Mr Coupar were called at 11.33 a.m.*

EVIDENCE OF Mr Mark Darby, Chief Executive, and Mr Malcolm Coupar, Commercial Director,
Aurigny Air Services Limited..... 32

10 *The Committee adjourned at 12.42 p.m.*

Scrutiny Committee

Security of Strategic Air Links

The Committee met at 9.00 a.m. in St Pierre Park Hotel, Guernsey.

[DEPUTY LE PELLEY *in the Chair*]

Procedural – Remit of the Committee

The Chairman (Deputy Le Pelley): Good morning everybody. I would like to welcome everybody here today, elected representatives, our witnesses and members of the public.

15 Our session today forms part of the Committee's Inquiry into the Security of Strategic Air Links. This is the second public hearing on this topic, following our earlier hearing in Alderney. This hearing will be followed by a third event, which will be announced shortly, where the Committee will largely focus on questioning the relevant Government Departments.

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

I should also like to make it clear, for the avoidance of all doubt, that this is a parliamentary committee hearing and our focus will be clearly on Government policy in respect of strategic air links.

I now turn to our first witness. Would you like to come forward, sir, and would you please introduce yourself.

Mr Parkinson was called at 9.01 a.m.

EVIDENCE OF Mr Charles Parkinson, Former Minister, Treasury & Resources Department

25 **Mr Parkinson:** Good morning, I am Charles Parkinson, former Minister of Treasury & Resources.

30 **The Chairman:** Thank you very much indeed. Our first line of questions will be asked by Deputy Sherbourne.

Deputy Sherbourne: Good morning.

Mr Parkinson: Good morning to you.

35 **Q69. Deputy Sherbourne:** First of all, I would like to thank you for your extremely instructive submission to the inquiry board and I would like to start proceedings by asking your opinion with regard to the current control of Aurigny by Government. Would you see there being any alternative arrangements? If so, perhaps you would like to explain those to us.

40 **Mr Parkinson:** No, I think the present arrangements are broadly along the right lines. Obviously, the States of Guernsey owns a number of trading entities, including Guernsey Post and Guernsey Electricity and while, in the early days, it was normal for States' Members to sit on the boards of those companies, for the last many years the States have distanced themselves from the commercial operations of the businesses and the reality is that politicians do not generally know how to run airlines and it is normally better to let the management get on and do it, subject to supervision in an effectively non-executive director type of capacity, which we do have with Cabernet, the parent of Aurigny.

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Q70. Deputy Sherbourne: In that case, do you think that the States of Guernsey identified strategic routes in appropriate policy documents?

Mr Parkinson: Of course, the States kind of ended up owning the Gatwick slots by almost an accident of history. I was not a Member of the States at that time but the then Advisory and Finance Committee was told that British Airways were pulling out their Cityflyer service. Aurigny, I think, had acquired the Cityflyer service a few months before but then it became apparent that Aurigny was in some financial difficulty and, to secure the routes, the States acquired Aurigny.

Therefore the whole emphasis was on the Gatwick slots. I think since then we have realised that there are other strategically vital routes for the Bailiwick and, in particular, one thinks of the Alderney routes to Southampton and Guernsey.

But I do not think the States have ever actually defined, or listed, the strategically vital routes. So where does Dinard sit in that spectrum? That has never really been properly considered.

Q71. Deputy Sherbourne: In your submission you did actually mention Manchester as a possibility.

Mr Parkinson: Yes. I think both Manchester and Southampton, you can make a good case, are strategically vital to the Island of Guernsey. Obviously less so than Gatwick or even arguably London City now, but nevertheless they are very important and our economy might suffer if we lost them.

Q72. Deputy Sherbourne: Can we focus a little bit on licensing policy? I would like to know what your current views are on those policies and whether you would advocate any changes to them. If so, perhaps you could elaborate on that?

Mr Parkinson: There is always a debate going on between those who believe in open skies, which is effectively the policy operated in Jersey, and those who support retention of the licensing system, which is now quite unusual, internationally and indeed within the British Isles.

But it is true that Guernsey's routes are much thinner than Jersey's routes and there are really probably none of them that will sustain competition and so we saw, for example on Jersey-Guernsey, that having two operators on a route simply resulted in both of them losing large amounts of money and flying empty seats around the skies.

So I think in Guernsey's case there is a much stronger argument for retention of a licensing system. I do not think it is an absolutely clear cut argument. I do not think it is a foregone conclusion that we have to have it, but probably on the balance of probabilities it serves us better.

Q73. Deputy Sherbourne: Yes, in your submission you actually do suggest that maybe a new approach would be desirable because, at the moment, we have an all-encompassing licence system.

Mr Parkinson: Yes, I think there is no point in worrying about licences on routes where there is no competition. If somebody came to us and said, 'We would like to fly Edinburgh to Guernsey', you would just say yes, go ahead. Why wouldn't you? Or Dublin to Guernsey. No problem.

It is only on the strategically vital routes and certainly there only the ones that will not sustain competition, which is probably all of them. Although arguably Gatwick is thick enough to support two carriers.

Q74. Deputy Sherbourne: To what extent do you think that that has a detrimental effect, the current policy that is, on the economy in Guernsey?

Mr Parkinson: I have not seen any evidence that anyone has considered opening an Edinburgh to Guernsey service and then backed off because they would have to get a licence. I think it would be better if we made it clear that they did not need one, just in case that is inhibiting anybody, but there is really no evidence that I am aware of that people are out there trying to open new routes to the Island and being put off by our licensing system.

There was the example of easyJet, who allegedly made an inquiry about operating Gatwick to Guernsey and clearly there we are talking about one of the vital routes into the Island and the impact on Aurigny, where the States now have a conflict of interest, would have come into play.

On the strategically vital routes that we should list somewhere, there is a case for retaining a licensing system, but outside of that I think we should just deregulate it.

Q75. Deputy Sherbourne: What about the actual objectives set by T&R at the moment, with regard to breaking even by 2016? What is your position on that?

Mr Parkinson: Aurigny is now in effect serving several purposes. There is the social purpose of connecting Alderney, in particular, to the rest of the world, and to a lesser extent Guernsey to the rest of the world.

There are the commercial drivers which say we need to have good routes into the City of London and so on and then there is just normal commercial traffic, holidaymakers and so forth.

There is a strong case, inevitably, for subsidising the social routes and Aurigny say they are losing, I think they said £900,000 a year on operating into Alderney, and I think we should identify that as an explicit subsidy, that Aurigny should just get a cheque every year for £900,000 to operate services into and from Alderney.

On the commercial side, there could be more scope for using Aurigny as an economic development tool and if, for example, the Commerce & Employment Department thought that it would be commercially valuable in the context of a wider economic plan to have a direct link from Guernsey to Paris, just to pick a destination at random, then we could, as the States, agree to subsidise a Guernsey to Paris service for a period of years and see how it goes. If we did that, again, the subsidy should be explicit.

Having identified those routes which we are, for one reason or another, going to subsidise and having identified the subsidy, Aurigny should be under instructions to at least break even. What we have had in the past is, frankly, just a tolerance of persistent losses and the directions to the management of Aurigny have been to try not to lose too much money, more or less, which is actually not a target that anyone would want to manage towards.

The Chairman: Just before Deputy Sherbourne continues, do you accept this figure of £900,000?

Mr Parkinson: I am just taking that as their figure. I have not audited it, so I do not know.

The Chairman: Very few have.

Mr Parkinson: No. Well, indeed. Let us assume for the sake of argument that there is a need to subsidise the Alderney route. I think there probably is. How much funding they require I do not know, but for the sake of this discussion I am going to accept the figure Aurigny have provided.

The problem at the moment is we just allow Aurigny to go on making losses because we know they have to run some routes at a loss and we have not explicitly identified how much that costs us.

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

Q76. Deputy Sherbourne: Can I follow that up by asking you whether you consider that Aurigny's accounts seem to be rather opaque.

Mr Parkinson: Well, they are not full-form accounts you might expect from a public company in the UK, but the origins of this are that it was a private company and, to a large extent, it still operates like a private company.

Q77. Deputy Sherbourne: If I can perhaps move on to a real conflict, which is the fact that the States own both the airport and the airline, which can produce real dilemmas. Should there be more political control? You mentioned earlier about politicians keeping their distance but, bearing in mind that dilemma, should there be more political control over direction and travel of Aurigny?

Mr Parkinson: I think what there needs to be is a wider economic development plan for the Islands, which sets out objectives and routes to get there. We have arrived at a situation where effectively the States subsidise, I think, the airport, because, if we charged the landing fees we would need to charge to recover the full costs of running it, we fear that would drive away business and damage our economy.

So why don't we start the other way around, say what are our economic objectives and what do we need to have in the way of air services, including the airport, to deliver those objectives, and recognise where there has to be a subsidy that there is a subsidy? But that kind of issue has never been debated by the States. We have never discussed how much we should invest in our air routes or the airports in Alderney as well as Guernsey to service those links.

Q78. Deputy Sherbourne: Do you think the problem is exacerbated by the diverse number of States' departments that have a stake in the service?

Mr Parkinson: Yes. Clearly the PSD who run the airport are not T&R, who act as shareholder for the States of Aurigny. What needs to happen, though, is an over-arching economic plan which, in the current structure of Government needs to come from Policy Council, which sets out the objectives in this area and then we can have a proper States' debate on how much this is going to cost and are we willing to invest that money.

At the moment what happens is we are told Alderney Airport loses £500,000 a year. Nobody has authorised that or approved it. It just happens and PSD just loses the money and whatever subsidy goes into Guernsey Airport, I do not know what that is, but again it just happens and it's lost somewhere in PSD's budget.

The cost to the taxpayer, which is largely hidden in Aurigny because we simply allow them to go on borrowing money from banks and writing ever larger guarantees, but Aurigny actually costs the taxpayer money and we need to recognise that and have a discussion about how much we are going to invest in this and for what purposes.

Q79. Deputy Sherbourne: Perhaps we can extend that topic with regard to route subsidies. Is it possible, do you think, for the States to achieve successful and sustainable expansion and growth through subsidy?

Mr Parkinson: I think in the context of a wider economic plan it would be. As some of you may be aware, I have been a long-term advocate of developing a university in Guernsey as an economic enabler and as a source of income in its own right. If such a university was established here, it would seek to attract students from places like the Far East to come and spend their money here and, indeed, to get to know the Island hopefully go back as ambassadors for Guernsey, back to Kuala Lumpur or Hong Kong, wherever they come from.

Now that, I think, would be a perfectly sensible economic strategy but it would be much easier to implement that strategy if anybody arriving from the Far East did not have to cross London, from Heathrow to Gatwick, to get here. So, if you could create an air route that got them here without that dislocation, that minor but nevertheless possibly significant barrier, then that would enable or facilitate the development of a university.

You could create the link that they would need either by, ideally of course, flying to Heathrow, but that is clearly not likely to be possible unless Heathrow gets another runway, but you could create that link for example by laying on a service to, say, Frankfurt, which would connect with services coming from the Far East, with Cathay Pacific, with Emirates, Singapore Airlines and so on.

In that context, if you have got an overall economic plan which says we want to do this, you might say we are going to subsidise an Aurigny service to Frankfurt. On its own, you would not just pick a city at random and say we are going to pay Aurigny to fly there, but I think if you have got an overall economic plan and this would help do it, you can sit back and say okay it is going to cost whatever it is, half a million, £1 million a year to do it, the university is going to bring in say £40 million a year in fees, maybe it is worth doing.

That is a rational decision which needs to be debated.

Q80. Deputy Sherbourne: In your submission, you actually talk about the concept of short-term or at least time-limited subsidies.

Mr Parkinson: I think on the whole, subsidies should be tied to performance targets. Clearly, if you have run a route at a loss for three years and there is no sign of any economic benefit from the route, you would have to say let us stop doing it. I think where you do have a subsidy regime, you have to put a time limit on it and put some performance targets.

If you are opening a route to develop tourism from western France, you have to say by 31st December 2019, we expect to be carrying 30,000 passengers a year or we have not achieved a goal.

Q81. Deputy Sherbourne: I am thinking, across the water, Jersey sees itself developing as a hub. Can you expand the problems that we face as an Island with that possibility?

Mr Parkinson: I do not think Guernsey will ever be a hub because we do not sit on any trade routes. There are lots of examples of small national jurisdictions which operate their own airlines and have used them successfully as economic enablers. Emirates, Singapore, Qatar Airways, Etihad and so on.

225 These are airlines at which the governments of those countries have thrown a lot of money to facilitate economic development in those jurisdictions and they have done it very successfully. But they all sit on natural east-west trade routes and, if you like, exploit the fact that at the moment planes do not fly from Europe to Australia without stopping somewhere. They have got to stop somewhere. Why not Singapore?

230 We do not have that advantage. Guernsey is not on the road to anywhere. There could still be a case for using Aurigny or indeed other airlines as economic enablers to develop activities as I have suggested with the university, but it has got to be related to something that happens here.

We are sadly not going to persuade people flying from North Africa to stop here on their way to Scotland.

235 **Q82. Deputy Sherbourne:** We are in direct competition with Jersey, our main industry. But do you think that we have examined enough collaboration between the two Islands on these sorts of issues?

Mr Parkinson: I think it just simply would not work. If we had tried to set up triangular routes, for example, with Jersey to other destinations — and there is one at the moment in Exeter — on the whole
240 people are going to stop off probably in the first place that they land or certainly there is a strong tendency to stop off at the bigger place and Jersey is the bigger place.

Generally speaking if we tried to set up some kind of structure — and Jersey would love to be a hub for us, they would love to have all our business travellers stop in Jersey and then get on a Trislander to Guernsey, because clearly they would cream off all the business. That is the problem. As the junior partner,
245 if you like, very much the smaller one, with the smaller volume of traffic, we would simply be strangled.

Q83. Deputy Sherbourne: Can I move on to the strategy of capping fares. At the moment we cap fares on the Gatwick routes. Do you believe that we should? Who should pay the cost where this occurs?

250 *Mr Parkinson:* It comes back to the purposes for which we own the airline. We need much more clarity about that. One of the reasons we own and operate Aurigny is the social reason. So, just as we subsidise routes from Alderney to an extent, we have to ensure that there are reasonably priced flights available on London Gatwick because the community need them, visiting family and so on need them.

255 It is a very muddy area. As I understand it, and this is since my time, Aurigny has been told or has agreed to limit its fares on a certain percentage of its flights to Gatwick. I do not know whether that actually represents a cost to them. Whether they could have sold those seats for more money, in other words.

If it does represent a cost to them, then it is part of the social element or social reason for owning Aurigny. We need to be much clearer and understand much better what subsidy we are paying there and why we are doing it.

260 **Q84. Deputy Sherbourne:** Can we move on specifically to Alderney just for a brief moment. Media reports recently suggest that Citywing are interested in providing the routes and we know that a pressure group in Alderney have come up with alternative proposals with regard the use of Trislanders. How do you feel about the idea of Guernsey saying get on and do that and here is your standardised subsidy for the
265 year?

Mr Parkinson: I think that it is perfectly feasible to do that and I am pretty sure if Aurigny was told somebody else wanted to take those routes off their hands, they would probably be delighted. There was the example a few years ago, Aurigny used to fly Alderney to Jersey, but they did not make any money on it
270 and then Blue Islands were licensed to fly Alderney to Jersey, so Aurigny promptly ended its service. About six months later Blue Islands ended their service, so Alderney now has no service to Jersey and they are now talking about reinstating one.

275 From an Alderney perspective, it was a huge mistake to license Blue Islands on that route, because Guernsey was effectively subsidising the route and seemed to be willing to carry on to do so, but the moment somebody else said 'we are going to operate it', Aurigny said 'great'.

I think exactly the same thing would happen if Citywing or anyone else operated any of the other Alderney routes, because Aurigny do not do those routes for money, that is for sure.

280 If we identify the subsidy necessary to keep the Alderney routes going then, why not? Let other people compete for it. I do not think the States of Guernsey should be favouring Aurigny at every juncture. If it costs £900,000 a year to subsidise routes into Alderney then, in effect, any airline should be able to bid for that and to operate the service.

Q85. Deputy Sherbourne: Can we talk a little bit about infrastructure? You did mention in your submission that one time you had not been convinced that we needed to lengthen the runway in Guernsey.

285 There is an issue for Alderney of course, because one could say that their runway at the moment is not fit for purpose and a lot of traffic is restricted. To what extent should the Island be actually investing in that sort of infrastructure, both in Guernsey and in Alderney?

290 **Mr Parkinson:** Let us take Alderney first. I am sure that there are many ways that Alderney runway and indeed airport buildings could be improved, but the problem is it is almost impossible to make an economic case for it. It would cost an enormous amount of money to replace their runway or to put in a new terminal building and the economic benefit of doing so would be minuscule.

That falls firmly back into the social policy basket of should we do it because that community frankly is at the present dying and do we have to do something like that to try and sustain it?

295 On the Guernsey side, in my time in Government, Commerce & Employment went out to consultation about whether a longer runway was needed and they engaged outside consultants to look at that and the message that came back was very much that there was nobody out there who wanted a longer runway.

300 Of course, Flybe, Blue Islands and Aurigny did not need a longer runway because they were not operating any planes that would require it. The argument was always about if you put one in, would easyJet bring in an Airbus A319 or something like that?

I think if there was clear evidence that there are other operators out there who would like to open routes to Guernsey then we would obviously have to consider that very seriously. To me it is unclear that there are any operators. We know about the easyJet inquiry on the Gatwick route, which was rejected for reasons which we can discuss elsewhere. But, easyJet are not saying to us, sadly, “we would like to fly to Guernsey from Luton”. Because it would be great if they did.

