

Open Skies presentation to TravelWatch – ISLE OF MAN – Public Meeting – 6 November 2010

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1. What is 'Open Skies'?

It's the freedom for any UK or EU airline to fly between any 2 points in Europe (including IOM) as long as they have met key financial, legal and operational criteria.

2. What's the experience on the IOM?

Passenger numbers by air over past 10 years have seen an average annual growth of only 0.2%. Average annual growth over the same period for all passengers (air plus sea) has been only +0.1%pa

13 airlines have served IOM over the past 10 years – and we have seen the arrival of easyJet. But there are roughly ½ million empty seats each year.

The IOM Government has suffered substantial losses from recent airline problems.

3. Benefits of Open Skies

More competition; lower fares; new routes; increased frequencies on existing routes, new product innovation. More choice.

4. Risks of Open Skies

Predatory pricing; 'dumping' of spare capacity at uneconomic rates; airlines can 'come and go' as they like; no stability; decisions can be made on marginal cost basis that gives the ability to undercut fares of established airlines that need to meet full overheads; airlines picking just peak summer months to operate; compensation is not easy when airlines fail; there are far fewer airlines around today to fill any gaps left by airlines who decide to move away from IOM.

5. Are there alternatives to Open Skies?

Guernsey operates a licensing system whereby airlines apply for permission from the Government to fly scheduled routes. The Government then has the responsibility of assessing their financial Business Plan and reviewing the impact on the Island's economy. Most applications are accepted.

6. Why should IOM be any different from the UK?

There are plenty of alternatives in the UK if an airline withdraws from a route. There are choices of car; rail; coach and other airports.

Loss of airlinks to the South of England would create major access problems and would have a severe impact on the IOM economy.

Airlines have the flexibility to move into and out of IOM routes – unlike the IOMSPCo.

7. Some other current issues

easyJet's £38 return on IOM LPL could well be designed to meet corporate objectives that don't require the IOM LPL route to make money. What could the potential impact be on Flybe's routes IOM LPL and IOM MAN?

In the 4 months since easyJet started we have seen the IOM Liverpool market grow by 29% yet this growth is at the expense of passengers on IOM Manchester, and IOM Blackpool. The total passenger growth over last year on routes from IOM to the North West is only 2.9%.

For the month of September the IOM Liverpool air route grew by 2,430 passengers, whilst the Steam Packet lost 2,300 passengers over the same period. easyJet are free of any regulations, yet Steam Packet are governed by their User Agreement.

What is the future of IOM LCY and IOM DUB after Aer Arann come out of administration?

Air Passenger Duty has just increased from £11 to £12 yet the IOM Government does not have to impose it for travel out of the IOM. City centre travel times from Liverpool to Douglas are very similar for flights and fast craft, yet APD is levied on airlines only.

8. Conclusions

- Open Skies has increased competition and choice
- Yet there has been little growth in passenger numbers
- Many airlines have come and gone
- There is a risk of 'unfair' competition if no regulation
- Guernsey believes that there is a need for a form of licensing to protect 'lifeline' routes
- Air links to/from IOM are a vital driver of long term economic health yet deregulation seems to have increased instability