

Economy, Infrastructure and Skills Committee scrutiny of the impacts of COVID-19

May 2020

Response by Cardiff Airport

Scope of response

This response is specifically about Cardiff Airport within the context of the Welsh economy and challenges impacting the aviation industry.

Our response includes reference to the following points raised by the Committee for consideration:

- *Effects on the economy and business – including how different sectors are being affected;*
- *Effects on jobs – including job retention and safety at work;*
- *Effects on transport – including the short and long-term impact of the virus on demand, travel patterns and mode used and how this should be managed, support for sustainable transport and how public transport can operate safely during the pandemic for passengers and staff;*
- *The support of the Government and wider public sector to all of the above – including whether the support is working, or if there are gaps, and what fine tuning is needed or additional support could be offered?*
- *Recovery – this includes what needs to be done to help Wales recover from the epidemic? This includes actions which should be taken by the government, commercial or from the community/third sector Government, to foster recovery in the areas covered by EIS. It also includes how area covered by the economy can assist in the recovery e.g. how skills training can be used to assist recovery.*

Introduction

Cardiff Airport is an important part of the transport infrastructure in Wales and a major contributor to the local economy, supporting **2,400¹** aviation-related jobs. As the national airport for Wales, it drives over **£246m¹** of direct economic benefit to the region every year with over **30%²** of passengers being visitors to the country.

Cardiff Airport ended the 2019/20 financial year at **1.588³** million passengers, which represents flat passenger growth year on year (at the end of February 2020 and prior to the Covid-19 pandemic, annual passenger growth was 7%). This follows growth of 7% in 2018, 9% in 2017 and 16% in 2016.

Prior to COVID-19 passenger growth had reached over **50%** since the Airport came under public ownership in 2013. This growth reflects the Airport's position as not only a point of departure, but also as a key international gateway for visitors to the UK.

Headlines in the Airport's development include:

- The Airport posted its third consecutive, positive EBITDA (earnings before interest, tax, depreciation and amortization) in 2019-20⁴ which is a measure of a company's operating performance, as well as it being the third consecutive year that revenue covered operating costs.
- Qatar Airways launched a regular, direct flight between Wales and Qatar which now celebrates two years of service. The route, which has opened up a world of connectivity for customers across Wales and the south west of England has also re-positioned Cardiff Airport as a key gateway into the UK for international visitors.
- The Airport unveiled its draft Masterplan for the next 20 years in 2018, which sets out ambitious plans for expansion between now and 2040. These are already being realised with the announcement of a new flight handling operator - Global Trek - which opened its new premises in May 2019.
- On 1 April 2019, Welsh Government and Cardiff Airport began a 10-year contractual joint venture which saw the transfer of airfield operational responsibilities at Bro Tathan (St Athan airfield) to the Cardiff Airport team, including maintenance, security, radar services and air traffic control.
- On 1 December 2019 Cardiff Airport took over passenger services operations at Anglesey Airport, supporting aviation growth for the whole of Wales, enabling connectivity between north and south Wales.
- British Airways Maintenance Cardiff (BAMC), which employs almost 700 highly skilled staff, has re-affirmed its position at Cardiff Airport with a renewed 20-year commitment in 2015 with the introduction of maintenance on its fleet of Boeing 787 Dreamliner's, following detailed negotiations between British Airways, Welsh Government and Cardiff Airport.
- In September 2019 the Airport launched an [Environmental Flight Path](#) – a journey to becoming carbon neutral.
- A number of improvements and new facilities were unveiled in 2018 including additional seating in departures, two new Costa outlets, a larger WH Smith store with Well Pharmacy products, extension and reconfiguration of the car parks, a new car

hire centre, a Meet & Greet parking service and a revamped 51° Executive Lounge and Business Lounge. A new baggage belt system improved the security search process and the airport installed two 'upcycled' air bridges from London Heathrow to enhance the customer's journey through the Airport.

- In 2019 new-generation passport e-gates were introduced at border control funded by a Welsh Government safety and security grant.
- The Airport was able to bring forward a commitment to paying the 'Real living wage' to 1 April 2019, a year earlier than planned.
- In 2019, in its first gender pay gap report, Cardiff Airport highlighted that its 'Mean Gender Pay Gap' was 2%, significantly less than the Aviation Sector average which stands at 34% and the UK average of 17%; Wales' average of 12% and the Industry (Transportation and Storage) average of 3%.⁵
- In August 2019 the Airport launched a new Community initiative, The Touchdown Programme.

In May 2020, the Airport confirmed the next Chair will be Wayne Harvey, Senior Managing Partner for Deloitte in Wales. Wayne, who will retire from Deloitte in May will join in the non-executive Chair position on 1 June 2020, taking over from outgoing Chair Roger Lewis. He takes over at a challenging time for the aviation industry on a global scale.