305 Unless somebody can *talk* to route operators who would like to bring large planes to Guernsey, I do not think the case for expensively extending the runway can be made.

310 **Q86. Deputy Sherbourne:** Thank you very much indeed. I think I have come to the end of my section of questions, but maybe there are things that you would like to address. Any particular issues?

Mr Parkinson: I think we have covered most of the main points, but I am ready to try and answer any other questions any Members of the Panel may have.

315 **The Chairman:** Thank you very much indeed for coming to give evidence. Our next witnesses providing evidence are Mr Stuart Falla and Mr David Harry. We would like to invite you two gentlemen to come forward.

Mr Falla and Mr Harry were called at 9.30 a.m.

**EVIDENCE OF
Mr Stuart Falla, MBE, Chairman, and Mr David Harry, Chief Executive Officer,
Guernsey Sports Commission**

320 **The Chairman:** If you would like to very briefly introduce yourself and I will hand you over to Deputy Wilkie.

Mr Falla: Stuart Falla, chairman of the Guernsey Sports Commission.

325 **Mr Harry:** I am David Harry. I am the newly appointed Chief Executive Officer of Guernsey Sports Commission. Good morning.

Q87. Deputy Wilkie: Good morning Mr Falla, Mr Harry. Thank you for your submission and thank you for giving up your time to be here with us today.

330 Sport plays a significant role in many Islanders’ lives. Does the Guernsey Sports Commission believe that the Government has obtained the right balance for Islanders’ quality of life, or are the scales weighted too heavily towards Aurigny’s financial gain?

335 **Mr Falla:** I am sure you have a copy of our submission to you. Therefore I think you may already guess the answer that we are likely to give. It is our contention that we think the business model that is currently being operated by Aurigny, or being imposed upon the directors of Aurigny is a better term, is inappropriate to the status they find themselves in.

Deputy Wilkie: Would you like to expand on that?

Mr Falla: Sure. You will forgive me if I go back into history a little. I did spend some time at Commerce & Employment and found myself sitting on the licensing scenario, whereby we were adjudging whether Flybe and/or Blue Islands could operate a licence through Southampton and it put ourselves in quite a difficult position. In fact we ended up having Law Officers attending that hearing because of the possible conflict of us adjudging whether a competitor to Aurigny could operate on a line whereby effectively we were representing both the owners and a licensing authority and that is the very difficult position we found ourselves in. Ultimately we made a decision and it was not challenged.

But I would say the amount of correspondence at that time that I had from Flybe, unhappy with the scenario that they found themselves in, competing with a States-owned airline, it did not surprise me when they withdrew from some of their routes. It will not surprise me if they withdraw from the remainder of their routes fairly shortly.

If the business model that was put in place at that time that they should operate as near as possible like a commercial enterprise, then I believe that is appropriate to its day. I think now we are enjoying almost a pure monopoly on the routes that they should move more to a public service ethos and therefore the public service obligation ought to be imposed upon them. Therefore their business model should not be at a baseline of profit but on how well they serve the community in all its aspects, sport included, but I would contend, wearing a pro-business hat on, they are not serving the business community very well currently, either.

Q88. Deputy Wilkie: Do you believe that the States of Guernsey properly recognises the economic benefits that visiting sports teams bring to the Bailiwick?

Mr Falla: In some ways, to my annoyance, I was not able, while I was involved with the States, to get the body with whom a contract existed at the airport to check as to whether the questionnaire, that often Mrs Tasker was up there filling in as people leave, we were not able to persuade them to put sport as designated use of travel.

Therefore there are no figures to suggest how valuable sport is as a pastime within the number of travel movements to and from the Island. We have estimated it to be in the order of 10,000 between Jersey and Guernsey only. We do not collect information ourselves, but if you take the number of sporting teams currently that play in leagues that operate off-Island and then the number of spectators that then go to follow those teams, I would say that over the last five years the numbers have increased significantly.

You only have to look at Guernsey Football Club, now the Guernsey Cricket Board have entered a UK league. We have got two rugby clubs, the Guernsey Rugby Club and St Jacques are both in UK leagues. We have got basketball in the UK league, hockey in a UK competition, both men and ladies, netball are now in a UK competition. So if you just take just those teams themselves, together with their coaches, reserves and I am not saying they are all big spectator numbers that travel with them, but sport is a significant amount of the travelling public.

The number of times that we get reports back from clubs that say that they have tried to book a team to go over and have not had the capacity in order to be able to get them there either on the dates or times that they require. Plus from my own experience, I have found myself twice inconvenienced because Guernsey Football Club had found themselves having to travel out early on a Saturday morning, the same time as I was going to, and people have been bumped off planes because, clearly, it would have been embarrassing for Guernsey if the team could not get over there.

The Chairman: If I can interject, are you saying that sport is a special case, then, as opposed to say literary festivals or concerts?

Mr Falla: Not at all. What I am saying is that I think that the business model that Aurigny are being asked to follow does not value numbers travelling. They are only interested in the bottom line and I think that is wrong, if we are effectively a monopoly operator. If the Post Office decided only to deliver letters to people that had more than five letters, we would say no, you have to go to even the granny out at Torteval that might be along a track, because that is their public service obligation.

I think they have got the wrong business model.

The Chairman: Thank you. Deputy Wilkie.

395 **Q89. Deputy Wilkie:** You have mentioned there, do you feel it is having a detrimental effect on the sporting calendar, the current situation?

Mr Falla: As we have said in our letter, one of the problems, because the profit imperative has moved, is that we have moved to larger aircraft because they effectively give a greater return if they have near to capacity than if you were to run, say, aircraft of a smaller size with the same number running. What that mitigates is that if, because of a sporting event, and I pick the Siam Cup coming up on 2nd May I think it is, a lot of people will not be able to get down to Jersey because they will not put the extra planes on because they cannot guarantee having 60 people to travel in one of their current size planes, whereas, I see Peter there, he and I went several times down to Jersey over the years where they have put on about three or four extra rotations and planes were literally buzzing in the air all through the day and we did not always get to the plane when we were supposed after the game, for some reason.

I think that because they have moved to those larger aircraft, they are not giving as good a service and I know quite a few guys that will not even bother to try and get a seat to go down and watch the Siam.

410 **Deputy Wilkie:** So a lot of the issues, is this to do with weekends and timetabling?

Mr Falla: I think what I said in my answer to you is it was partly about the size of their planes. They will not stick extra planes on because they cannot prove an extra 60 travelling public, but they could easily get to 14 or 15. I know times when if you turned up with half a dozen extra they would put an extra rotation on and hope they would then get another half dozen to make the plane viable.

If you turned up today with an over-capacity of half a dozen, they would just say, 'Sorry, we have not any capacity.'

While we are on that particular subject, we are getting reports back to us about the code share arrangements between Blue Islands and Aurigny in that if you are wishing to travel with a team of say 20, you have got your playing team, plus your managers and reserves, you could find yourself going to Blue Islands and they have said they have got nine spaces and they cannot tell you how many spaces Aurigny have got. So you have then got a situation where effectively got to juggle between two airlines to try and move in time to get your 20 over there.

Whoever decided to say you have got half the plane each must be daft and I hope you are going to speak to them. *(Laughter)*

Whereas every other code share arrangement I know is basically whoever sells them first sells them first. Perhaps you will get that person in front of you as well.

The Chairman: That is our intention.

Mr Falla: Well, I hope so.

Q90. Deputy Wilkie: I have just got one more. Do you think charter flights are an option for large team events?

Mr Falla: There are when it's an Island Games or the Commonwealth Games. If you have found yourself using charter at all, what you end up with is a dead leg and if no one has got a plane in Guernsey, first of all you have got to pay for the plane to get to Guernsey, you have then got to take it somewhere, you are going to be there most probably for about six or seven hours and then return. Charters do not work. There is a massive cost penalty.

The biggest problem we get from sporting organisations when they clubs or whatever come to us is about the high cost currently of travelling because they are by and large having to book later because, as you may realise, often you have not picked the team until during the week of the game, so therefore how would you give the names to the airline to be saying who of you are travelling. These days you have to have chapter and verse on who's travelling, for proper reason, so it is very difficult to be early booking with sporting teams.

Q91. The Chairman: Do you find you get penalised at all by changing names at the last minute because of substitutes or injuries?

Mr Falla: To be perfectly honest, we do not organise teams to go away. All we can is reflect a collective of people that have contacted us to see if we can help them in that if we are able to articulate shall

we say a group of people that are experiencing problems and you will see in our submission to you that Aurigny have yet to reply to some of our letters. Partly because the States do not recognise it as a sector then neither do the airlines see the visibility of the number of people travelling within sport, so therefore they do not see it as being as big a... sometimes it is an inconvenience for them that we are wanting to travel late on a Saturday afternoon, I suppose.

The Chairman: I would like to pass you over now to Deputy Sherbourne.

Q92. Deputy Sherbourne: Thank you, sir. You have painted a pretty lurid picture in some respects. You have a long, long time been a leading manager in the Island. As far as I know, you have not managed an airline, but I would be interested to know how you think that Blue Islands and Aurigny could address these problems. What could their management consider help to foster the relationship with the sporting organisations in the Island?

Mr Falla: I think it starts with the shareholder, because I think any board of directors respond to the challenges that the shareholders lay on them. In most commercial enterprises that is a profit imperative, shall we say.

Here, because they have become a public service, and my contention is that is what they have become and I believe they have the wrong success criteria laid upon them; to not make a loss.

Q93. Deputy Sherbourne: So, do you think the focus in that case is too much on financial profitability rather than the service? (**Mr Falla:** Yes.) Can you just explain how you think that balance could be re-addressed?

Mr Falla: If, instead of taking profit as the key determinant, one looked at the number of people carried — so therefore you measure the success of the airline on the numbers and growth of those numbers over a course of time — then I am sure the tourist industry would be very happy because their numbers would be growing. I am sure the business community would be happy in the sense that more people are opting to come to Guernsey to do business and I know the sporting fraternity would be and I am sure that visiting friends would be and all the rest of it.

The whole community would see there is more travelling taking place at a cost. What I think, I am fairly certain that the airport is not breaking even currently, that it is running at a loss. I know that there are various incentives to airlines to come and operate in the Island. None of which are being taken up, currently.

Therefore it would be a cost to the taxpayer. If the cost is measured against the volumes of traffic that are coming to the Island, then you balance the two against each other. We are just spending quite a lot of money on getting cruise liners to come in and spend threepence. The majority that come on airlines are going to spend quite a bit more than that.

Deputy Sherbourne: You see, there is a dilemma...

Mr Falla: No, I do not think there is a dilemma. I think there is a solution. I have outlined the solution to you.

Deputy Sherbourne: That solution is for the States to be far more proactive.

Mr Falla: Absolutely. It is for the States as shareholder to lay it onto the board as to how they should be measuring their success. We as a Sports Commission do not make any profit, so we are not measured on profit; we are measured on the amount of additional sporting activity and calibre of those sports. You do not only have to measure something with money, there are many other measures available in this world.

Q94. Deputy Sherbourne: We are in a data-rich world in many respects, but what you are saying is that we need more focussed data upon, which those decisions can be made on. (**Mr Falla:** Yes) Getting back to something you raised earlier with regard to your frustration of finding it difficult to get a seat when a sports team is actually block-booked.

Mr Falla: They had forgotten to book. In this circumstance they had just not booked and therefore Aurigny helped them out and bumped other people off the plane. That happened because it was the Guernsey Football Club. If it had been one of the other sports, they might not have been accommodating.

Q95. Deputy Sherbourne: Sports teams, traditionally, are subject to last minute changes and there is an issue there with regards to the management of that problem. How do you think Blue Islands and Aurigny can address that issue?

Mr Falla: To be fair, I think staff that are confronted with the problem on the day handle it very well. I do not think we have got circumstances where we could say to you that teams have been disadvantaged. What we have asked both the airlines for is could they provide effectively a memorandum, a form, a checklist, whatever you have to call it, so that we could distribute it to clubs to be saying this is the best way that you can accommodate a scenario that most of them face, whereby they are not 100% certain.

That, as you see in our letter to you, has not been forthcoming from either of the airlines.

Mr Harry: That was asked for action 15 months ago and we still have not heard back.

Q96. Deputy Sherbourne: I did note from the submission. What about group fares and the costs to sports teams? They have always been fairly high as far as I can remember. (Mr Falla: Yes) Are there any special arrangements for clubs?

Mr Falla: There are. As I am sure many people are aware, sports clubs by and large run are by volunteers. We are talking about the club secretary or the club treasurer or the fixtures secretary, whoever it is doing it, is doing as well as their part time job and therefore, inevitably, administration is not always as good as it could be. Those clubs like the Guernsey Football Club that are, if you like, are more professionally managed and the Guernsey Rugby Club, I know, have got now a paid administrator, are able to cope with those types of issues far more easily.

But by and large we are dealing with amateurs doing it in their part time. Some can organise, as it were, trade deals or bulk discount in advance, some of them are less commercially aware. There are many examples where we are asked at the Sports Commission can we help with fares for a particular event because they are so expensive.

Q97. Deputy Sherbourne: What about balancing the competing needs of the travelling public and sports teams? That is a dilemma, isn't it, for both companies. How do we address that issue as a Government?

Mr Falla: As I am sure you are more than painfully aware everything you do is a compromise and it is a case of balancing different demands. I go back to my earlier suggestion that we are measuring Aurigny on the wrong criteria. We are looking at pound notes rather than volume and therefore if we are able to increase the volume and not be moving towards ever bigger aircraft, which, as I say, is in itself a problem because you do not then add an extra rotation unless there is a massive demand, then you are always going to have that balancing.

I think it is for the States to decide how best they shape the mandate given to the board of directors of Aurigny.

Q98. Deputy Sherbourne: Code share and the problems associated, you mentioned that early on. You have a particular experience of code share working properly. You think that is a major issue for us to address?

Mr Falla: I would like to understand the rationale as to why we split a plane in half and give half to one and half to the other. No other codeshare, as far as I understand elsewhere, is operated that way. So why do we put an artificiality into it, whereby we could have whoever is asked first can sell the tickets.

I would like somebody to explain to me why we have it done this way, why not have it as a proper code-share.

The Chairman: That question will be asked, I can assure you. Thank you very much indeed for giving evidence and we will let you stand down. Thank you very much.

I would like to call next please Mr Peter Mills.

Mr Mills was called at 9.52 a.m.

EVIDENCE OF
Mr Peter Mills, Guernsey International Business Association

The Chairman: Thank you very much indeed. If you would just like to briefly introduce yourself and then I will hand you over to Deputy Wilkie.

575 **Mr Mills:** I am Peter Mills. I am a past chairman of the Guernsey International Business Association. It is the umbrella organisation for the finance industry.

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

580 **Q99. Deputy Wilkie:** Mr Mills, welcome and thank you for giving us your submission and giving us your time today to be with us.

585 **Mr Mills:** Our GIBA members include the banks, the fund companies, the stockbrokers, the trust companies, the insurance companies, the accountants and lawyers. We thrive. We are called the International Business Association, because we thrive on international business and therefore for us the air links are absolutely essential and we were very pleased with Scrutiny to recently undertake this review and to ask for our evidence because we are concerned that it is getting more problematic to get to and from the Island. We would like to see that reversed.

590 **Q100. Deputy Wilkie:** How did you consult, preparing your responses?

Mr Mills: Guernsey Finance did a survey last year, of the entire sector, and took a number of the points forward in terms of understanding concerns, understanding what routes were necessary and also understanding issues around frequency etc. and capacity issues. We also at our GIBA meetings, all the associations come and discuss on a regular basis, in fact Aurigny is one of our standing agenda items. We take a consensus of concerns that are coming forward.

595 So we have anecdotal evidence from a number of our members. I will give you some examples. In fact only in the last two weeks we have lost another client that has gone to Jersey because of the perceived issues in relation to travel. Members are now going by boat to Jersey to meet clients there because if it is easier for their clients to get to Jersey.

600 I could not get to a meeting on last Friday in Jersey because I needed to stay overnight and there was no availability coming back on the Saturday in the morning, I would have had to wait until the evening. No point staying in Jersey for a whole day on the Saturday.

605 Just like Stuart Falla said previously, people are finding getting to Jersey that they need to sometimes book Blue Islands out and Aurigny back, or vice versa, because there is no actual code share. It is not a code share, it is actually half an aircraft that is divided. If Aurigny run out of seats there can still be a half empty plane because Blue Islands perhaps have not sold theirs, as an example.

I will give another anecdotal evidence in terms of a client of mine and this is important. Whilst we find it difficult to get off the Island, it is more important for us actually making sure our clients can get to the Island, whether that is business clients, or other clients in terms of people like tourists, for example.

610 This particular client was coming last Monday to the Island. There was the fog, unfortunately, but he checks in at Gatwick and basically finds that he is not told there is any delay, he goes to the departure lounge and the first thing he has found is that he is told there is a four-and-a-half-hour wait for any information, before he is then told what is going on.

615 There is no one at the Menzies desk, so he cannot find out what is going on. There is no offer of a food voucher. He eventually gets on the plane. He is trying to do his work. He has lost most of the day now trying to get to Guernsey. We eventually meet at 4.15 p.m. and he has told me then that the Aurigny staff had told him he needs to turn off his computer and he cannot be busy doing his work that he needed to.

