

Flybe rescue: why the government may be putting the green revolution at risk



Boris Johnson may be putting the green revolution at risk by aiding regional airline Flybe, writes [Tony Hockley](#). He argues that while Britain led the way in the liberalisation of air travel, current evidence on climate change as well as the rise of the world wide web have transformed choices for regional development.

The rescue of Flybe from extinction was one of the first proper decisions that faced the new British government. The decision was a triumph of politics over policy. Whilst communities around Britain celebrated concessions on a £106m tax bill that would have finished off the ailing airline, some of us just saw trouble ahead.

In the early 1990s I opted for a new role employed by the Civil Aviation Authority (CAA) to press the consumer case for air transport liberalisation. At the time, European aviation was trapped in the past. Over-protective governments across Europe were trying to save their airlines from market forces. National airlines and their national airport bases enjoyed this protection. Regional airports and airline users payed the price. Smaller airports would receive the occasional charter flight to the sunshine, or serve as a national airline's feeder to its hub. For years, for example, Southampton was little more than a feeder for KLM passengers through Amsterdam's Schiphol.

Along with my CAA colleagues we would to-and-fro to Brussels, pressing the liberalisation case. It took three regulatory reform "[packages](#)" over five years to get to a situation in which most standard competition law would apply to airlines and airports. The hardest nut to crack was state aid. Governments came up with ever more imaginative ways to pretend that their bail-outs could be deemed normal "market economy investor" actions. For a while, these games were tolerated as part of a smooth transition to "open skies". The low-cost airlines would never have survived if we had not remained vigilant in making the case against state aid and routine abuse of dominance.

The biggest winners from liberalisation were, of course, travellers; fares tumbled as competition brought real innovation. The other big winners were the regional airports. New airlines shunned busy, expensive, slot-constrained airports in favour of little-used alternatives. Indeed, a core part of the strategy for step-wise liberalisation was first to open the potential for links between regional airports, in which legacy airlines had no interest. Flybe grew out of this process, developing from a niche carrier serving the Channel Islands into Europe's largest regional airline with more almost 200 routes.

For those of us who put such time and energy into pressing the (unpopular) case for market liberalisation, it is upsetting to see the UK government using ploys only previously seen from France, Greece and Italy. Allowing Flybe to defer handing over to HMRC the Air Passenger Duty paid to them by their passengers, is a gamble with other people's money.

What is even more upsetting are the other gambles that the government appears willing to take. Since the market liberalisation work of the 1990s, dramatically improving access to air travel, evidence on climate change and the impact of aviation has mounted. The second shift since then has been the transformation of communications, by the world wide web. Both shift the public policy balance away from the exceptional protection of air transport from normal tax treatment. When Air Passenger Duty was first announced in 1993 many of us in the sector saw it as undermining what was being achieved in reducing the costs of air travel. Today it would be hard to make a rational case against the tax, given that aviation fuel is untaxed. This may be part of the reason why the cheapest Monday morning fare from Southampton to Manchester by Flybe is £99; by train it is £236 (prices correct at the time of publishing). The externalities of short-haul air travel, the socio-demographic profile of those flying, and the lack of hard evidence of the routes' development value comparative to good rail, road, and broadband links all suggest that short-haul aviation is heavily undertaxed.

In 2018 the Department for Transport commissioned [an analysis of the economic impact of regional air services](#). The conclusion was not compelling evidence for state support. The authors said that these services: '*May have a role to play in policies associated with re-balancing the economy. The evidence on which this assessment is based is limited.*' Nevertheless, governments worldwide do support routes where the potential alternatives are limited or inadequate for essential needs.

In the discussions on European liberalisation, we took steps to make this state support transparent and contestable. Instead of supporting individual airlines, governments could support routes and spur innovation in service quality and costs. These Essential Air Services would be put to tender. We thought that the days were over when support for routes was a covert mechanism for supporting a particular carrier. The policy decisions taken this January appear determined to support one airline.

The new UK Government finds itself in an early political bind. The priority of levelling up the regions seems to call for the preservation of all current regional air routes. The priority of moving to net zero carbon calls for the opposite. The conundrum will demand some innovative thinking. Can Flybe reasonably be kept in the air long enough to boost the alternatives, such as cheaper, easier, and better rail connections; the introduction of electric planes; a green revolution on the roads; better availability of fast fibre and the arrival of 5G? The Conservative manifesto did point to these and the Budget in March may reveal how the Government intends to answer some of this, not least in whatever reforms it makes to Air Passenger Duty.

By attempting to preserve Flybe permanently the government would be hindering, not helping this technological shift. The primary effect of airline state aid before liberalisation was to deter innovation. There is no reason to believe that the effect would be any different today.

About the Author



Tony Hockley is Director of the Policy Analysis Centre and Visiting Senior Fellow, Department of Social Policy, LSE. Dr Hockley was Economic Adviser to the Air Transport Users Council at the Civil Aviation Authority, and Secretary of the Federation of Air Transport User Representatives in the EU during the completion of the Single Market in Air Transport. He was Special Adviser in the government led by John Major.

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