The impact of COVID-19 on Cardiff Airport

The flying programme

Since 27 March 2020 there have been no commercial passenger operations through the Airport terminal, as the entire aviation industry has reduced or stopped operations globally.

The Cardiff Airport airfield has remained open as it is vital, as a key part of the national infrastructure that it remains in a position to support any essential flying for the UK whether it be freight, emergency or other critical activity that needs to take place.

Over the past two weeks alone there have been three large freight flights from Cambodia and China bringing over 3million items of Personal Protective Equipment (PPE) directly into Wales for the front-line NHS and care home teams. More flights are planned for the coming weeks.

Due to airlines suspending services there are currently no commercial flights operating for passenger travel - the situation remains fluid and the Airport team are in regular dialogue with airlines as to when services will start flying again. As it stands, limited services are expected to start flying again in June, but this could change based on UK Government advice and international travel guidance.

Currently (as at 26 May) airlines operating at Cardiff Airport are proposing re-starting services on the following dates:

International routes:

- TUI – 22 destinations: currently on sale from 12 June
- Vueling – Alicante, Malaga, Palma: currently on sale from 1 July
- Balkan Holidays – Bulgaria: currently on sale from 5 July
- Ryanair – Barcelona, Faro, Malaga: currently on sale from 1 July
 - Malta: currently on sale from 26 October
- KLM - Amsterdam with connections globally: currently on sale from 4 July
- Qatar Airways - Doha with connections globally: currently on sale from 26 October

Domestic routes:

- Eastern Airways – Anglesey, Durham Tees Valley: currently on sale from 15 June
- Loganair – flights to Edinburgh and Glasgow have been taken off sale

The Airport team

As a result of reduced flying, the staffing presence at the Airport has been reduced to only the essential cover needed. It is essential to maintain regulatory compliance and ensure the Airport site is kept safe and secure during the lockdown period. Keeping the airfield open maintains regulatory currency, ensuring the Airport remains in a position to immediately facilitate passenger flights when airlines restart commercial flying operations.

Based on the current operational requirement and the Executive team's desire to protect the business and jobs in the long term, just over half of roles (approx. 150 individuals) were furloughed from 6 April 2020 utilising the UK Government Coronavirus Job Retention Scheme.

Cardiff Airport is proud to support the national efforts and team members are going above and beyond with some great examples of community care and volunteering. This has included 32 firefighters from our Fire and Rescue service forming part of a team of

approximately 55 firefighters, working on a shift basis to ensure that essential 24/7 fire cover is provided at the Dragon's Heart hospital, within the Principality Stadium.

Government engagement

The Cardiff Airport Executive and Board are in regular dialogue with both the Welsh and UK Government (Department for Transport) about the Covid-19 pandemic and impact on the business.

Regional airports, such as Cardiff are being kept open for public service reasons, including emergency service, repatriation, medivac, cargo and military flights that in themselves do not cover the cost of operations. We are therefore providing an essential public service for Wales and the UK.

In addition, the Civil Aviation Authority (CAA) indicated if an Airport does fully close, re-opening will involve licensing procedures that take time and are costly. It is therefore better for an Airport to stay open.

Ongoing support required

The uncertain market conditions and the very protracted restart the aviation industry faces as we emerge from the COVID-19 crisis, means support will be required, while the industry recovers, to maintain the critical national infrastructure and economic role of Cardiff Airport within Wales.

The Airport is not only critical in supporting essential passenger and non-passenger aviation but also for safeguarding the 2,400 aviation related jobs in the region.

We support the extension to the UK Government's Job Retention Scheme until October 2020 with additional flexibility and hope this is reviewed for specific sectors that may take longer to recover, such as aviation.

Support should also be considered in the following areas:

1. Public Service Obligation (PSO) routes

The UK Government should allow the Welsh Government to create a number of new Public Service Obligations on domestic/intra-UK and European routes.

Since the Welsh Government first applied to do so in March 2018, the UK Government has resisted making progress on these requests and we are unsure of the justification.

Over 80%⁶ of all Welsh trade is with the rest of Britain so it is essential that the Welsh economy can connect effectively with its UK market. The South Wales region has poor direct rail connectivity between core cities in the UK and with the recent demise of Flybe and questions over other smaller operators, this has become more acute.

Domestic flying within the UK remains essential for business, visiting friends & relatives and domestic tourism. Domestic air travel is no more carbon inefficient than other modes; emissions per passenger/km is at similar levels to cars/diesel trains on many routes; and domestic travel amounts to 3-4% of total UK aviation emissions and less than 1% of total UK transport emissions.⁷

Whilst there would be the need to create a UK framework in the future, a sunset provision should be explored to allow select PSO routes to be developed in the meantime.