That is the impression that we are giving to people trying to come to this Island.

620 **Q101. Deputy Wilkie:** So what changes would you advocate and why?

Mr Mills: In the submission we gave a number of concerns. I do not think there is an over-arching policy framework for how we deal with our links. There does not seem to be a strategy. I think that was mentioned by Charles Parkinson earlier, in terms of having some kind of strategy.

625 That is absolutely essential because, in the past, the States, thinking they are doing the right decisions and you cannot criticise them, they are looking at decisions that need to be done, normally in the short order, things like purchasing Aurigny to make sure we secure certain links for example, decisions around

extending runways, looking at the licensing system, where that was basically introduced. Quite rightly, you probably introduced for reasons that were seen as good, but there is no over-arching policy to where it falls.

Those decisions that have been made have had a direct impact on the position of where we are now and some of the issues that we have.

We, like Stuart Falla, think that Aurigny probably should be run in a different way, but importantly, if we are to become anything more than just a two-carrier Island, which is effectively what we are, Flybe now only operate three routes into the Island, Exeter, Birmingham and Southampton, then we need to look at how we can encourage other carriers to the Island.

For our international clients it is very difficult to understand how to get to Guernsey. If you go onto the BA system, if you go onto an easyJet system, if you go on to a Ryanair system, Guernsey does not appear. Jersey does. They can book through to flights directly with those airlines and basically get to the destination of their choice.

In terms of Guernsey, you have to look at how you get to perhaps London and then you have to work out who it is that flies to Guernsey and how to get here.

We need to encourage carriers. More importantly, we have been saying to Aurigny for a good number of months, in fact it goes back 18 months again, in conjunction with the Chamber, they need to now operate in a way that they basically use code sharing, proper code sharing, or interlining with other airlines, so that if they basically have that arrangement, someone booking with BA will see Guernsey appear and basically they can get a through flight.

We are trying to do business in China. Guernsey Finance is out there all the time. You try and get from China. I have flown there. Shanghai, Hong Kong. It is impossible. We are trying to encourage those people to come here and do business. It is very difficult.

If Aurigny code shared with one of the other airlines, at least someone can book a through ticket.

They also do not do the Gatwick Connect service. Gatwick Connect allows people, again, not have to go through the departure scenario, they can basically go through in a special arrangement and transit within Gatwick and it allows them straight through check-in...

So it is about changing the way Aurigny operates to become more, as Stuart Falla said, public service orientated, looking how it can encourage people to fly and look at other offerings as well, other carriers that could potentially come here.

Q102. Deputy Wilkie: Does the group consider the current air route licensing policy to be cumbersome and bureaucratic?

Mr Mills: I have to declare a slight conflict again, because previously I was on Commerce & Employment, as the finance industry advisor, but I was not actually on the Air Route Licensing Panel, so not directly conflicted.

In our experience and from the knowledge that we have it would appear to be that the air route licensing system actually has not been used very often. I can only think of one case where it was used. Yet it is perceived to be a barrier by carriers trying to come to the Island.

We have had routes where there have been multiple carriers. Southampton is one. Jersey is another. Gatwick is another. Manchester is another. In each of those cases, even with air route licensing they have effectively allowed that to happen, allowed multiple carriers on all of those routes and we have ended up in the scenario with virtually all of those routes have ended up being down to the one carrier. So where there was the potential protection available, it was not used.

You might say that basically there are certain key strategic routes that we do want to basically protect and maybe Gatwick falls into that. I do not know but that really is something that is appropriate.

On the other hand, why would we license all the other routes? The actual thing we want to do is try and encourage carriers to come to the Island and open up potential new routes if we can. That would be not only good for the business community but for the Islanders that want to get to different parts of the UK or the Continent but also for people, tourists to come to the Island. More options for them too.

Q103. The Chairman: You said there was a perceived barrier. Do you have any evidence of that? Any examples?

Mr Mills: I have to be careful of my conflict here. On my time on the Commerce & Employment Board there were carriers that did approach but the licensing was an issue for them.

Q104. The Chairman: Mr Stuart Falla wanted Aurigny to operate as a public service. Is that your standpoint as well?

Mr Mills: It certainly needs to have a different remit than it currently has in terms of trying to break even. It tries to do too many things, to be honest and perhaps there would be more appropriate understanding of all the different things it is trying to do. It does have a public service offering, certainly, the Alderney route is an example. Certainly in terms of Gatwick making sure appropriate capacity is essential, and also Jersey. Those are key routes for us and there are times, we have had a survey done monitoring of those different things, pricing and capacity, and there were definitely times when capacity becomes a problem.

Let us take Gatwick just as an example. I have more information on Gatwick than Jersey. Originally when there was Flybe and Aurigny, we had 400,000 seats on that route. We are now down to 240,000. In winter that probably does not matter because the five or six flights a day are sufficient for that kind of level. The peak capacity problems come during the summer months and particularly Mondays and Fridays as Islanders are trying to get off to go on their holidays or see family in the UK or whatever it might be and you have got businessmen trying to get on and off the Island as well and you are also trying to attract tourists to the Island.

Those peak days of Fridays, Saturday, Sundays and Mondays are a nightmare. Our members have told our clients to largely avoid coming to Guernsey on Mondays and Fridays and try and come midweek

The Chairman: Deputy Wilkie.

Q105. Deputy Wilkie: It appears from what you have been saying that you might be in favour of licensing and protectionism on some routes, but open skies on other routes.

Mr Mills: Potentially. I am a strong believer that open skies would probably have been a better solution for us, we can look not too far away and see what has happened. Another island has not felt compelled to necessarily protect their routes and they have ended with a much larger, diverse number of carriers, including two carriers on their Gatwick route.

If we feel compelled, and certainly the States should be able to evaluate, then it should only be done on routes where it is absolutely necessary.

Q106. Deputy Wilkie: Recent surveys carried out did not back up the claim of high demand for more routes. Do you accept that new routes must be sustainable and industry must have a realistic expectation or do you believe that Government should subsidise these routes?

Mr Mills: Going back to the Guernsey Finance survey when it was done, and then Commerce & Employment did their own survey, there were a number of routes that were identified as important. The London route, which is essential. Absolutely. That is Gatwick. London City was seen as an important link for us as well. Heathrow would be very important, but it is unlikely to become available certainly under the current runways and capacity issues that Heathrow have.

London City is now being operated by Aurigny. It has started. Perhaps a better option would have been to at least opt out to various other carriers to see whether there could have been interest from others.

But our surveys also identified that links into the Continent, through to Amsterdam, for example, or Paris, could be very useful. It could do a number of aspects. It could allow people to go to the Continent easily, but also fly onward with onward connections. It would avoid the APD issues in the UK and Amsterdam has fantastic connections to global jurisdictions, as opposed to other airports which would not have the same attraction.

Q107. Deputy Wilkie: We are an Island with a population of 63,000, which is known as a thin market in the industry. Therefore, aren't we relatively well served by our current air links?

Mr Mills: I think, if we look at what happened over the course of the last 10 years in the airline industry, you will have seen that most of the jurisdictions have increased their capacity, even those that are a thin market. That is because the low-cost carriers have come in. The likes of easyJet, Ryanair have completely changed the model so that you can get to various parts of the Continent; or a weekend, for example, a businessman can fly down to Monaco for about £100 return.

The same is not to be said in Guernsey. We are struggling. Our financial services businesses are strong. We are as strong as many other jurisdictions that are much better served in terms of airlines than we are.

Q108. Deputy Wilkie: Your submission does not acknowledge the introduction of the London City route as a positive improvement. Is there an element of business focussing only on the negative here?

Mr Mills: No, I think, as I have just outlined, we are pleased with London City and I went on the very first flight and found it a great success. It is much easier to connect into London. The flight times could be a bit better for onward connections, perhaps, but it is certainly positive and I mentioned that only a couple of minutes ago.

The Chairman: Is it being well used, though?

Mr Mills: From what I gather and the feedback from Aurigny, the loading capacity they are getting on it is at least as they were expecting. I think it always takes time for new routes to be secure. Whilst we here, again, know about it, it is harder to educate those that are overseas to try and start thinking about using it the other way.

It would be much better if Aurigny appeared somewhere on the important booking systems and through to some of other airlines' bookings systems.

Q109. Deputy Sherbourne: Can I just add, in the survey that you have referred to on several occasions, London City was actually given a very high demand. You say that Aurigny are pleased, but there is a 35% take-up at the moment. That has ramifications for other routes, really, in determining whether in fact a new route is likely to be viable. (Mr Mills: Sure) To what extent should Aurigny actually persevere with London City if it is not actually getting the travelling numbers increased sufficiently?

Mr Mills: I think that goes back to a couple of things. One, Stuart Falla highlighted in terms of it is a public service to try and help people get to and from the Island and that is important, but since Flybe pulled out of Gatwick, it has been more problematic getting to London, there is no doubt about it, having international connections. You have seen Blue Islands approach to offer people that go to Southampton and have a cheap train fare. It is not quite as convenient as flying directly to London.

Anything we can do to basically encourage and help that connectivity is absolutely essential.

In terms of whether Aurigny should be the carrier that is subsidised, I have a different approach to constantly asking Aurigny to do the next thing. Certainly GIBA is of the view that we should have the opportunity for Commerce & Employment using a pot that they once had and I do not know if they still do, to basically look at new routes and then to go out appropriately to basically ask those different carriers whether they would like to do that route, subsidise them for a set period, over two years for example, and ask them to commit to that two or three-year period and then say basically then, 'you try and make it commercially viable'.

If they do not, they are potentially pulled off the route.

That is a much better way of perhaps using funding than constantly pouring money into one particular airline.

Q110. Deputy Sherbourne: What responsibility, then, has GIBA got to actually encourage its members to use London City?

Mr Mills: We do.

Deputy Sherbourne: You said 'use it or lose it', I think.

Mr Mills: That is absolutely right. That is the message we give. You may have seen in the press, but it is not just that. We sent out circulars to our members. Whilst we are able to influence those of us here, based in the Island, it is more difficult to try and convince, sometimes, our clients to start using it.

They are. Some of them like it. Those in particular who have international connections are starting to come in from the Continent, inter-city, they use London City for that.

There is one problem with the London City route. It has proved a little bit unreliable. If London City has fog, then that route basically gets cancelled at short notice and that is not good news. Again it has happened to a client of mine. They basically found that their flight to City was cancelled. They were put on a Gatwick flight instead; they missed their connection down to Geneva. They were then told they had to sort out their arrangements.

There is a benefit in Gatwick in that at least there are six flights a day. You have got more chance of being able to get on onward connection.

The Chairman: Thank you. We come back to Deputy Wilkie. I think you have one more question.

Q111. Deputy Wilkie: Just on what you said there, do you think that Aurigny as a States-owned airline, is serving the Island well.

810 **Mr Mills:** I think Aurigny are probably doing their best. But I wonder whether their best is good enough for Guernsey. They are a small airline. They do not have the economies of scale, they will struggle in numbers, they have got four types of aircraft. It is a difficult thing for them to achieve.

Larger carriers clearly have larger scale, have back-up aircraft; they can basically call upon them as necessary.

815 I do believe that, yes, Aurigny, and they will probably tell you, they are doing their best and from their point of view they are trying to achieve what T&R have set them, which is to break even by 2016. But is that the best thing for Guernsey?

The Chairman: Deputy Sherbourne.

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Q112. Deputy Sherbourne: Thank you. I asked this question, actually, of Charles Parkinson earlier. Jersey have more or less declared that they are moving towards an international hub facility. Is that a challenge for us? Are there dangers there with regard to maintaining the sort of services we have at the moment?

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Mr Mills: There are undoubtedly dangers, Peter. I think Charles Parkinson has already mentioned triangulations. There are actually two routes that are triangulations at the moment, there is Birmingham and Exeter. The scenario we have, though, is that we also used to have triangulation to Switzerland, which used to work very well. That was then changed when Blue Islands took it over, from being a triangulation to fly into Jersey, get off the plane, go back through security, get on a new plane to Guernsey, which does not work.

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If we end up in the scenario where Jersey acts as a hub to Guernsey, I can tell you where the business will go. It will not come to Guernsey, it will stop at Jersey. That is not a good scenario for us.

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Q113. Deputy Sherbourne: Unlike Charles Parkinson, you actually believe that we should extend our runway. (**Mr Mills:** Indeed.) Can you give us any evidence that you have to support that view?

Mr Mills: The scenario that we have is that the report was done I think it was done by PSD actually, but it was called upon by C&E, not done by C&E themselves. That particular report compared us to London City. London City is a special case. Most people want to get to London. It is a huge market, capital market that serves about eight million people that live there and obviously it has got a huge business community.

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The reason why carriers will quite happily fly small aircraft into City is because commercially it works for them. They are not going to go and buy a particular small aircraft to fly into Guernsey. We are a much smaller market; you have touched upon that already.

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Therefore we need to basically give ourselves the flexibility and the options to allow as many potential carriers to come here and that is what Government should be. They should be an enabler to enable carriers' business to happen.

I understand the difficulties. I live in Forest myself. Personally there will be downsides to extending a runway, but economically we could end up shooting ourselves in the foot if we cannot actually get those carriers here.

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The experience that I have seen over the last 10 years of lots of business travel internationally is that where businessmen used to be prepared to want to travel business class that has changed. You will find that the business class offerings around Europe are much smaller than they used to be and it's by a handful of carriers.

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Most businessmen now want to travel where it is reasonably low cost. As I said before, easyJet flies down to Nice, to Monaco, to Geneva and they are typically £100 return fares. You go and have a look at who is travelling on those planes, it is typically businessmen.

We are not opening ourselves up to those opportunities. In order to do so and at least give the flexibility and the option of allowing these carriers to consider Guernsey, so they can bring in the types of aircraft necessary, a Boeing 737 or an Airbus, we should basically look into trying to extend the runway.

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Q114. Deputy Sherbourne: Thank you. Can you explain what GIBA actually wants in terms of service level agreements with airlines serving the Island?

Mr Mills: This is difficult because one issue is around the question do you encourage carriers here and give them the kind of open market approach which allows them to run and run commercially, or do you then put pressure on Aurigny to become a public service operator? The two are completely different.

You can run them together.

The key thing is around making sure that the routes are reliable, making sure that we avoid those cancellations that seem to happen far too often. Sometimes it is down to, unfortunately, our weather circumstances in the Island, but some of it is down to technical issues, etc.

We need to ensure we have arrangements where there are onward travel connectivity possibilities, so that we have the scenario of code sharing or interlining, whatever it might be, to make sure that we can open ourselves up to a wider network.

Also around pricing. Interestingly, during the monitoring that we did in terms of our pricing, we basically looked at Guernsey compared to Jersey. In that scenario, Guernsey was more expensive to London Gatwick on all occasions until it got to three days before a flight and at that point, in particular British Airways and Jersey became more expensive.

That was the average fares. When you look at the difference between BA and easyJet, BA is typically more expensive. That you would probably expect. It starts at about £60 a leg. easyJet starts at £32 a leg in our survey.

At no point does easyJet become more expensive than Aurigny. It is always less, much less, than flying to...

That is another area where we would want to see some potential controls, particularly if it was Aurigny, to make sure that we were at least competitive with some of our nearest competitor jurisdictions.

Q115. Deputy Sherbourne: Generally, I think, most people would accept, I think GIBA also, that the frequency of flights from the UK is quite good for a small jurisdiction. What is missing from the equation?

Mr Mills: The frequency works to Gatwick, because there are five or six flights a day. The reason why that is important is if you are going to do work in London that is fine. You will normally do the redeye and come on the last flight back. So that is fine.

But if you are trying to do inter-connecting flights, you need to know that someone is flying into Heathrow or Gatwick that basically they do not have to sit around at the airport for six or seven hours before they have got their onward connection down to Guernsey. They just would not do that. Typically a businessman's time is very important to them, that is lost productivity.

So we need to make sure that the frequency is right.

Gatwick is the only route that has that level of frequency, so we are heavily reliant upon Gatwick to make sure that those interconnections work. If we were to open up to other routes and we wanted them to be viable for the business community, we would have to have a similar number.

That is why I go back to the problem with London City. It works, but not necessarily for connections because of the only two flights a day.

Q116. Deputy Sherbourne: It is essential, of course, that GIBA's views are known to Government and your extensive submission, the tone is rather a frustrated one it would seem to me and I understand that. Can I ask you about consultation with Government? To what extent does GIBA have the opportunity to promote its position with regard to those links?

Mr Mills: We have met both the Minister for Commerce & Employment, and the Minister as the shareholder of Aurigny. We have met, written. I think the last time we wrote was last year, we shared concerns regarding price and capacity issues when Aurigny took over as sole operator on the Gatwick route.

Effectively what we got was a 'suck it and see' answer at this stage. It was disappointing, because whilst we are airing our concerns, as I have said to both of those Ministers, we will put up with almost any problems that we encounter. If we have to go to Southampton to get to London, we will do it. If we have to go Timbuktu to get to wherever, we will do it.

We cannot ask the same of our clients trying to get here and that is the problem. We are starting to see clients become frustrated and, in some cases, move their business elsewhere.

The Chairman: Thank you. Before Deputy Sherbourne continues, there are two other questions. Deputy Paint, would you like to ask yours?

Q117. Deputy Paint: Yes, I am concerned with risk associated with an open skies policy. Are you prepared to accept there is a risk of an airline failure as a consequence of adopting open skies? Since the war, just about every private airline operating to the Island has failed and this is why Aurigny is owned by

925 the States to ensure this does not happen again. With an open skies policy, risk to Aurigny might reoccur. Are you prepared to take that risk?

