
**WRITTEN STATEMENT
BY
THE WELSH GOVERNMENT**

TITLE **Update on the development of aviation Public Service Obligations (PSO)**

DATE **24 May 2018**

BY **Ken Skates, Cabinet Secretary for Economy and Transport**

In 2016, I requested a thorough review of the Intra Wales Air Service, which looked at a wide range of options from ceasing the service entirely to changing service patterns, increasing provision and upping the aircraft size. The review made a number of recommendations to retain and grow the service for the benefit of the Welsh economy. It is important that we connect the outermost regions of Wales with our capital city and I made a commitment to continue to support the route in the long term.

In order for the intra-Wales PSO to be successful, we need it to grow and be given the stability of a long term operator. Despite two operator failures in recent years, the Cardiff-Anglesey air service has seen significant growth of around 40% during the last 12 months, demonstrating clear demand for the service and its long term potential when operated by a well established airline with access to a mature ticket sales channel.

The service now needs to be offered to the market again, and I aim that the tender will launch in June, securing a long term operator by the end of the year. My officials will be looking to secure a reliable, experienced, established operator who shares our ambition to grow and develop the route. In turn, this will support our ambition to progress to a larger aircraft, eventually looking to offer new air services from North Wales; increasing onward connectivity for the whole region.

Connectivity with the rest of the UK (with which 80% of Welsh businesses trade is undertaken) is an important way of boosting our domestic economy, especially as we move towards Brexit.

A further factor to consider is HS2, a UK project that the Welsh Government continues to support. Whilst in the future, if the UK Government chooses the right option at Crewe and for rolling stock, it will offer significantly improved connectivity and economic advantage for North Wales, the UK Government's own figures suggest that South Wales could see a £200m detrimental impact on its economy as a result of HS2. It is vital that we find ways to protect the economy of south Wales through improving its connectivity.

We have therefore been working with the European Commission and counterparts in UK Government to impose a number of new aviation Public Service Obligations (PSOs) routes. An operator who wins the right to a PSO secures exclusivity and the security of a 4 year term of operation.

PSO routes are also exempt from Air Passenger Duty (APD), meaning that return journeys on new domestic PSO routes will benefit from the removal of £26 of tax imposed by the UK Government – a tax which the Silk Commission recognised should be devolved to Wales, but whose devolution the UK Government has consistently resisted.

In my 2017 ‘Prosperity for All Economic Action Plan’, I acknowledge the need to better connect Wales with the rest of the UK. Improved air connectivity is an important means of growing the economy and reducing inequality.

Developing new air links will open up options for better connecting Wales’ economy with other transport and economic centres across the UK, so helping investment and business. Developing aviation connectivity contributes to a more rational UK aviation strategy and supports the core principles of the recent UK Industrial Strategy green paper – to support and develop the growth of the UK’s regions.

Through the introduction of a new domestic PSO route network, I aim to:

- I. Ensure adequate frequency on some thin, but strategic routes that would not otherwise exist under free market conditions. Defining certain minimum obligations.
- II. Underpin economic prosperity and opportunity by providing vital links for business.
- III. Address the dis-economies of seasonal demand variation and ensuring year-round continuity and frequency of service.
- IV. Ensure where practical, that travellers at both ends of the route can achieve an effective day’s work at either end of the route throughout the year.
- V. Provide a proportionate and cost-effective solution in these times of pressured budgets.
- VI. Ensure the travelling public (its citizens and guests) enjoys competitive pricing and high levels of service as a result of open tender competition. Improved air links will also provide a social benefit to the Welsh diaspora across the UK when visiting ‘home’ and improving UK tourist access to Wales.

The routes I have asked my officials to explore with the market are:

- Cardiff-Manchester
- Cardiff-Leeds Bradford
- Cardiff-Humberside
- Cardiff-Glasgow (double daily return compared with the single daily return currently commercially offered)

- Cardiff-Aberdeen (direct return compared with the indirect currently commercially offered)
- Cardiff-London (important in the light of the recent commercial failure of this route)
- Cardiff-Newquay
- Cardiff-Inverness
- Cardiff-Norwich

For all of these routes there has been a degree of market failure – perhaps through the market not providing sufficient frequency for business travellers, routes having been tried and terminated in the past or new routes that have not previously been supported by the market at all.

A stage 1 transport appraisal considering policy compatibility and environmental impacts has been undertaken on all of the routes we are proposing. CO2 emissions were scrutinised, and the analysis looked at comparators between air and surface routing (eg car and train). The relative passenger/km carbon emissions were not considered to be materially different between the modes.

I would like to explore with the market whether offering a 4 year period of exclusivity, along with the benefits of Air Passenger Duty exemption from which PSOs benefit, will be sufficient incentive. The new routes will be procured through public tender. Transport for Wales will be leading the procurement process and I hope services will commence in spring 2019. Other than some modest marketing budget, I do not intend to provide any further subsidy for these new routes. Early market indication is the proposed incentives may be sufficient for many, if not all, of these routes to operate in this way – but only a formal tender process will flush that out. If the market does not think these incentives are sufficient for a particular route, then no contract will be awarded for that route.

I will review the market appetite for these routes, and will consider other routes, including to European destinations, as well as to and from other airports in Wales in the future if this approach is successful.

I am committed to pursuing the devolution of APD to Wales. The reduction or removal of APD should inject competition back into regional airports, and encourage airlines to introduce new regional routes, increasing airline competition, therefore increasing the choice for the travelling public.