2. Air Passenger Duty (APD)

Domestic flying is most likely to be one of the first aviation market to return post lockdown. Therefore, the UK Government should focus its attention on getting the UK aviation industry moving again while international agreements are being reached. APD could be a useful tool to create the right market conditions for airlines

We have repeatedly raised the case for APD to be fully devolved to Wales without delay, in common with arrangements in other devolved governments.

The devolution and subsequent modification of Air Passenger Duty (APD) in Wales offers a significant opportunity to create value for both the Airport and region, supporting an integrated UK aviation strategy without detrimental impact on airports across the border in England. With COVID-19 recovery and Brexit on the horizon, the UK should seize the opportunity and take forward solutions to be more competitive, stimulate investment and encourage global connectivity.

Devolution alone would not directly affect our business however; it would offer the Welsh Government the discretion to set levels appropriately for Wales.

Following a Welsh Affairs Committee inquiry examining the advantages and disadvantages of devolution of APD in 2019, the Committee strongly recommended that APD be devolved to the Welsh Government by 2021. The Committee also called on the Welsh Government to carry out a full environmental impact assessment before decisions are made on any reduction or abolition of the tax.

It is the subsequent reduction or abolishment of APD, which would positively affect Cardiff Airport and the regional economy by creating an incentive to stimulate airline activity. This would result in a swift return to business, recovering pre COVID-19 passenger levels and business growth.

Devolving APD would give Wales parity with other devolved governments (Scotland and Northern Ireland) and has cross party support with representatives understanding the benefits a reduction or abolishment would bring.

3. State Aid

Minister for Economy, Transport and North Wales Ken Skates announced that the Welsh Government will provide finance to the airport, through varying its existing agreed commercial loan facility, to support its reduced operations and to maintain solvency.

State aid rules have been loosened substantially by the EU, giving a great opportunity for support to be provided to those airports/air services where it is most needed (smaller, regional airports and PSOs, where there are extant provisions and now special dispensations for proportionate state aid for socio-economic or essential need purposes); this provides a clear legal and need environment for short term intervention by Government or other public agencies to help smaller airports and associated air services.⁸

UK Government needs to embrace the EU's ruling and precedent cases and allow/offer state aid where it is appropriate.

4. Taxes and Business Rates

Taxes and business rates in particular represent a significant cost to smaller, regional airports such as Cardiff. The UK Government should agree and coordinate a consistent approach to tax relief which will provide much-needed relief to Cardiff Airport, and other smaller regional airports by ensuring continuity of operations.

5. Disproportionate costs

The UK Government needs to address the disproportionate safety and security cost burden on smaller airports, including Cardiff which can equate to up to 30% of operating expenses.

In mainland Europe, many governments provide direct financial support so that local and regional communities do not lose out. In spite of a new national aviation strategy which aims to support regional connectivity, UK Government policy means that such support cannot be provided to airports in the UK, even if local public bodies are prepared to provide funding.

This is an opportunity to change and directly benefit Wales, and other regions which rely on smaller airports.

6. The protection of our team and passengers

During and after the COVID-19 pandemic, aviation must be treated equally to other public transport modes as there are no differences in risk to the public. Exceptional standards should not be imposed on aviation and we would want a consistent, standard approach cross all four nations so not to cause confusion to passengers.

In the case of other public transport modes, where public funding will be used to pay for measures beyond those expected of individual members of public e.g. masks. The same should apply at airports.

The future of air travel in Wales

Cardiff Airport is an important part of the transport infrastructure in Wales and a major contributor to the local economy, supporting 2,400¹ aviation-related jobs. As the national airport for Wales, it drives over £246m¹ of direct economic benefit to the region every year with over 30%² of passengers being visitors to the country.

For this to continue, the UK and subsequently Welsh Government in the case of Cardiff Airport need to create the right market condition for airlines to operate services and for the airport to thrive.

It is essential the UK Government fulfils its promise to produce the long-term 'Regional Aviation Strategy' to underpin the recovery and boost the resilience of the sector post COVID-19. This will provide a coherent framework for recovery planning, adapting to the 'new normal', enhanced resilience and investing to make smaller airports more commercially and environmentally sustainable, and allowing them to diversify their activities and use their assets to maximise their connectivity and economic value to the communities they serve.⁹

Better using regional Airports, such as Cardiff is a key part of the levelling-up agenda and in this case, will aid the recovery of the Welsh economy.

References

¹ Northpoint review of Cardiff Airport performance February 2020

² Cardiff Airport passenger numbers 2019

³ Cardiff Airport passenger numbers 2019

⁴ Cardiff International Airport Ltd annual accounts 2019/20

⁵ Cardiff Airport Gender Pay Gap Report 2019

⁶ Welsh Government trade figures 2019

⁷ Northpoint review of C02 Model Validation 2019

⁸ The Regional and Business Airports Group (RABA) response to UK Government May 2020

⁹ The Regional and Business Airports Group (RABA) response to UK Government May 2020