Mr Mills: I think I caveated it earlier by saying I think there is definitely opportunity to open up the skies for a number of routes and allow carriers to determine whether they would like to fly here. I think it
930 would be lovely to try and find if we can get more tourists here as well as increasing the potential flow of businesses with the likes of easyJet coming here, for example.

I did caveat that by saying that there may be a need and it needs to be evaluated, but certainly on some of our routes that we would still potentially have a licensing regime. Maybe Gatwick could be an example. I would say that needs, definitely, some thought. I did agree.

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The Chairman: Thank you. Deputy Wilkie.

Q118. Deputy Wilkie: We are talking about bringing big carriers in, extending the runway somewhat. Is this a risk of having a similar situation to the Isle of Man, where there are a couple of large carriers that
940 dominate and they are finding they cannot get the number of flights per day that businesses actually would prefer?

Mr Mills: I do not think so. I think we are more akin to Jersey. There is a slight problem in the Isle of Man in that their economy is not in the same shape as ours. Their finance industry has diminished
945 dramatically over the course of the last six or seven years. There are a number of reasons perhaps, which I will not go into today, it would take too long.

Our need is largely driven by a local need and a business need and a tourism need and that conjunction should keep sufficient flow, I would have thought, in terms of numbers that needed to travel. We have already got a large aircraft, a jet, on the Gatwick route, and it has not reduced the frequency below six a
950 day, which is probably what we normally need to maintain that as a viable connection.

Q119. The Chairman: EasyJet and other low cost airlines have negotiated low airport charges, which has enabled obviously the public to be able get in on cheaper rates. Do you think this type of subsidy should
955 occur in Guernsey as well?

Mr Mills: I go back to what I said before. I certainly think if we want to open up routes, it is worth putting some contribution towards it for a period of time. You might turn around and say look, we would like to try route into wherever it might be, Paris, let us try that as an example, and subsidise either through
960 lower airport charges or by giving funding in terms of another method, to a carrier to basically allow that to happen.

But that should be for a short period. That should be for a period like two years, or three years at maximum, to see whether it becomes viable. If it becomes commercially viable then it should operate on the same terms afterwards.

The Chairman: So you are very much in support of what Mr Parkinson said before. (Mr Mills: Yes) Thank you.

Deputy Sherbourne.

Q120. Deputy Sherbourne: Obviously Gatwick is our main link as an international airport. Have you
970 assessed your members' demand for interlining? You did expand on code sharing and interlining earlier, but have you got any evidence as to the demand for interlining?

Mr Mills: This was something, again, the Guernsey Finance survey picked up on as something that we have gone and discussed with a number of our members before. The issue we have is that whilst London is
975 still an important market for us, we are having to travel further afield to get business.

It is no secret that Guernsey Finance travels out to China, to Latin America, to the US, to the Middle East etc., to try and help us secure new business. Actually that is quite good because it makes our finance industry more diverse and we are not reliant on one dominant market.

In that regard we definitely need to have interlining, What we have said, even to Aurigny, is that
980 actually we would not have a problem with there potentially being two ticket prices in that regard. One that basically says if you are just having a connection to Gatwick and you pay a certain fee and then to pay a small premium, potentially, for having the benefit of an interlining or code sharing arrangement. That would make sense. People are getting a benefit and prepared to pay probably a small premium for it.

Q121. Deputy Sherbourne: If I can move to infrastructure. We have spoken about length of runway. You have observed GIBA's position on that. But in your submission you actually stated that you felt the airport itself, the terminal itself, is not fit for purpose. In some cases people would say we have got a gold-plated terminal. There seems to be a little bit of a contradiction in a way. Can you expand on that, why is it not fit for purpose?

Mr Mills: It is always easy in hindsight, but would I have spent the money on the airport the way we have, I would say no. The terminal looks lovely, but in some areas it does not function very well. The problem with the old airport — and many of us loved it to be honest; some people used to enjoy travelling through it — was the arrivals hall was too small. If you remember the old baggage handling area, it was pretty atrocious.

Probably an extension to that would have satisfied most of the needs of what we needed as an Island. Fine, it would not look as flash as the current one.

When the new one was built, it was disappointing to see that a number of issues that we had with the old terminal perhaps were not fixed. The baggage area is still too small. I do not know if you have landed on the last jet that arrives in the Island and you are all waiting for your baggage, trying to get 126 people around that carousel is impossible. It is four to five people deep. So we do not have an effective arrivals hall.

Bear in mind that is the first impression that anyone gets of this Island when they land here.

What you have also got is the scenario that security has changed dramatically over the course of the last 10 years and now we do not need lots of open area land side. What we actually need is a large area air side and most airports have changed their scenarios and they have got a lot larger facilities on the air side to make sure then can cope with delays or cancellations, or whatever the issues might be.

If you have been in the scenario again that we have problems with fog, there is not enough seats for everybody to sit in. That is a problem. It just does not give a good first impression.

Interestingly, some of the infrastructure items like that which have already been built have probably not been good uses of public money. Our resurfacing of the runway was essential and actually extending at the same time probably would have been cost effective.

Also introducing a better instrument landing system (ILS), for example, so we can land aircraft when we have fog. Strangely enough, we are an Island, we get fog quite regularly.

Anecdotally again, clients will put up trying to get to the Island and hopping and holding back, once or twice. They think it is quite quaint maybe. But after about the third or fourth time, they get frustrated and start thinking whether Guernsey is the right place to do business.

The Chairman: Deputy Sherbourne, your last question please.

Q122. Deputy Sherbourne: In your submission you referred to the fact that GIBA wish to work with Government. So what can the industry practically do to assist with long-term planning?

Mr Mills: I think that we can work together to identify, as again Charles Parkinson said, some of the economic areas that will be of benefit. I certainly think we can work also in conjunction with Chamber, for example, and Tourism, to work out how we can work jointly between what areas are good for business, what areas are good for tourism.

There may be other alternatives as well. Condor, as an example, is now owned by a fund, etc. There may be ways that we can actually try and get the finance industry to potentially invest and help in that regard.

The Chairman: Thank you very much indeed.

Mr Mills: Thank you.

The Chairman: We will let you stand down and we will call our next witnesses forward, the Guernsey Chamber of Commerce, which is Mr Le Page, Mr Rowbotham, Mr Wheadon and Mr Robins.

Mr Le Page, Mr Rowbotham, Mr Wheadon and Mr Robins were called at 10.28 a.m.

EVIDENCE OF

**Mr Le Page, Mr Rowbotham, Mr Wheadon and Mr Robins,
Guernsey Chamber of Commerce**

1045 **Mr Rowbotham:** Thank you. My name is Tony Rowbotham. I am the President of the Chamber of Commerce. I have got three colleagues here with me. I am going to let them introduce themselves. The reason for bringing them is that we have sector special knowledge within the airline industry and within tourism and we think that is highly relevant to what I hope will be your questions.

1050 **The Chairman:** Thank you.

Mr Robins: Good morning. My name is Tim Robins, member of the Chamber Transport Sub-Committee. Private member. I have worked for over 30 years in the airline business. I am not here representing any one particular airline. I am not conflicted in any way in that respect.

1055 **The Chairman:** Thank you.

Mr Wheadon: Luke Wheadon. I represent tourism and hospitality at the Chamber of Commerce.

1060 **Mr Le Page:** I am Rob Le Page, local architect and surveyor. I have been involved with Chamber Transport Sub-Committee for longer than I can remember and a close involvement with the airport and its facilities.

The Chairman: And a pilot?

1065 **Mr Le Page:** Yes.

The Chairman: Thank you. Deputy Queripel.

1070 **Q123. Deputy Queripel:** Thank you Mr Chairman. Good morning gentlemen. In your submission, you say there are strong arguments in favour of extending the runway at Guernsey Airport and you highlight an apparent need for a longer runway, but are you able to provide us with any evidence that extending the runway will actually result in any real economic growth for Guernsey?

1075 **Mr Rowbotham:** I think that the first thing, picking up from some of the conversations that have gone through today, is that we would change the outlook of these discussions and say we think it is highly important to examine how people get to this Island. What we should be worried about is the economic vitality of this Island for the next 50 years. These conversations have been very much focused on people getting off the Island but, actually, what we want to encourage is people to come to the Island and that is through tourism or into the business sector.

1080 So perhaps that is the first point I would make to you, a slight change of mind-set.

Clearly the length of the runway limits us from having any discussions with the big carriers that operate in the low-cost sector throughout Europe. EasyJet, Ryanair and we are now seeing the growth of Norwegian: all operate planes that are unable to come to Guernsey.

1085 So, in terms of trying to encourage the airlines to come here, it is a conversation that really cannot be had because it is such a theoretical one.

1090 If you look at the way the airline business has changed over the last 10 to 20 years, what we do not know is who are going to be the airlines out there in the future. Lengthening the runways and infrastructure, infrastructure to my mind is certainly there for 50 years, if not 100 years, so whilst we cannot answer the question of who will be the dominant low-cost carriers in Europe in 20 years' time, the one thing we can say is they will not be coming to Guernsey unless we have a runway that is capable of taking the planes that the major manufacturers are going to be producing.

1095 **Q124. Deputy Queripel:** Thank you, but do you think airlines would be able to fill the larger aircraft that would result from extending the runway?

Mr Rowbotham: I think if you look at Jersey, there are number of routes and I listed them last night: Belfast, Dusseldorf, Edinburgh, Glasgow, Liverpool, Newcastle, Stuttgart. Carriers are running into those towns and cities but where they are doing, they are not doing six flights a day, they are perhaps doing it at the weekend, they are doing it in the summer, they are doing two or three flights a week and they are clearly being able to make money out of that.

1100

But the reason they were able to do that is that those planes are then doing other routes around Europe through the course of the week. That slightly comes back to the issue that has been raised here. There seems to be an awful lot of responsibility on Aurigny to create new routes and, of course, they then have to do that backwards and forwards to Guernsey throughout the day.

1105 Clearly there will not be routes that will operate every day throughout the year, but there will be routes that are economical at certain times of the year and at certain times of the week, but then you have to accept that it is only the carriers that then have capacity around Europe so that those planes are then broadly flying 20 hours a day to keep themselves occupied.

1110 **Q125. Deputy Queripel:** Thank you. Can you explain your proposal in your submission, for landing fees to be levied solely on the basis of passengers carried? You say that the cost should be borne by the airline and not the passenger. Surely the airline will pass the cost on to the passengers in additional cost?

Mr Rowbotham: Would you like to comment on that, Tim?

1115 **Mr Robins:** I think the present system whereby an airline pays a landing fee and a passenger service charge per passenger, it mitigates against carrying aircraft with a lower load factor, so it is obviously not encouraging an airline which wants to experiment with a new route and is going to take two or three years to build up that route to a viable load factor.

1120 The fees for landing an aircraft in Guernsey are weight-related, as they are in all airports, and the larger the aircraft obviously the higher the fees you are paying to bring the aircraft in. So if you are running to begin with on a 30% load factor or a 40% load factor, you are still paying the weight-related fees for landing the aircraft, plus the security charge and the passenger service charge.

1125 All we are saying is that to encourage new business you might want to look at another model where you are only paying per passenger carried and there is a level of subsidy being offered by PSD and the airport to attract new airlines.

How do you do that? You look at different models. You look at how other airports or other cities and jurisdictions incentivise travel to and from their jurisdiction.

1130 **Q126. Deputy Queripel:** Thank you for that. Also in your submission you say that the open skies policy in Jersey appears to have been a great success. So my question is would you actually like to see an open skies policy introduced here in Guernsey and what type of open skies policy would you envisage? Because you do go on to say in your submission that you think our link to Gatwick needs to be protected.

1135 **Mr Rowbotham:** I think there are two questions there. We do think it is important to preserve the link to Gatwick. Whether that is preserved through Aurigny or through another airline I think is a different question. I think the point that has been made elsewhere is why not have an open skies policy that allows other airlines to come in without the issues of bureaucracy. We do acknowledge that there is a question out there of what are our strategic routes, but that question has not been answered.

1140 Secondly, once and if it is decided what they are, how do you go about protecting them? Assuming you do need to protect them and that is uncertain in itself because I hear comments today about subsidies being mooted on the Gatwick route. I am not quite sure whether there is evidence out there to suggest that that is actually true.

1145 **Q127. Deputy Queripel:** Thank you. You suggest in your submission that perhaps we could attract a Middle East carrier to partner with the Island. How realistic is that? Is there not an element of cloud-cuckoo-land in there somewhere?

1150 **Mr Rowbotham:** I do not know. Let us go out and ask. It is all within this broader context that this has been raised in terms of interlinking and code sharing. We are very much focussed in our mind-set on protectionism and so, possibly, isolationism.

1155 The point has been made and we would make the point that people are travelling further afield, the Island's customer base is coming from further afield. It does not matter whether that is from the business sector or from tourism. If you sit in America or China, what is the chance that you have ever even heard of our local airline? If you go to Gatwick, we all recognise the desk and the sign of Aurigny, but who else does? Who else understands that they fly to Guernsey?

If you sit on a website in Hong Kong and you want to get here, how do you even find that airline? One of the benefits, and you can see that, slightly coming through with easyJet is that easyJet magazine and easyJet website have got some of the highest views and readings throughout Europe. We all read it. We all

1160 travel on easyJet don't we? Occasionally you pull it out when you are bored and you look at it. And that lists Jersey.

There is no marketing that comes out. There is no concept of how to get to Guernsey without having some form of link.

1165 What we are suggesting is there ought to be the opportunity to go out and find out whether there are airlines that we could link up with.

Deputy Queripel: As a supplementary to that, have you actually relayed your thoughts and your ideas to Aurigny that you have just relayed to the Panel?

1170 **Mr Rowbotham:** Yes, we did have a meeting with them last year on a lot of issues. Somewhat surprisingly to me, they decided not to renew their Chamber membership this year. Possibly they felt the meeting did not go quite the way they wanted it to.

1175 **Q128. Deputy Queripel:** Regarding consultation, do you think consultation with local businesses results in wish lists being produced, as opposed to what business actually needs? The reason I ask that is because the London City link was introduced to meet the needs of our business community and that followed consultation. Yet we understand there has been a slow uptake on that service.

1180 **Mr Rowbotham:** I think you need to look at the economic benefits of that link. I think it is very dangerous just to say that there has been a slow uptake of it and therefore you are almost throwing the question out of whether it is of a benefit.

If there are people coming over from the City here, what is the economic benefit that they are bringing to this Island? The load factor may be fairly small. It may be growing. But what is the benefit for those people that are coming over here? How much business are they bringing into the Island when they come in here and they have meetings they are generating economic wealth for this Island?

That is probably greater than the 150 quid that they are charged for their seat.

I think you have got to look slightly more broadly at it and what the purpose of that route is and what the purpose of the airline is.

1190 **Q129. Deputy Queripel:** Thank you for that. In your view are facilities here in the Island sufficient in terms of hotel capacity and tourist attractions to be able to cope with an increase in new business and tourists coming to Guernsey which could be brought about by the introduction of new routes and open skies etc.?

1195 **Mr Rowbotham:** I think there are two answers to that and I will let my colleague Luke Wheadon perhaps talk to this.

1200 **Mr Wheadon:** Yes, I believe there are. We certainly were not at full capacity last year, occupancy rates in the hotels. The tourism strategy with *VisitGuernsey* is very much in line with looking at the rise in budget tourism. We believe that Guernsey has an amazing opportunity to increase its tourist offers, as well as growing that industry.

Last year we saw growth in the tourism industry, probably for the first time in many years, and we believe we will see growth again this year. But to do that we need to have a competitive, sustainable situation with the airports and the links to the Island.

1205 There were some very concerning stats out last year that I think we should all consider, particularly with air travel to the Island is down, sea travel was up. We had staying visitors in Guernsey actually up for the first time in a long time.

So we are seeing growth in the marketplace and we think there is a great opportunity there. However, there are some concerning stats to that. We are limited by the current situation.

1210 **Q130. Deputy Queripel:** Are there any other points you would like to relate to the Panel today?

1215 **Mr Rowbotham:** I think I will pick up on the tourism issue. I think one does not come without the other. I think you are seeing growth, certainly in air passenger numbers in Jersey, and you are seeing that the private sector is investing in tourism facilities.

We have seen over the last few years the Radisson being built and the Royal Yacht and now you are seeing a Premier Inn being constructed over there. One of the reasons they are doing that is that they are seeing growth in air travel and they are seeing growth in the low cost air travel. People being able to get there for the weekend relatively inexpensively.

1220 No travel to these Islands is ever going to be perhaps as cheap as going down to Malaga, but it still has a place in the market.

1225 **Q131. Deputy Queripel:** Thank you. The panel was interested to note your suggestion on how Guernsey and Aurigny might better promote itself globally through partnerships with network alliance carriers. Could you explain how this might be achieved?

1230 **Mr Robins:** Yes. I will go back, if I may, to the former T&R Minister and his remarks at the opening of this session, where he was talking about politicians not qualified to run an airline *de facto* ending up with ownership of Aurigny at the time when BA withdrew. I would question whether Aurigny was in financial difficulty. He told us that Aurigny was in financial difficulty at the time when BA withdrew. As I understand it Close Brothers were the owner of Aurigny at the time. Close Brothers saw an opportunity to cash in and sell their share. So I think that what he said is debatable.

