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Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref MA/P/KS/1983/19

Rt Hon Chris Grayling MP
Secretary of State for Transport

transportsecretary@dft.gsi.gov.uk

19 June 2019

Dear Chris,

Thank you for your letter dated 13 May, confirming receipt of our phase 1 response to the Aviation 2050 consultation. I understand my officials are engaged with yours regarding the stakeholder event in Wales on 19 June.

I am now in a position to share my thoughts on the proposed approach to Public Service Obligation (PSO) air services, as outlined within the Green Paper.

I welcome your acknowledgement of the economic importance of regional airports and air services. Whilst you note that Aviation 2050 has its own chapter on supporting and growing regional connectivity, I remain deeply concerned that although the spirit to support the regions is there, the proposals set out within the Green Paper largely fail to demonstrate how this could be achieved.

The overall approach to PSOs by the UK Government cements my view, particularly in the context of the proposed draft PSO criteria, to which I have expanded on below, but also more broadly; by continuing to disallow Wales to progress a suite of domestic PSOs which will better connect Cardiff Airport to the rest of the UK. As I have outlined in previous correspondence, the proposed PSOs from Cardiff Airport will provide essential strategic business connectivity across the UK. However for over a year, your department has refused to progress these under the current standing regulations for which we have received no defensible reason. The only explanations being offered are firstly that you are not agreeing to any new PSOs until a new Aviation strategy has been put in place, and secondly, that you stand firm that Cardiff and Bristol airports share the same catchment so, in your view, these new routes would distort the market and give Cardiff a competitive edge over Bristol. This position remains a key barrier to Cardiff Airport's development despite the provision of robust, peer reviewed evidence which clearly demonstrates Cardiff and Bristol Airports have only a fraction of potential overlapping catchments for domestic and short haul services, which would have no detrimental effect on Bristol Airport.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

I am very frustrated with this position, particularly after the UK Government made an announcement towards the end of 2018 that it had agreed to a new English PSO between Newquay and Heathrow. This clearly runs contrary to the position you have adopted for Wales. It is neither right nor just that you pick and choose which PSO air service to support with no due regard to the proper criteria or fairness and consistency. To simply refuse to allow Wales to strengthen its economy during such uncertain times, whilst you update your national strategy is, in my mind, destructive to our economy. You must recognise that the world of business does not stop just because central government is undertaking a policy refresh. Wales must remain open for business, and our proposed PSOs will result in a stronger Wales, which in turn will create a stronger Britain.

Turning to the Green Paper itself, the PSO section acknowledges that there can be both economic and social reasons for the UK Government to support regional air connectivity, however, it notes that existing government interventions in regional air connectivity have been largely poor value for money and considers that future interventions should focus on supporting routes into London and other larger airports where there is evidence of onward long-haul opportunities.

I do not support this position in isolation and I am left wondering how this approach will support the regional growth and prosperity which the draft Strategy so boldly promises. I contend that where there is good evidence of market failure or overriding social or economic need, then an intervention should be made available to generate a positive effect, rather than being hung up on securing new routes into Heathrow.

Furthermore, the full proposed PSO assessment criteria puts too much emphasis on the efficient running of markets from an airport and airline perspective, and is overly concerned about the potential market distortion effects of government intervention, rather than addressing the ongoing market failure of regional connectivity and better considering the convenience and preferences of the travelling public, the economic and social needs of the regions and the national strategies to re-balance the UK economy.

I call on you once again to review and reconsider your position on the catchment of Cardiff and Bristol airports and would be happy to discuss this with you for the purposes of reaching a mutually agreeable solution. Whilst I share the opinion that there is an overlapping catchment for long haul routes at the two airports, there is resounding evidence which demonstrates that the catchments for domestic and short haul services at Cardiff and Bristol have only a fraction of potential overlap which would have no detrimental effect on Bristol. The shared long haul catchment provides a unique opportunity for us to work towards the development of new services from Cardiff airport which is best placed to provide long haul services due to its runway length and current slot availability – such services could bring significant benefits to the economies of south Wales and the south west of England.

Finally, it would be remiss of me not to add that the Welsh Affairs Committee (WAC) recently concluded its inquiry into the devolution of APD to Wales, and I warmly welcome Committee's recommendation that full devolution of APD should be granted to Wales by 2021 or sooner.

It has long been our position that APD should be devolved to Wales. Consumers and businesses need choices for how they can connect with the rest of the UK, Europe and the world. Air Passenger Duty (APD) effectively stifles this choice. The devolution of Air Passenger Duty we hope will enable the introduction of further new routes, including more long-haul destinations.

Devolving APD would be consistent with central government's approach to devolving taxes which overlap with other devolved responsibilities, and I consider APD would be a useful potential lever in delivering other devolved responsibilities relating to regional economic development and tourism.

In the event APD is devolved to Wales, the Welsh Government's decisions on future APD rates would take account of potential environmental impacts, including carbon emissions, in order to meet statutory requirements of the Well-being of Future Generations Act (Wales) (2015) and Environment (Wales) 2016 Act. Any changes proposed would also be subject to full consultation with businesses and the people of Wales.

I look forward to receiving your response to the WAC's recommendations in the not too distant future.

I have copied this letter to Alun Cairns, Secretary of State for Wales and Baroness Vere of Norbiton, Parliamentary Under Secretary of State for Transport, with responsibility for Aviation, International and Transport Security.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ken', written in a cursive style.

Ken Skates AC/AM

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