1235 If you talk about the Middle East carriers, the global alliances, airlines like Air France, British Airways, Lufthansa, Emirates, Etihad, Qatar, they cannot operate themselves to smaller jurisdictions but they sign code share or interline agreements, partnership agreements, with other airlines, with other small regional carriers.

Those can take various forms. Blocked space code share agreements, free flow code share agreements, franchise agreements. You can name any number of joint venture arrangements where the risk sharing arrangements are individual to the route or individual to the carrier.

1240 What we have seen Blue Islands show conclusively is that with smaller aircraft and slightly different marketing techniques and being more entrepreneurial, you can go and exploit those possibilities, go and talk to other airlines, go and seek their expertise. It is been of limited success, the alliance, I think and they are only just commencing their code share arrangement with *CityJet* at London City, for example. But there are numerous small communities in the world that have benefited from the brand penetration of a larger airline being used by a smaller airline.

1245 The Isle of Man has benefited to that extent, London City has benefited to that extent, you have got communities in Switzerland, in Scandinavia, in Ireland, Aer Lingus with its PSO routes contracted out to Stobart Air, and we have seen insufficient evidence that Aurigny has made efforts to go and talk to the wider world, to the other airlines, with a serious intention of trying to raise the Island's profile on the world stage with a view to offering code share interline services in partnership with another airline.

1250 We are not saying go and talk to Air France, go and talk to KLM, any one particular carrier. But we think there is significant scope there for the local carrier to go and talk to other airlines with a view to co-operation and partnership.

1255 **Q132. The Chairman:** I am sure you are aware that Deputy Duquemin, one of the Castel representatives, tried to talk the States into a rebranding of Aurigny to incorporate the name 'Guernsey' within the livery. Would like that to be revisited by the States at some time in the future, just for the record?

1260 **Mr Rowbotham:** That is the curved ball that you want me to catch, isn't it? I think that is a really difficult one. There are clearly two sides to that. There is the emotive link that we have to the name, but it is a name that is familiar to everyone on this Island, but it is not familiar to the rest of the world.

1265 Why do other airlines broadly call themselves often by their country names? Because it provides a link. I think it is something that would bear further exploration. I can see both sides of the argument, but I would come back to my point that air transport and air links are vital to both our social wellbeing and our economic wellbeing and it is important to make sure that they are in place for the next 50 years.

What we are trying to do is to get people to come to this Island for tourism, personal reasons and business, rather than just focus on how we get our own population off the Island.

1270 **Q133. The Chairman:** Air France is an example of an international airline which has Air Inter, as its domestic wing. Do you consider that perhaps a name such as Guernsey Airlines could be our equivalent with Aurigny the inter-island branded link?

1275 **Mr Rowbotham:** I think that is an excellent suggestion that you have put forward.

The Chairman: Would Chamber be prepared to work with Government to develop policy in the future?

Mr Rowbotham: We have said that we are always prepared to work with Government, whatever form it takes.

1280 **The Chairman:** Thank you very much indeed.

Q134. Deputy Sherbourne: I would like to ask the same question to the representative from tourism, really. There is a long history of a relationship between the industry and Government, sometimes not as comfortable as maybe you would like. How would you answer that question?

1285 **Mr Wheadon:** We would always work with Government. Absolutely. We are working very closely at the moment with VisitGuernsey and Commerce & Employment and developed a tourism strategy. We are very focused as an industry on trying to create growth, certainly for the next 10 years and are working on a strategy with Government at the moment. We would be delighted to work with them.

1290 **Deputy Sherbourne:** So you would say that the consultation and involvement, the dialogue at the moment, is satisfactory?

Mr Wheadon: It is very positive.

1295 **Deputy Sherbourne:** Thank you.

The Chairman: Thank you very much indeed. We will now take a 10-minute break and we will then reconvene with witnesses from the Guernsey Airport Consultative Committee.

1300

*The Committee adjourned at 10.50 a.m.
and resumed its sitting at 11.00 a.m.*

1305

Mr Jehan, Mr Ferbrache and Mr Le Ray were called at 11.00 a.m.

**EVIDENCE OF
Mr Jehan, Mr Ferbrache and Mr Le Ray,
Guernsey Airport Consultative Committee**

1310

The Chairman:

We now have Mr Dudley Jehan, Mr Colin Ferbrache and Mr Colin Le Ray from the Guernsey Airport Consultative Committee in front of us.

I would just like you to introduce ourselves and then I will hand you over to Deputy Paint who will be asking you some questions.

1315

Mr Jehan: Thank you, Mr Chairman.

I am the independent Chairman of the Airport Consultative Committee, appointed by the Public Services Department (PSD). Independent, in that, I act as a conduit between the Committee and PSD.

1320 We have a wide range of members, all associated with aviation at Guernsey Airport, such as service suppliers, airlines, freight companies and those who are involved with general aviation, which means private aircraft, light aircraft and so on.

I am not a specialist in aviation, so you will probably hear little from me in the way of answering the questions because I do have with me two specialists.

1325 On my right, Colin Ferbrache OBE, whose wide career in aviation includes the Royal Navy for some decades, flying all sorts of helicopters. On retiring – and I am précisising this – from the services he became managing director of an air charter company. He also flew fixed wing jets, both throughout Europe and transatlantic.

1330 You may well know that he has flown as a pilot for Channel Island Air Search and is, in fact, their Chief Officer; Chairman of the Guernsey Aero Club for some 14 years, he currently holds both a private and commercial pilot licence. I am simply giving you a little background as to the fact this man knows a bit about aviation.

I think, also importantly, Colin has worked in finance for a significant period of time, so he does have a business perspective on airports.

1335 Another Colin, Colin Le Ray, who most of you will know as Airport Director. Because of the circumstances, Colin wishes to clarify the capacity in which he is here this morning. So if I may, Colin?

Mr Le Ray: Thank you, Mr Chairman.

1340 It is really just in my capacity as Secretary to the Committee. So I was responsible, I guess, for canvassing the opinions of the Committee members and pulling together the representation, the written representation, that we made to the Scrutiny panel late last year.

Therefore, because I am also appearing in June with Public Services, to go through their representation, I think my views at the moment are limited really just to expanding the views of the Committee, rather than necessarily my personal views as Airport Director.

1345 Clearly, where we are quoting statistics and numbers, I have got some of those facts with me, but generally speaking my capacity is limited to Secretary of the Committee.

The Chairman: Your position is understood. Thank you for clarifying it. Deputy Paint.

1350 **Q135. Deputy Paint:** Good morning, gentlemen, and thank you for your submission and we were very grateful for it.

The Guernsey Airport Consultative Committee states in its written submission for the review that the, 'Air route licensing policy is worthy of retention to protect sensitive routes, but needs overhaul.'

Could you briefly explain what you would change and why?

1355 **Mr Le Ray:** Well, the views I think from the Committee were largely around the process of the current route transport licensing machine and I think there was a consideration on the part of, particularly the airlines, who are the people on the Committee who are subject to that process, that it was perhaps difficult to understand, that it was somewhat time-consuming and I think there was some concern over the output from that and the process for application.

1360 So where airlines have to respond quite dynamically to changes in the market and to fleet availability and to extra capacity, for example, where aircraft are concerned, it becomes quite difficult to effectively be subject to a process which makes that dynamic nature more difficult to implement.

1365 So I think it is around the process. The airline representatives, as is captured in our response really, I think, were concerned about the way that that operates.

Q136. Deputy Paint: Thank you.

The Airport route licensing system, in its nature, is bureaucratic. Is the current one needlessly so and, if so, which changes would you like to propose?

1370 **Mr Le Ray:** Is it necessarily bureaucratic? I understand because of the nature of the process, which I think in certain circumstances could be subject to judicial challenge, the current process for hearing those representations and, for example, advertising new routes and giving a period of time for consultation, is geared around the potential for judicial review of any licensing decisions by the panel.

1375 So I think at the moment the process is the way it is because of that concern. I think, because of that reason, it would be difficult for us to sit here and come up with some suggestions as to how that process could be specifically streamlined without taking into due consideration how the Law is phrased and what the challenges are associated with that.

1380 The point the airlines were making was it has to be more dynamic, it has to be faster in terms of the process from the moment you submit a route transport license until you get a decision, and there needs to be a bit more transparency around the basis on which that decision is made.

Deputy Paint: Thank you.

1385 **Mr Jehan:** So a process must be found that to make us more fleet of foot, whatever that is, but we do not feel it is necessarily our place to suggest that.

The Chairman: So do you feel that the current law is a hindrance?

1390 **Mr Jehan:** Colin?

Mr Ferbrache: Well, yes, it probably is because it can be criticised after decisions are made. It just needs to be quicker.

1395 **Q137. Deputy Paint:** You posed a question: “can a strategic air link promotional policy sit alongside the air route transport licensing policy or are they mutually exclusive?”. Can these actually sit alongside each other or are they incompatible?

1400 **Mr Le Ray:** They sit within the jurisdiction of one States’ Department. That Department has to go to some considerable measure to keep the two processes apart, in terms of the way it evaluates, for example, a proposal for a new route from an airline, against the licensing regime that would necessarily be required once the proposal was fully justified and explored.

1405 The Department manages very well to separate those functions out, but I think it creates a host of challenges for the Department. It is on public record, I think, that the Department found itself unable to participate in the debate when Gatwick was given a higher priority in the air route policy, and I guess it is a challenge for that Department to be able to continue to manage that arrangement.

1410 So it could be – let’s say for argument’s sake – that if the process is to be made more dynamic and more fleet of foot, the issue which that Department potentially faces could actually be dealt with as part of that same process. In other words, that it becomes a non-political decision-making process or driven by a shadow board or a quango board, or something like that.

That would then leave the Department that is responsible for route development to get on and concentrate on route development.

1415 **Deputy Paint:** Thank you.

Mr Jehan: It is also responsible for tourism and other linked issues which must on occasion make it...

1420 **Q138. Deputy Paint:** So what you are actually saying is they might be working in a way, but they are not really compatible. (**Mr Jehan:** Yes.)

You state that measures for air route policy are crucial and some benchmark needs to be established to measure the relative success of the operation. Can you expand on this issue for the benefit of the panel? How would you suggest that Government measures the performance of air route policy?

1425 **Mr Le Ray:** In our submission we questioned how to measure the performance of a strategic air route: is it the physical count of people who are actually travelling on the flight; is it a schedule or the frequency of flights, which gives people the opportunity to travel, even if they choose not to do so; is it the number of carriers that the Island has, the marketing bandwidth of those carriers; is it actually the range of aircraft types, for example, which you may be able to travel on?

1430 So we can see that there are several measures of success in terms of key routes. It is a problem which the Transport Board have grappled with for many years, even prior to 2004, as to what is the measure of success.

1435 I am not sure we have got specific answers on that, but I think it would be an interesting discussion for this panel to consider in terms of where we are today. Our submission from the Committee talked about the relative ease and ability for an Island community of 64,000 people to be able to connect to two flights a day to Manchester year round, two flights to Birmingham year round, six flights a day to Gatwick. For a community of 64,000 people, we are well served by the existing links.

1440 Is that a measure of some success, I think, is the point that the Committee was making in terms of how do we measure it. Do we measure it purely on passenger numbers, which is the traditional measure, or do we measure it on the ability for locals and visitors to be able to connect on a very wide range of networks, 364 days a year?

1445 **Mr Jehan:** As a layman it strikes me that one of the measures is the cost and the other of course is increasing, as Colin says, travelling numbers. But the successful air link policy would be that it is affordable.

The Chairman: Thank you.
Deputy Paint.

1450 **Q139. Deputy Paint:** You give quantifiable measures, but should the Government also measure the social benefits of any air route policy in terms of the quality of life of islanders, facilitating participation in sports and cultural pursuits and other things?

Mr Ferbrache: Yes, the thing is on the sporting side it is a specific requirement to travel on weekends, generally. Of course, you do have this situation where some of the flights actually reduce in numbers, for instance, on a Saturday out of Guernsey. So I think that you want to encourage more inter-island seats being available.

Now, whether the current situation with Flybe being limited to 10% inter-island, in the number of passengers you can take on extra, perhaps that needs to be looked at. And obviously the codeshare arrangement as laid down by CICRA was that the airlines had to market their own individual seats separately..

So I think all these things need to be taken into consideration to allow flexibility for sports teams. It comes down as well, to the airlines and the fact that, possibly with a sports team, you do not exactly who is going to travel until the last possible moment. So the airline has got the facility for us to change the names up until Friday evening for a Saturday morning flight – that helps as well.

But there is a lot of sports traffic. I know from the Rugby Club alone, this weekend we had a hundred people coming in for the rugby game down at Footes Lane – and that is a lot of people coming into the Island and obviously helps the hotels as well.

So perhaps the airlines need encouragement to allow the sporting seats to be available.

Q140. Deputy Paint: Thank you.

In your consultation response from the GACC, you state that, ‘Open Skies policy by no means is a panacea of all evils.’ Could you expand on this viewpoint for the benefit of the panel?

Mr Le Ray: Yes, we touched on it elsewhere in terms of what is the alternative, and Open Skies clearly is a more common approach to the way in which jurisdictions operate their air services. It is a view that I know Flybe hold quite strongly.

The challenge I think for us, as an Island community – and we touched on it before – is how do we come up with sustainable air services year round that at least afford the ability for individuals to travel – I will not say wherever they want, whenever they want, but almost to that degree – at an affordable price, and how do we best protect that? Because the alternative is the risk that we end up with increased services in the summer months, for example, when the seats can be sold, and skeleton services in the winter months, where simply it is not viable for airlines to operate empty seats.

The massive change that we have seen in the market in 2014 – from March 2014 – really was about making air services more sustainable and we have a lot fuller, larger aircraft travelling around the skies to and from the Island than we did in 2013. So whether you look at the consolidation on Gatwick or whether you look at the consolidation on inter-island, it really has been about trying to make things more sustainable on an on-going basis.

Q141. Deputy Paint: Thank you.

Does the GACC consider that the current air route licensing policy has a detrimental effect on the Guernsey economy?

Mr Le Ray: I think the view of the Committee would be that it does not; that it is a necessary protection that is afforded to try and endeavour that year-round services can be maintained.

Q142. Deputy Paint: The GACC has expressed an opinion that the Bailiwick should celebrate the extent of the air links it enjoys. Do you believe that it is realistic to expect additional air links, considering the thin market that the population offers?

Mr Le Ray: Could you repeat the question?

Mr Jehan: Yes, are you asking should we expect to increase the range of routes, **(Deputy Paint: No.)** bearing in mind our population?

Q143. Deputy Paint: You have expressed an opinion that the Bailiwick should celebrate the extent of air links it enjoys. Do you believe that it is realistic to expect additional air links, considering the thin market that the population offers?

Mr Ferbrache: I think this is coming to the situation of, perhaps, to summer services and reduced number of services – not a daily frequency. I think there are some options on that side, for those thin routes to actually function financially, but we still think, on balance, that overall we are still well-served on the number of services that we do get for the population size.

1515 You see a lot of airlines over the years that have tried some of these other routes and they have not lasted very long in doing that.

Mr Le Ray: The challenge I think is in introducing a new route that we do not then dilute existing routes. We have talked about a fixed population, a fixed propensity to travel, driven by lots of different factors within the Island and, in evaluating any new route opportunities – and at the moment we are – the challenge is demonstrating that actually it adds incremental business to the Island, to the Airport, to the carriers, rather than necessarily redistributing the people from elsewhere.

Q144. Deputy Paint: Ok, thank you.

1525 Do the GACC members have a united opinion regarding an extension of the runway in Guernsey?
(Laughter)

Mr Ferbrache: There are lots of aspects to a runway extension. I think what we are fortunate in having is actually that the extension would have to be on the eastern end and that all the work that was done on the runway recently... everything is in place in the western end, so what you need to do is extend out to the eastern end.

I think any runway extension gives you safety in any type of operation and, therefore, an aircraft has got bigger margins if you have got a longer runway, even if you do not actually need the full length. But, of course, what it would enable is aircraft of greater capacity.

1535 I think the workhorse of the regional airlines in Europe is basically the Boeing 737 and if that can operate into Guernsey economically, with a reasonable or full load, then of course it is an immense benefit, even if you just bring them in occasionally – you have that flexibility.

1540 We still do not know what the situation would be with, possibly, Gatwick, with the landing fees. I mean they end up charging aircraft a fixed fee of a certain size, irrespective of whether you are operating an aircraft with less seats in it, so it becomes very expensive to operate. So if you have an aircraft with a greater capacity, then obviously you have got the capability to make it more financially viable.

So I think, on balance, that we would go for a runway extension.

Deputy Paint: You would like a one way extension, on balance?

1545 **Mr Jehan:** If I go back four or five years when I joined the board as Chairman, it was quite clear that the scheduled airlines were against any idea of extending the runway and, from memory, primarily on the basis that somebody has to pay for it; some will have to pay significant sums and that would likely impact on the airlines, which is reasonable. If you could magic up an extension for nothing, everyone would be in favour of it, but we know that is not the case.

1550 At that time, GA did not concur with the scheduled airlines and I must admit I was seduced into supporting the idea that we do not need an extension, but were that to occur today, with debate, I would change my mind and I would certainly reconsider.

Q145. The Chairman: Fine. Can I just interject?

1555 What do you think of the Chamber of Commerce's view that we should focus on those that are coming to the Island, rather than just the thin market that our small population offer?

Mr Jehan: So focus on those coming into Guernsey?

1560 **The Chairman:** Yes.

Mr Jehan: Well, again as a layman, if you are flying an aircraft then you want it as full as possible both ways. So let's focus on those coming in, but to also give credence to those who want to fly in the opposite direction and giving the choices to the community, but that is just an amateur's view.

1565 **Mr Le Ray:** I think that is not unreasonable, I think, but the best mechanism for making a new route succeed is to make sure that it is well supported at both ends of the route.

1570 So laying on a new service for locals will have some margin for success – probably a greater margin for poaching passengers from existing routes. Whereas, if you can get a new route that encourages locals to travel to a new destination, but also you can put some effort into encouraging visiting traffic to support that route, by opening new markets with tour operators or destination holidays from other continents, then clearly that has the greatest probability of success for that route because it then becomes supported at both ends.

1575 **Mr Ferbrache:** I would just like to add that the issue really is for ‘Guernsey Limited’; and the benefit for ‘Guernsey Limited’ is for more people to come in.

Jersey is seeing certainly, I think, flocks of greater people. Colin will give you the exact figures, but basically Jersey in the last year – we only have figures up to 2013 – has gone up 3%.

I think if you go on to the easyJet site and you see, ‘Which destination should I go? Where shall I go for my weekend this weekend?’ and Jersey comes up, but Guernsey does not. Then potentially you are attracting those sort of people, so you are bringing people into the Island and I think it is the market to go to sustain the routes. I do not think you do it just from our local people going out.

Q146. The Chairman: Do we brand ourselves correctly?

Mr Jehan: My immediate answer to that, Chairman... branding – and, sorry, this is a little bit specific – we have a wonderful new aircraft flying on this route and even that is not branded in a way that I think is to the best advantage of the Island, but that is a little bit of a side track.

The Chairman: We may be missing an opportunity?

Mr Jehan: Yes, indeed.

But we can talk about increasing air links to encourage visitors to Guernsey, but where are they going to stay because my perception – and it is my own perception – is that the number of beds are at a level where we cannot really increase capacity very much.

Am I right?

The Chairman: Ok. Deputy Paint?

Q147. Deputy Paint: We have partially covered this before, but I think we should visit it again. You say that the separation of responsibilities amongst government departments within the operation of air links is not clear, but that process is cumbersome, time consuming and demanding of resources. Can you tell us how exactly and can you give us some examples?

Mr Le Ray: I do not know if this is strictly speaking in the context of –

Deputy Paint: It was in your submission.

Mr Le Ray: Ok. Well, as I have described it already, the route transport licensing process is a split function within Commerce & Employment and it has to be, effectively, established to separate out the policy licensing issues from the route promotional issues.

PSD is responsible for operating the Airport and has, obviously, an interest in encouraging use of the Airport and sustaining the use of the Airport through either route licensing processes or developing new routes.

There is a joint committee established, the External Transport Group, which comprises of officers and politicians between both and Commerce & Employment and PSD; and that, effectively, is the vehicle which will take forward conversations with the airlines and also the route promotional activity.

We have got a couple of staff – one staff member at the Airport and one staff member within Commerce & Employment – who also work together on writing the policy and strategy for route development.

That is broadly the structure. Could it be any more dynamic than that? Difficult - I think certainly the route transport requirements make it more difficult to join up some of the conversations. In fact, they have to be kept entirely separate and it maybe refers back to the previous point that I made that if the adherence to the policy was chosen to be withdrawn, either way, that might make the process slightly more streamlined.

I do not think we have any particular problems in running the existing arrangements as they are and if we are in a room talking about the development of air links, it matters not who we represent. We are there really to try and promote the use of air links to the Island generally and supporting the economy through that process. So it matters not who ultimately is paying our wages.

Deputy Paint: Thank you.

Mr Jehan: It must be rather difficult when the Government owns an airline and Government also deals with matters of licensing of air links. I have no first-hand experience of this, but it strikes me that there must be occasions when a compromise has to be maintained and it can be difficult.

1635

Q148. Deputy Paint: Thank you.

My final question - would Aurigny and Blue Islands benefit from developing codeshare or interlining agreements with national or international carriers, or joining an existing network alliance?

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The Chairman: That is codesharing or interlining agreements.

Mr Jehan: Yes.

1645 **Mr Ferbrache:** A definite yes. It would help with any onward travel if you have got a codeshare, but of course it has got to be financially viable for the airline to do that. But, yes, definitely. I think it is a no-brainer, that one.

Deputy Paint: So what are the barriers from them doing it?

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Mr Ferbrache: Well, I do not know what financial arrangements come into play between the main carrier, which you want to have access to his network and how you work your fares in with his organisation.

1655 I am not an airline man. I do not know what it is financially, but I am sure that there will be some penalty on a feeder airline going into the main national routes. It is obviously a lot easier for someone like British Airways where they have got their actual aircraft going into Jersey, shall we say, and then you go right through all its network out from Jersey. And just like we had when Swiss Air was operating here, or Crossair, we could go straight through Zurich. I used it on a number of occasions and I know a lot of other people did as well and it is fantastic.

1660 But you have got a difficulty where the likes of Aurigny or Blue Islands are saying we have got to have an arrangement with a much larger airline – much more difficult. We did have it in the past, of course, with Flybe. I think it was Delta something... or whatever.

Mr Jehan: Air France.

1665

Mr Ferbrache: Or Air France as well, and also American Airlines, and of course you could just leave your bag on in Guernsey and it would appear in America. I mean it is fantastic, but there must be a financial penalty on the airlines and it depends whether that is justifiable.

1670 **Mr Jehan:** I mean it is reasonable to assume, surely, that because it is not happening it is because there are difficulties in making it happen, because any airline would choose that, wouldn't they, were it not for maybe a fiscal issue?

1675 **Q149. The Chairman:** We are coming to the very end of your session. Is there anything else that you would like to add or make us aware of, that you think we have not targeted?

Mr Ferbrache: Yes, the only thing I can think of really is the capability of our runway really. I mean if we are stuck with this length then... having the capability to land in worse weather would actually help the airlines and certainly if you get down to a Cat 2 situation, which is expensive; it would be quite expensive in actually achieving it. I know the Airport is looking into it and this sort of thing.

1680 Where our current minimum visibility is 550 metres and you go down to 300 metres, 350, and 150 decision height, there are a lot of occasions where the aircraft could get in, where they do not at the moment. So it is well worth stating that that would be a great step forward.

1685 **The Chairman:** A lot easier in helicopters! *(Laughter)*

Mr Ferbrache: Yes.

1690 **Mr Le Ray:** And I would just add really that I think the final paragraph in our response to you summarises the position quite neatly and hopefully captures some of things that we have been saying today, and that is really that it is too easy for the Island community to take these air links for granted. The Committee is of the view that this review will be entirely helpful in establishing and informing Government

policy, because *collectively* we need to be able to balance – and it is a balance – how we protect what we have and where the opportunities exist to facilitate a nurturing environment in which new air links can develop without destabilising the existing services, and it is how we best strike that balance that I think would be very usefully ascertained by your panel.

The Chairman: Thank you very much indeed.
Thank you very much for the way you have given your evidence.

Mr Darby and Mr Coupar were called at 11.33 a.m.

**EVIDENCE OF Mr Mark Darby, Chief Executive, and Mr Malcolm Coupar,
Commercial Director, Aurigny Air Services Limited**

The Chairman: We are now going to move on to Aurigny Air Services Limited and we are going to hear from Mr Mark Darby, the Chief Executive Officer, and Mr Malcolm Coupar, the Commercial Director, if they would like to come forward.

Mr Darby: Good morning, ladies and gentlemen. My name is Mark Darby. I am the Chief Executive of Aurigny and I have with me today my colleague, Malcolm Coupar, who is the Commercial Director.

The Chairman: Deputy Wilkie.

Q150. Deputy Wilkie: Good morning, Mr Darby and Mr Coupar. Thank you for giving up your time this morning and giving us your submission.

Please could you clarify, for the benefit of the panel, the precise relationship which Aurigny enjoys with T&R as its shareholder?

Mr Darby: We are a 100% state-owned business and T&R is the appointed shareholder on behalf of the States. They have recently introduced a way of separating T&R, or the political board of T&R, from Aurigny and introduced a supervisory subcommittee, and they are there to set our objectives and act as a more informed and knowledgeable sounding board for setting our objectives and also understanding any things we need to take back to T&R. They act as a sort of go-between between the two organisations.

Q151. Deputy Wilkie: And how is that subcommittee working? Are the responsibilities clearly defined?

Mr Darby: Yes, I think our original concern when it was first introduced was that it would become, in some way, a shadow board, but that is very clearly not the case and we are very determined to make sure that it does not become that.

So they are very much there just as a more knowledgeable, perhaps, sounding board on behalf of T&R and they advise the T&R board as to whether what we are proposing is reasonable, but also they are involved in setting our objectives.

Q152. Deputy Wilkie: Does Aurigny know what is wanted from it by each of the States' Departments? Is Aurigny aware of the tensions or incompatibilities in its relations with the various States' Departments involved with air links?

Mr Darby: Well, I think we respond to our shareholder and they act on behalf of the States. So it is really just, you know, we... of course we deal with the other Departments, but for any direct guidance, we look to T&R. So we are assuming that behind the scenes at the political level it has been dealt with and then T&R is acting as the conduit and telling us what the States want us to do on behalf of the rest of the States' Departments.

Q153. Deputy Wilkie: So things like PSD's charging policy regarding airport landing fees, does this policy ever negative impact on air travel or a negative impact for you?

Mr Darby: Well, we make our own representations to PSD when the new landing fees etc. are first promulgated, but we do that directly as a customer of the Airport, rather than a Government Department, in the same way that a Government Department would interact with another Government Department. We are very much a separate entity and so, in that regard, we would act independently and just make our own representation.

Q154. Deputy Wilkie: Is Aurigny to be a viable commercial proposition by 2016 or are there to be elements of a social service? If there are elements of a social service, should they be explicit and addressed by a service level agreement over and above the fare cap and frequency requirement we currently have on the Gatwick route?

Mr Darby: I mean I think in terms of the social service, we have a number of objectives, one of which is to maintain the lifeline services, and those are defined as the Alderney routes and the routes to Gatwick. So those are the givens, as is an objective to break even by 2016. Then we have a whole list of other things, like punctuality and various other metrics that are given to us, and that is what we are trying to deliver on. Social policy *per se* is really in the hands of the States, not for us.

Deputy Wilkie: So you take your direction from T&R?

Mr Darby: They are the shareholders, so we do not really have any choice.

Q155. Deputy Wilkie: Okay.

This is a quote from T&R:

‘A substantial improvement in the airline’s underlying financial performance, with losses before exceptional items forecast to reduce to £1.45 million in 2014, compared to over £3 million in 2013.’

Have these forecasts been realised and, if so, has the improvement in performance been achieved? Were these, to say, easy wins and can they be repeated over the next year in order to achieve your target of viability by 2016?

Mr Darby: Nothing is easy – certainly not in the airline business. No, we have become more efficient; taking on the jet allowed us to carry more customers and to, therefore, spread the cost of our overheads over a greater number of passengers, so that helps. That would certainly help.

But in terms of sustainability of those and to keep on doing that, it is always going to be a challenge and a lot of our costs are very much externally driven – things like fuel costs. Certainly, airport landing fees at both ends of routes, both here in Guernsey... are expensive, and we represent something like 60% of the airport customer base. So whatever is decided in terms of airport user charges, it has a very material effect on our results, but also airports like Gatwick and London City and others are extortionately expensive to operate into.

So a lot of our costs are not controllable, as such. We have a target to bring down our control room costs further this year and so we are looking at various ways of doing that. I think the biggest opportunities are probably in the way we buy in certain services and we maintain our aircraft – not to cut the costs but just to do it in a more efficient way.

The Chairman: Thank you. Deputy Paint has an additional question.

Q156. Deputy Paint: Yes, what, in your opinion, is the greatest drawback from Aurigny breaking even financially?

Mr Coupar: I think the overall situation is the constraints on the Guernsey market itself. It has been in the order of around 900,000 passengers for the last 10 years with no change over and above about 50,000. So we have to live within that confinement and it really depends on what level of competition there is within that market that drives the maximum revenues available to us and restrains us, essentially.

Q157. Deputy Paint: There is a proposal by *Citywing* to run an Alderney-Jersey service. How will that affect you?

1810 **Mr Coupar:** As I understand it, the request that has been made of *Citywing* is to offer a Friday afternoon flight and a Sunday afternoon flight throughout the summer season. That is a tiny number of passengers that I do not think would affect us in a measurable way.

Mr Darby: What do you mean, the wider bit that they have..?

1815 **Deputy Paint:** Well, if it does eventually get wider.

Mr Coupar: If you mean extending it to serving the existing Alderney to Guernsey and Southampton routes, it would have a fairly devastating effect on what are already highly loss-making services.

1820 **Q158. Deputy Paint:** So, if the *Citywing* route receives a subsidy and that means that your subsidy will be reduced, how will that affect you – your ability to maintain your existing Alderney services?

Mr Darby: To be clear, we do not receive a subsidy.

1825 **Deputy Paint:** No, well, States of Guernsey pay you –

Mr Darby: It is not a subsidy.

1830 **Deputy Paint:** – £2 million a year. Yes?

Mr Darby: They do not pay it. No, I mean they –

1835 **Deputy Paint:** You get subsidised when you get money from the States – if you do not want to call it a subsidy – to help you run the airline.

Mr Darby: They act as the guarantor for our losses, if that is what you mean?

Deputy Paint: Yes. Well, if you lost it somebody has got to pay for it.

1840 **Mr Darby:** Sure, but it is not a subsidy and there is an important difference between the two.

There is a move by T&R to regularise the position and to actually formally recognise that the Alderney routes require a subsidy. The implication of that is – and it has been bandied around but I am not sure people fully understand the term – PSO, Public Service Obligation, is a technical term introduced by the European Union for creating viable routes or supporting routes that would not otherwise be viable, to remote communities – the Scottish islands, the Faroe Islands, wherever it might be.

1845 So there is a process that is beginning, where there will have to be a public tender for any carrier to bid to operate the Alderney route and specifically the Alderney-Southampton route, as that goes into Europe; and that process is just starting now.

1850 But, to come back to your question, I think if *Citywing* did come in then there is no room for two carriers. I mean we are already heavily loss-making on the Alderney route and there would not be any room for two carriers making substantial losses.

The Chairman: Thank you. We will come back to Deputy Wilkie.

1855 **Q159. Deputy Wilkie:** Can I just ask about who is accountable for the performance of Aurigny, because obviously you have got T&R and then you have got your sub-committee, then you have got the management of Aurigny? So if, for one year or whatever, Aurigny did not perform as expected, which one of those three would have to take the responsibility?

1860 **Mr Darby:** Well, the objectives are set by the shareholder and so, to a large extent, our performance is dictated by what the shareholder wants. At the moment, there is an agreement, for example, on the fare levels that we charge to Gatwick and then a percentage of fares that we keep below a certain level. That is agreed with the shareholder. Now, if the shareholder said that can now be £100 instead of £65, then that would have a material effect on our results.

1865 So, in terms of who is accountable, clearly, the board of Aurigny is accountable for the delivery of the performance, but we are responding to what the shareholder wants.

Q160. Deputy Wilkie: Responding to direction from above so. Say no more. Yes, okay. I get that.

1870 What is Aurigny's view on the current air licensing system?

Mr Coupar: Sorry, the current airline...?

Deputy Wilkie: Air licensing system.

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Mr Coupar: I think, firstly, we believe that it is right and proper to have a licensing system. I do not believe that open skies is the right way forward for the community here.

I think the framework under which it works is pretty close to how it should be, but I think the management and policing of it have been sorely lacking over the last few years and I think that if we went through a period of seeing it policed properly we would be in a better position to answer whether or not it is the right framework.

So we think it is, but the way it has been run so far, it has not been able to deliver what it was intended to do.

1885 **Deputy Wilkie:** Can you expand on that a little bit – about why the policing has not been working?

Mr Coupar: Well, it appears there just has not been any policing. Probably three examples come to mind recently – all where the licensing regime could have avoided excessive competition; and the markets I am talking about would be Gatwick to Guernsey, first of all, and Gatwick to Jersey, and Alderney to Guernsey as well. All of which have gone through periods where there have been unsustainable levels of capacity which in turn lead to unsustainable fare levels.

1890

None of them are actually done significantly... significantly grown the markets, by the way, but ultimately all of them have ended up in a situation where there has been a significant change in the market and not always to the benefit of the community.

1895 People were talking earlier about the codeshare services inter-island – the services not being as good as they used to be and I think that is a fact because now they are getting towards sustainable; in the past they were not.

The Gatwick service – there used to be, between Flybe and ourselves, 11 flights a day. Until recently, that had reduced just to six Gatwicks; now we have added London City which almost brings us back to where we were previously, so we have sort of recovered in that market.

1900

The Guernsey-Alderney market – the licensing of Blue Islands led to, again, unsustainable levels of competition. And the current situation is more sustainable, but still a loss-making side effect of the licensing there is that there is no Alderney-Jersey service, which is something that the States of Alderney are currently desiring.

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Q161. Deputy Wilkie: Turning to the security of Alderney's strategic air links for a moment, the acquisition of replacement aircraft to serve Alderney has not gone smoothly. Please could you briefly summarise the problems which Aurigny has faced in acquiring these aircraft and have these issues threatened the security of Alderney's air links?

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Mr Darby: Going back to about this time last year, we entered into an agreement. We conducted a trial of the aircraft, Dornier 228. We had already done something about an evaluation and analysis, and believed that that would be an appropriate aircraft to replace the Trislander.

We had the aircraft up here on trial in November 2013. We then entered into a Memorandum of Understanding with a Portuguese operator – the same people who brought the aircraft up – and the agreement that we signed was that we would buy their two existing Dornier 228 aircrafts. In addition, we would be buying training services off them for the pilots, engineering support etc.

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By the time we signed the agreement, we had to go to the States or through T&R – they are not allowed to go back to the States to get the States' approval to support this initiative and the acquisition of the aircraft, as there was no permission existing at that time.

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By the time the States met, I think at the end of May, the Portuguese operator had a PSO contract in Madeira, so suddenly, instead of having two aircraft for sale, they only had one, and really I think since that time it has become clearer that in reality they probably did not want to sell us either aircraft and it has just been a long slog since then. In fact, I am going to Portugal this afternoon to try to finally sort things out and get everything back on the straight and narrow. It has just been a very painful process.

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In terms of compromising the air links to Alderney, I do not think we did. I think we got close to it. In the belief, in having an agreement signed with the Portuguese, that we would be acquiring the aircraft, the expectation was that they would be arriving in early summer last year.

1930 As the Trislanders reached the next requirement for what is called an SP190, which is a heavy maintenance visit, we took the decision not to spend quite a large sum of money keeping the aircraft air-worthy. We ended up, by the middle of last summer, I think, with about three or four of the aircraft to serve a schedule that needed three or four aircraft, I think.

1935 **Mr Coupar:** Yes, but it was tight.

Mr Darby: It was clearly tight and there were certainly days when – as Trislanders frequently do and part of the reason we want to get rid of them – they conspired to break down at the same time, so we did have some days when it was clearly a challenge.

1940 But since then we have kept the Trislanders serviceable and operational. We still fly them. At the moment we have three aircraft that are serviceable. We have acquired one Dornier that is currently being painted and that should be in service in the next few weeks. Then I am going down to Portugal tonight to try to sort out things.

So, at the moment, we feel we have enough capacity to serve the routes. In strict scheduling terms, we need two aircraft to support the current Alderney route and, as it stands today, we have three.

1945 **Q162. Deputy Wilkie:** The case for the Dornier was partly made on the basis of integrating it into the London City route. Aurigny then found out London City's landing fees would make the use of a Dornier uneconomical. Why did this come as a surprise to Aurigny?

1950 **Mr Coupar:** Well, that is not what happened. What happened was that we had originally applied for the London City licence on the basis that we would start off services with the Dornier and move to an ATR42 or ATR72, depending on how the market development went.

1955 We were well aware of what the level of charges were at London City. It was the lack of availability of Dornier aircraft to us that negated the possibility of starting services to London City with the Dornier. So we just accelerated the development of the route and started with a Falcon 50, initially, and an ATR42, as of next week.

There was no question of us not being aware of what the charges were and how they were the same for any aircraft. That is something that somebody in Alderney, I think, cranked up.

1960 **Mr Darby:** The plan... the primary reason for acquiring the Dorniers was always to support the Alderney routes. It was recognised that we may be able to use the Dornier on other routes, but the primary reason for having them in the fleet is to support the Alderney services.

1965 **Q163. Deputy Wilkie:** Going on from that, is Aurigny committed to servicing the Alderney route? Wouldn't it suit you to be divested of them, leaving you able to concentrate on your core business?

1970 **Mr Darby:** At the moment, the shareholders' requirement is that it is a lifeline route which they wish us to serve. So therefore we serve it. If they change their mind and they do not want us to do it anymore then we have to have a look at it. But, clearly, it has always been a substantial loss-maker and continues to be a substantial loss-maker.

Q164. Deputy Wilkie: What is your view of the possibility of an independent airline taking over the route? Would this, in your view, undermine the security of Alderney's air links?

1975 **Mr Darby:** I think it would be a disaster for Alderney. I think if a blue chip carrier came in and was operating those routes on behalf of Alderney, one, I do not think the costs would change materially anyway, but I think it is more likely that any public carrier that would replace us would not have the financial security that Aurigny enjoys and I think there is a very real prospect that at the end of the contract they would either run for the hills or whatever – or in the meantime they would be in financial troubles or whatever.

1980 But if we stopped operating it would be very clear... If there is no requirement for Aurigny to operate those routes we would dismantle the apparatus very rapidly because it is expensive to maintain. So I think it would be a high risk.

1985 In terms of your wider remit and the purpose of this Scrutiny Committee, the strategic nature... yes, clearly, air links to Alderney are strategic; it is the way to connect the Island and I think, unless there was a cast iron, gold-plated solution, instead of us operating it, then I think it would be putting the whole Island community at risk.

Q165. Deputy Wilkie: What is your opinion of a runway extension in Alderney?

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Mr Darby: I think if they extended the runway, yes, it would give us the option of operating an ATR42 in there once a day. I mean, because the demand... you might get one service to Southampton, one to Guernsey, maybe two to Guernsey, but that would probably be about it.

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Deputy Wilkie: If my understanding is correct, it might reduce fares because you are only using one aircraft, but then you would only have one service per day.

Mr Darby: We would not be operating it a dozen times a day that is for sure.

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The Chairman: It would be flying empty.

Mr Coupar: If you take away the ability to do a day-return, I think the market would instantly, probably, half so it just simply would not work with a low-frequency service. The inter-island service between Guernsey and Alderney is hugely supported by the needs of the Alderney people to get to Guernsey for short visits for medicals, for shopping etc. A once-a-day service just would not meet that requirement at all.

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You would have a hotel. Instead of paying £80 return you would be paying £110 return and having a hotel bill as well. To me, it is a non-starter.

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Q166. Deputy Wilkie: We are aware that work on the service level agreement, or equivalent, is going on. Presumably Aurigny is party to these discussions. Is this moving forward and when can the panel expect to be furnished with a copy?

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Mr Darby: I think it is fair to say it is hardly moving at all. I think there has been a discussion between the States of Alderney and the States of Guernsey, but as far as we are aware, there has been no progress.

We discussed it. I attended a meeting at the end of October and I think we have seen very little since then.

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Q167. Deputy Wilkie: We have heard it claimed that Aurigny makes a loss of £900,000 per annum on the Alderney route but this figure has been challenged by the Alderney Pressure Group. Can you confirm that this is a statement of fact, this £900,000?

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Mr Darby: It is a statement of fact. And I think if you look at their financial analysis, you would find that, to contest our results, it missed multiple items. I do not know how they expect an airline to operate, given that the majority of services that are required to run a scheduled service were absent from their analysis.

The Chairman: Such as?

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Mr Darby: I cannot remember the details but I mean things like the reservation system did not seem to feature in their plans at all. The numbers were just scant and ill-founded, basically.

Mr Coupar: Yes, they had also assumed that the average fare on the Southampton service was something in the order of £20 higher than it actually is.

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Q168. Deputy Wilkie: What would your view be on a separate subsidy for the Alderney route? So you were given that amount to do the Alderney route and then the rest was all separate and you could do whatever you wanted with it?

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Mr Darby: At the moment our objective – or the one that has been set for us – is to break even and to, in effect, cross-subsidise to the Alderney route to support the losses. So that is what we are working towards at the moment.

I think it would be a much better solution to go through the PSO process. Aurigny will undoubtedly bid, probably along with other carriers. It is then for the States to decide who will be lucky winner will be.

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If it is Aurigny then we would be in receipt of that subsidy and it would need to match our costs of operation.

Q169. Deputy Wilkie: Okay, the panel has heard from Alderney witnesses that there has been dissatisfaction with Aurigny's recent performance, particularly over reliability.

2050 How would you respond to this and are you relying on the Dornier to be the answer to all your problems?

Mr Darby: The fact is I think there is a big gap between reported reliability and service levels to Alderney, and the reality. I did an analysis last night and for the last six months, for example, our
2055 punctuality into and out of Alderney has been something like 86% of our flights are on time, which is comparable to the rest of our service.

The level of cancellations is certainly in line with the rest of our operation and far and away – and probably by a factor of about 4:1 – most of the cancellations are actually down to weather.

2060 So we strongly refute the allegation that the service we are offering is poor, but we are trying a PR campaign to try and persuade people that that is the case.

We have started sending the States of Alderney regular updates on the actual performance, punctuality, comparing it with the rest of our network, the number of cancellations in a particular month. I have not seen anything in terms of, having given *them* that information, that that information has then been transmitted
2065 onwards; so we have started sending it direct to the Alderney press, *The Alderney Journal*, and they publish it sometimes and sometimes they do not. It depends whether it suits the argument on the day.

Deputy Queripel: You said one in four cancellations is due to weather, what are the other three in four cancellations due to?

2070 **Mr Darby:** No, one *in* four. So, for every four cancellations one of them is technical, or some other reason, and the rest are generally weather. It just depends on the time of year and –

Deputy Queripel: It is the other way around, yes.

2075 **Mr Darby:** Do you see what I mean? So it is not four to one, to be clear. Yes. It is usually weather.

Q170. Deputy Wilkie: You were talking just before about having a conversation with the Government and I just wondered what consultation takes place in Alderney with the Government and businesses to ensure that new timetables and other tenders are acceptable in that community?

2080 **Mr Darby:** At the moment, none, (**Deputy Wilkie:** None.) but equally there are none in Guernsey either.

Q171. Deputy Wilkie: Right, turning back to Guernsey now, the panel has noted significant public dissatisfaction reflected in the media regarding the price structure of fares. How would Aurigny answer this criticism?

2090 **Mr Coupar:** I think that recently there has not been much of that at all. I think at this point last year, when we had just seen Flybe depart the market and we were experimenting with fare levels to try and find what was sustainable, we tried several different price points for day returns, for short stays, for weekend stays etc., and at some points we were pushing it quite high; and at that time we got some pretty negative feedback from the big three bodies in the Island and, through the media, from the public.

I think, since that time, pricing has levelled out. I think now we are in a much better place and we are not receiving many complaints at all.

2095 **Q172. Deputy Wilkie:** Do you think maybe Islanders... when, previously, you had two operators running at a loss on the route and really cutting their fares, really gave Islanders the impression that that is what the price should be and maybe that was a false impression?

2100 **Mr Coupar:** I think that is absolutely the case. I think the public at large will always use the lowest price provider to draw the comparison with, and at the moment that seems to be easyJet. 'My aunty flew from Jersey to Gatwick for £40 return, how come I had to pay £80 to go and join her from Guernsey?'

I think that is human nature but, yes, we did not help ourselves by having come through what was essentially a fares war with Flybe in the previous two or three years.

2105 **Deputy Wilkie:** Thank you. That is all from me.

Q173. The Chairman: Thank you. If I could ask one question just before I ask Deputy Queripel to come in?

2110 The evidence we received from Alderney when we were up there recently is there seems to be a disproportionate impact of what may seem to Aurigny to be minor timetable changes, post, newspapers, sports features etc., at starting times. But, to them, it is major.

Are there any ways forward that you can suggest to actually ease that problem? And one of the other problems that came up was the difficulty of Alderney people getting to and from Jersey in a day.

2115 **Mr Coupar:** As we just mentioned, there has never historically been any consultation with the market other than what we would do with corporate bodies that we have as customers, and we would talk to them a bit, like we would with the other routes. And it is only in the last few months, essentially, since we tried to operate the services with just two aircraft.

2120 So we have got three aircraft; we have what we call 'two lines of flying' so on any given day we only plan to use two aircraft – the third one being set aside for redundancy or back-up purposes. So we changed the timetable to reflect two lines of flying – and that meant a few compromises.

You mentioned mail not getting to Alderney on time. I think we have proven that it does. The newspapers, likewise, there were some concerns about them not getting there, but they actually do.

2125 Connectivity-wise, there are some compromises. It is no longer, I think, possible to fly a day return from Alderney to Jersey, but our statistics show that we used to get maybe five of those a month. So the upside of the two lines of flying is a cost saving and hence an improvement in sustainability of services.

2130 That is what has happened historically. We are just in the process of agreeing a procedure going forwards where we will consult with... I do not know whether it will be the States of Alderney directly or a body appointed by them, so that for each season we will go through a process where we discuss with them what our plans are, how they meet their needs and then, if necessary, change them and make a compromise – a costed compromise.

2135 **The Chairman:** Could that include, perhaps, doing a once a week day trip to Jersey?

Mr Coupar: I think that is extremely unlikely.

I do not think that the market is large enough for Alderney-Jersey services, period. The States of Alderney talk a lot about a charter that we performed for them last year, demonstrating, proving, that there was demand for Jersey services. Well, that charter was done at a cost and at an unsustainably low fare level.

2140 It was so bad, it washed its face. In terms of a day return, I just cannot see that ever happening – there is definitely not demand for that.

I think that when Citywing or somebody else provides the price for providing the Alderney-Jersey service that will probably put it to bed.

2145 **The Chairman:** Deputy Queripel.

Q174. Deputy Queripel: Thank you, Mr Chairman. Good afternoon, gentlemen.

2150 You touched on this briefly in your answers to Deputy Wilkie's questions, but I would like to return to it. The Guernsey Sports Commission has expressed their concerns about the difficulties sports teams encounter when they want to travel, due to unsuitable flight times.

Can you give us your views on that issue specifically please?

2155 **Mr Coupar:** I think this is a classic example of what we just talked about, the excess capacity that was made available in the market, probably between about 2004 and last year, where everybody was pretty much spoilt as the two or three carriers at the time fought to win market shares.

2160 What we have got now is something that is designed to be sustainable and, in reality, the sporting groups at the weekend are particularly low-yielding; they are not prepared to pay the market rates that are required to provide a sustainable service, in the form that they normally come to us. And that is that we would normally get a request for a group of sports people going to Jersey on Saturday morning, back on Sunday evening, and no corresponding people coming in the other direction if we were to put on an extra service.

In the past we would have done it, we would have put on the extra service just to try and win the market share more; now that is not possible. So we have met with the sports commissions in both islands and explained that situation to them, and proposed that they get together maybe with different types of sports and try to organise *their* schedules in such a way that there is always a corresponding event in each Island on any given date, which would enable us to put on extra services that were full in both directions and therefore be sustainable at the type of fares that are affordable for the sporting community.

We have seen no evidence of any communications having taken place between the different sporting factions, and none of them have come to us and said, ‘Yes, we have done this and we are now ready to tell you what our timetable looks like for the coming season. Can you do these extra flights?’

So we have made fairly good efforts to try and resolve this problem, but the support we need from the sporting community has not been there.

Q175. Deputy Queripel: Okay, thank you.

My next question is a three-part question. Can you tell me, please: has the code share agreement with Blue Islands been a success, can you explain how the booking system works and is it as user-friendly as it could be?

Mr Darby: Can you just clarify what you mean by, ‘Does the booking system work?’

Deputy Queripel: Is it user-friendly? Does it result in – ?

Mr Darby: Is this in relation to the code share or generally?

The Chairman: I think what Deputy Queripel is getting to is, do you sell tickets on a codeshare where each of you and your partner can actually sell the tickets, or do you have half an aircraft each to fill, in which case does each side know what the other side is doing?

Mr Coupar: Okay, the first point – do we think it has been a success? I think there are probably different ways of measuring that. From Aurigny’s perspective, in terms of have we now got a sustainable inter-island service – yes. Have we managed to maintain competition inter-island? I think, yes.

Are all our customers happy? I think, no. So two out of three. It is a compromise. I think it was always going to be a compromise.

To move on to the second point, how does this system work? Yes, we are required... Well, first of all, from a commercial perspective, we wanted to have a fixed share of the capacity between the islands, and from the point of view of CICRA, that was the best way of going ahead.

This is called a ‘block space agreement’ so a percentage of the seats on each flight are ours and a percentage are Blue Islands’. If we did not have that then we would be pretty much back in the situation of fighting for market share with a much more limited amount of capacity and, dare I say it, an ongoing unsustainable position.

Q176. The Chairman: Has CICRA, then, been an aid or a hindrance to you in that decision

Mr Coupar: I think CICRA has been an aid.

Mr Darby: We had no option but to go to CICRA because of the change in the competitive relationship, so it was essential that we developed an arrangement where it truly meant that competition could continue and it was not just a whitewash; there was a real sort of wall between the two operators and there was no option –

Q177. The Chairman: But have there been any occasions when the plane has flown with empty seats because one partner had exhausted its half and not said, ‘I have got capacity...’

Mr Darby: Well, we do not talk to each other. That is very important. It is part of the rules. But I think most customers that use the route are very well aware of our website and Blue Islands’ website, and if they cannot find seats on one, they will almost certainly look on the other. I would be surprised if there have been many occasions where they have just looked at ours and said, ‘Oh, they are full’ and they cannot go to Jersey and the plane has taken off half full.

It pretty well balances out, it seems, and the loads... if our allocation is sold out, then the other side is sold out too.

The Chairman: Deputy Queripel, did you have your third part?

Deputy Queripel: Thank you, Mr Chairman.

Yes, the third part was: is the system user-friendly? Is it easy to access, easy to understand?

Mr Coupar: Do you mean the booking system?

Deputy Queripel: Yes.

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Mr Coupar: The booking system works... I mean, apart from a notification when you look on our website that flights are operated by Blue Islands, the booking system works in exactly the same way as it would for any of our other services. So, yes, it is pretty seamless.

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Q178. Deputy Queripel: Okay, thank you.

Supplementary to that, still on the codeshare issue, can you tell me: does Aurigny actively explore options to codeshare with national and international airlines?

And if the answer is no, can you please tell me the reasons why you do not?

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Mr Coupar: What we have done is we have put feelers out to the market. We have talked to some of the larger carriers to understand whether or not they would be interested in entering into those types of agreements with us.

As it is at the moment, our reservations system cannot actually support full-blown codeshare and would take some modifications to be able to do interlining, and those modifications would be specific to each and every partner that we wanted to enter into agreements with.

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So we have got some expressions of interest from carriers and we have got developments coming up in our system, which at some point in the, hopefully, not-distant future, would enable us technically to do it. So it is down to us to explore... Once we have got assurance that technically we can do it, we can enter into commercial negotiations with these carriers to see if we can actually reach an agreement that works for us and works for them.

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One of the main issues with codeshares and interline agreements is responsibility for missed connections and looking after passengers who have missed flights. This is what the market wants, this is why everybody wants us to have codeshare and/or interline agreements and it is potentially a hugely expensive thing for us to take on.

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The law, as it stands just now, is that, even if it is bad weather and our morning flight to Gatwick runs two hours late and the customer misses his first class flight on Emirates through Dubai to Sydney that cost £6,000, if we are responsible for him missing that connection we are responsible for getting him to Sydney in first-class.

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I do not know, but I cannot believe that other carriers similar to Aurigny actually enter into agreements and take on that liability, so I assume that there is some commercial relationship with the larger carrier that will alleviate that liability from the smaller partner, the small carrier, in the relationship. But we cannot really explore those things until we are in a position to actually go to deliver an agreement.

So that is where we are at the moment and I would hope that, certainly within the next six months, technically we will have the capability to do it, and therefore enter into the negotiations to get a full understanding of just what the liabilities would be for us – and hopefully be able to move this forward.

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Could I just add that there has been one significant change in the way that we distribute our services since the departure of Flybe from the Gatwick market, and that is that historically there has been no way for a travel agent anywhere outside of the UK to issue a ticket on Aurigny services, other than through our website or one or two online travel agencies, because we could not justify paying the fees to be members in all the countries around the world where people might want to buy a ticket now and again – we could not afford to do that. So we have reached an agreement with an organisation called *Hahn Air*. Effectively, it is an interline agreement with them and what it enables us to do is... a travel agent anywhere in the world to issue a ticket on Aurigny services. Now, that came into effect around September last year and the best month we have had is March so far, and I think about 330 people took advantage of that system and sold and issued Aurigny tickets in other parts of the world where it would not have been possible to have that before.

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So that is the first sort of step towards global distribution that we have made and, by doing that, our flight availability is also reflected in the likes of Expedia and other online travel agencies like that around the world. So somebody earlier on said you cannot find an Aurigny flight anywhere else in the world and we need a codeshare or we need an interlining agreement to do that. This facility does that. So we are part of the way there.

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Mr Darby: So just to be clear, if you were a secretary booking a flight for somebody in Moscow, you have not got to try and make it up yourself. You have not got to book the Moscow leg and then... you can book it in one booking.

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Deputy Queripel: Right. Thank you.

2290 **Mr Darby:** So I think a lot of the noise is incorrect. If people can find us, they can find a way to Guernsey, provided of course that they have a reason to come here.

Q179. Deputy Queripel: Thank you.

2295 Can you tell me, please, what you think of the idea of extending the runway here in Guernsey? And also would Aurigny be able to expand as a result of extending the runway, or would it just benefit other airlines?

Mr Darby: I think Colin Ferbrache mentioned, clearly from a safety point of view, the longer the runway the better. So, from a safety point of view, we would be very happy to see the runway longer. But for the aircraft we operate today and the reason we selected the Embraer was that it copes perfectly adequately with the runway distances available.

2300 So, in terms of our current fleet, it is perfectly acceptable, perfectly safe and we are quite happy with it, especially since they improved the lighting and the surface. So, from that point of view, it is fine. Would we get bigger aircraft? Where would we go with them? I am not sure it would have... if the runway had been substantially longer and it had allowed us to buy an A320 or a 737, I am not sure we would have changed our decision.

2305 I think we were still trying to scale the size of aircraft to the markets that we serve, bearing in mind the frequency. It is the same argument with Alderney. Yes, a bigger runway, but if you get bigger aircraft then you just go less frequently, unless the market is going to expand. So, yes, we might only go to Gatwick four times a day instead of six, but with a bigger aircraft; but I am not sure that would actually be enhancing the service or the strategic air links to Guernsey.

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Q180. Deputy Queripel: Thank you.

You touched on the issue of publicity, information and marketing earlier on. How closely do Aurigny work with *VisitGuernsey* and could more be done to actually publicise Aurigny's routes, in your opinion?

2315 **Mr Coupar:** Well, firstly, we work quite closely with *VisitGuernsey*. We have our commercial arrangement with them. We tend to share advertising space with them, we tend to share a presence at travel exhibitions and this is all about inbound markets.

2320 In terms of marketing Aurigny's services outside of the islands, I think our motivation is to market Guernsey, not Aurigny services. First of all, we would not go around advertising Aurigny services to people who generally have not heard of us, so it is really about trying to attract people to come to Guernsey and then telling them that we are the vehicle that will get them there and that is our strategy for marketing outside of the islands.

2325 Could we do more? Yes, there is always a return to be had on investment in advertising, but again it comes back to the number of hotel beds in the Island. The scope for carrying more and more people is very limited, so we could be throwing good money after bad by trying to spend a lot of advertising money generating passengers when the infrastructure is not there to support them.

So you do do it – there are lots of spare seats outside of July and August and we try to make the best use of them that we can. That is our focus. It is always in the shoulder seasons.

2330 **Q181. Deputy Queripel:** Thank you.

Can you tell me, do Aurigny have any aspirations? For example, where do you see yourselves in five or 10 years' time? Do you think you will still be in public ownership?

2335 **Mr Darby:** I do not think it is a question for us, really you need to ask our political masters whether they want to continue owning us or not. We are quite happy with the ownership arrangements.

In terms of our aspirations, they are very much tied to the need to serve Alderney and Guernsey. That is why we are here and that is why we are in business. I think the only thing that would change our longer-term outlook would really be the introduction of some substantial low-cost competition.

2340 I think we are quite happy maintaining the level of service. We will slowly develop new routes. We have a licence application in at the moment for Leeds-Bradford and we will continue to look for other opportunities, but it is always going to be very much tied to what we can do here. We do not have a mandate to go and find a new opportunity out of Newcastle Airport to serve Stockholm or something. That is not what we are here for; we are here just to look after the interests of the Bailiwick and to make sure that it remains properly connected. So that is why we are here.

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Q182. The Chairman: Right, you just mentioned new routes and that was my next question actually. How do Aurigny decide which routes to consider as new routes and how do you decide which routes to discontinue?

2350 **Mr Coupar:** Well, we are doing a lot of this. The network has not changed hugely in shape over the years, but we are always conscious of how the markets themselves are doing and we look at where the people who we are carrying currently come from, just in case these back routes, for example, the market statistics show that there is good demand there for Jersey services and it is always a good measure of what the likely demand is for a Guernsey service. So that is one of the measures we look at.

2355 We look at CAA statistics which show traffic flows. There are people coming in from the Manchester-Guernsey route, for example. Where are they actually coming from? Would it be more convenient to put a service into Leeds-Bradford, if some of them are coming from there? Would that have a negative impact on Manchester? Yes. To what extent? Is there enough upside from the market we are not currently getting that we would get through and a Leeds service to offset that? Possibly.

2360 That is the sort of process that we go through and that is what we have gone through with Leeds and we are still going through, to some extent.

So, yes, it is about looking historically at where the traffic is coming from, looking at what happens on Jersey, as a good indicator, and taking things from there.

2365 **Q183. Deputy Queripel:** Following on from that then, the panel has heard reports that Jersey Airport has aspirations to become the Channel Islands hub. Do you see that as a threat or an opportunity?

Mr Coupar: Well, firstly, I have not heard of that. Threat or opportunity? So is it a hub for what – the UK to Europe or...?

2370 **Deputy Queripel:** Well, I presume so.

Mr Coupar: Well, I do not see that as a –

2375 **The Chairman:** It is Jersey becoming the hub for the rest of the Channel Islands.

Mr Coupar: Oh, right. With what/who serving inter-island to make this happen?

2380 **The Chairman:** There is a movement towards, or a *feeling* that there is going to be a movement towards, Jersey as the hub and everything will come through Jersey to the other Islands and that sort of movement away.

Certainly this morning we had it expressed that we would be losing business if people had to get to Guernsey by going through Jersey. Jersey would take away a lot of our business opportunities.

2385 **Mr Coupar:** Well, I think it would be quite a far-fetched scenario that somebody in Jersey is thinking about.

I think these days, with the wider variety of direct services we have got to Guernsey; they would have a pretty hard job to compete with that philosophy. I do not actually understand how you deliver people from Jersey to Guernsey, but we would not want to help them with that – that is a certainty – and I do not think that adding extra capacity into... inter-island capacity is expensive. To add more and more capacity between Jersey and Guernsey for the sake of allowing people to hub off of Jersey would be a fairly inefficient and expensive way of going about getting people to Guernsey.

I do not think that is a workable proposition, but I had not heard about it until just now.

2395 **Mr Darby:** I think the opportunity has already existed in the past and Blue Islands were operating from Jersey to Paris and Amsterdam, what have you. Clearly, it was a sure fire winner to the extent that they have cancelled the service.

So I think if the Islanders in Guernsey felt that connecting through Jersey was something they wanted to do, the opportunity has been there for some time, but largely ignored. I mean direct service will always win.

2400 **The Chairman:** Yes.

Q184. Deputy Queripel: Thank you.

2405 As a States-owned airline funded by the taxpayer, can you explain, please, why your accounts are not published?

Mr Darby: I think you will have to ask T&R. It is their decision. We are fully audited by KPMG – in fact, we just completed this year’s audit – and so we prepare proper accounts. As I say, they are properly audited as part of the States’ internal processes. You will have to ask T&R why they do not publish it. It is not our decision.

Q185. Deputy Queripel: Thank you.

The panel has been told in several submissions that the levels of communication from Aurigny need to be improved. What have you got to say in response to that, please?

Mr Darby: Can you give some specific examples?

Deputy Queripel: There were submissions from Tony Grange, the Alderney Pressure Group and also the Alderney States and also there is the Sports Commission, regarding it being very difficult to get information from you in the... it was very difficult to communicate.

Mr Darby: I do not think... Well, for one, I do not believe it is true. I think if we are contacted... in fact, quite often we are the people reaching out other organisations and, as Malcolm said earlier on, at this time last year we had had several discussions with the Sports Commissions in both Islands and it seems to have gone remarkably silent.

In terms of groups like the Alderney Pressure Group, I do not think we have any specific reason to need to communicate with them.

Deputy Queripel: It is simply that they asked you for some information.

Mr Darby: Yes, I know but –

Deputy Queripel: – that apparently you did not provide.

Mr Darby: Well, I think there is some information that we will provide that is of general interest. I think if we believe information to be commercially sensitive, then we are quite right to retain that information.

Anyway, we do not have to go open book on everything. We are not required to do that and we are still trying to run a business. So we will take each request for information on its merits. But quite often we will channel information back through T&R and they can disseminate to the States of Alderney or wherever.

We are trying to improve our communication. I think, in part, we have not always served our own interests particularly well. We have recently recruited somebody to be our PR Manager. Previously, we outsourced it and we have now brought that role in-house. So we have a gentleman, called Euan Mahy, who is now working for us and his role is very definitely to improve communication at all levels, both internally and externally; and so far that seems to be working very well.

The Chairman: So how much consultation has there been on the Alderney timetable?

Mr Darby: Well, I think as we said earlier on, in the past we have not been required to communicate or to consult on operational matters. If the shareholder takes the view... They set us our objectives and, as the management team, we are left to deal with it as best we see fit. So we are trying to achieve the best commercial outcome consistent with their overall objectives.

So there may be decisions we take that do have an impact, but at the same time we are changing the schedule all the time – usually it is to add flights. When we see loads building up, say, to Alderney, we will add capacity so we do not expect to go and consult them to say, ‘Do you want us to add some extra flights?’ So it is a very dynamic picture and the patterns of demand seem to shift around quite dramatically and so we are trying to just optimise our overall performance, consistently we are trying to bring our losses down and get to break even.

So I think, particularly in terms of Alderney, until we end up with the PSO and with a defined level of subsidy and operating a schedule that is agreed – and one of the difficulties at the moment, and I think that the States of Alderney are finding, is actually defining what it is they want, and how do you put it in a framework that basically is not, ‘Well, we want as much flying as we want, any time we want it’ into something more of a straightjacket where the flying that we do for them is more prescribed and there are different levels of service through the year.

But at the moment we are required to be infinitely flexible and have unlimited amounts of capacity and capability just by turning on flights like a tap, and we cannot do that. In a commercial world we cannot do

that. We could have a line of aircraft lined up down the runway with spare crews, but that would be hugely expensive.

The Chairman: I appreciate that you are not compelled to consult, but are you in 'listening mode'?

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Mr Darby: We listen and, in fact, of my own volition, I went to meet the Finance and Policy Committee three weeks ago and had a very long and frank discussion. I said I am happy to put a consultation mechanism in place.

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We recognise the needs of Alderney are perhaps different to other parts of our network and we need to agree how it is going to work and what happens when we say, 'Who wants to do it this way?' and they say, 'No, no, that is no good for us'? But there is a cost attached to what they want us to do and how do we resolve that? So there needs to be a resolution or escalation mechanism that will take care of it.

Otherwise we just say, 'Well, we think from a commercial point of view this is the way to go. This will minimise our losses whilst balancing the need to provide adequate levels of air service'.

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But if they disagree with that and say, 'No, we want more', and there is a cost to it, where does that money come from? So somebody has to agree. It has to be a mechanism for agreeing any changes.

The Chairman: Thank you.

I think, Deputy Queripel, you have one last question?

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Q186. Deputy Queripel: Yes, please, Mr Chairman.

Just a final question to you, gentlemen, focussing on charter flights. If operations and conditions allowed you to do so, would you obtain another Embraer to expand into the charter market?

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Mr Darby: No.

Mr Coupar: No.

Deputy Queripel: Thank you, gentlemen.

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Mr Darby: I mean just for the reason that markets are very thin and moving one hundred people plus at a time is quite a large number of people. That it not to say we would not do some *ad hoc* flying with the aircraft, but to have a second aircraft just for charter services would be quite a luxury.

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Deputy Queripel: Thank you. I will hand back now, Chairman.

The Chairman: And with an empty sector...

Mr Darby: And with empty sectors and all the rest of it, so...

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The Chairman: Sorry, I think Deputy Sherbourne has a –

Q187. Deputy Sherbourne: Yes.

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I would just like to finish up really on the branding issue. Where do you stand regarding the States' decision to not go down the route of rebranding? You already mentioned that visibility of Aurigny can be problematic. We have had submissions today where people have actually described Aurigny as being invisible.

Where do you stand on that now? Is it something that should be revisited so that the Guernsey name is actually to the fore?

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Mr Coupar: I think that a few years ago there was a much better case for rebranding the organisation and using Guernsey in headlines, titles. I think now the... I do not know what the number is, but probably in excess of 95% of people who are looking for Guernsey would be searching for the destination name and not the airline name; and one of the rules that we have in using the internet for marketing is to ensure that anybody searching for Guernsey finds Aurigny. So I think that nowadays it is much less important to have a name that reflects where we actually fly to.

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We have said that, we have recently changed or introduced a new strapline where our logo appears in the UK now and instead of having 'Channel Islands' underneath it, it says 'Guernsey' and that gives us a little bit of exposure in airports primarily. So people walking past and reading the check-in desk now can see quite clearly that Aurigny flies to Guernsey and there is a little bit of marking there.

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We have put 'Guernsey' on the fuselage of the recently arrived ATR42 that will serve London City as of next week. It also says 'Guernsey' where the other aircrafts say 'Channel Islands'. So we have done a little bit, but I do not think it is a hugely important issue now like it would have been a few years ago.

2530 **Deputy Sherbourne:** Thank you.

Mr Darby: Slightly tongue in cheek of course; easyJet comes from that well-known land of 'easy' and Ryan Air comes that Irish island called 'Ryan'. I think in this day and age, as Malcolm says, it is less important than perhaps it once used to be.

2535 **Q188. The Chairman:** Thank you very much indeed, and on that note we will call the meeting to a close.

Mr Darby: There was one thing I wanted to add. There was an earlier discussion about Category 2 on the runway and I think of greater importance to us is not extending the runway, but it is improving the level of equipment on the runway.

2540 One of our biggest nightmares, or the current nightmare, is the weather and a few weekends ago it was just a complete disaster for about three or four days with the fog just rolling in and out. Now, I am not saying that a Category 2 would have solved all of the problems, but it would certainly have helped

2545 considerably.

So if there was to be investment and if we had a choice, if we had a bucket of money that you have to spend somewhere, I would not be putting it into an extended runway; I would be putting it into improving the instrument landing capability.

2550 **The Chairman:** Okay. So what Category are we at the moment?

Mr Darby: One.

The Chairman: And what would Category 2 cost?

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Mr Darby: I do not know. Colin... I think it would require serious work. I think probably less serious work than extending the runway. Or we could have both. But, no, I think Category 2 is something that would be of greater use to us on a year-round basis, and for other operators obviously.

2560 **The Chairman:** Thank you .

The Committee adjourned at 12.42 p.m.