

6<sup>th</sup> June 2017

Dear Islands' Resident

**Steamship Group update regarding its position on new helicopter services and Penzance Heliport**

We are writing to all residents and customers of the Isles of Scilly Steamship Group to explain why the Steamship Company is pursuing the process to make a legal challenge to the planning permission for a new heliport in Penzance.

There has been much comment and criticism of the Isles of Scilly Steamship Company over the last week from the promoters of the Penzance heliport scheme who have been advocating its potential benefits. We respect their right to do this. We are disappointed, however, that they feel it necessary to be disingenuous about the Steamship Group, its actions and motives, in order to further their own cause. The Steamship Group's history shows that its interests and those of the community are interdependent and closely aligned. We believe those who would see the Steamship Company weakened also weaken our Islands and our community. It does them no credit.

It is for this reason that we've set out the Steamship Company's current position in some detail in the attached Question & Answers paper.

In making these statements we are not opposing the reintroduction of helicopter services or competition. The Steamship Company has faced competition for the majority of its almost one hundred year history, and is prepared to do so again now.

However, we believe the presentation of the Penzance heliport plan has been highly selective and simplistic with an all-upside set of benefits. The scheme's promoters have ignored the effects it is likely to have on the existing wider transport system, jobs and the ability to finance vital upgrades in transport assets in the future, including a Scillonian IV ferry. In this context the actions we are taking are, we believe, in the long-term interests of the whole of the Isles of Scilly, our community, and of Penzance and West Cornwall too.

If helicopter services are to be reinstated then we believe it would be in the best long-term interests of the Islands and the sustainability of its transport system for them to use the existing excellent facilities at Land's End Airport.

The current position, and thinking, of all of us on the Board of the Steamship Company is set out in the attached document. We hope you will take the time to read it, and, whatever you personally decide in weighing up these important issues for Scilly's future transport needs, we hope that there can be a more informed and constructive debate over the coming weeks.

Yours sincerely and on behalf of the Isles of Scilly Steamship Group Board.

A handwritten signature in black ink that reads "Andrew May".

Andrew May, Chairman

A handwritten signature in black ink that reads "R. J. Goldsmith".

Robert Goldsmith, Chief Executive Officer

## This Q&A explains why the Steamship Company is concerned about a heliport in Penzance and what the alternative could be

### Are you against a helicopter service to Scilly?

No. We are not against helicopters or competition. Our objection is about the need for a new Penzance heliport. We recognise the benefits of people having choice and of having another mode of transport to the islands, especially a direct route for Tresco customers, but there are significant risks for the whole community on Scilly in trying to sustain an even more complicated and expensive transport system. We don't think the full impact of a Penzance heliport on the islands' transport network and future investment has been thought through, or properly assessed.

### What are your concerns?

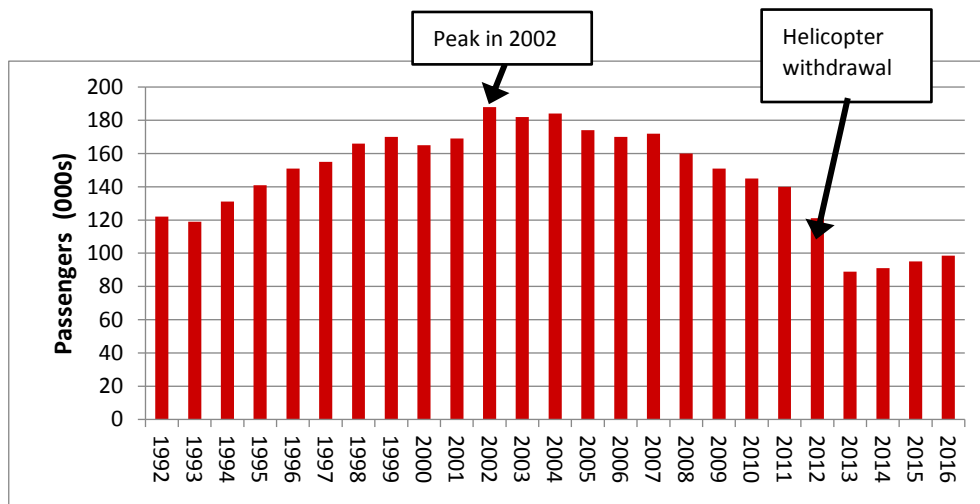
We fear there simply aren't enough Scilly air passengers, even with market growth, to sustain two completely separate air operations, with their own airports, and all the fixed as well as running costs that entails. We worry about the impact this could have on the viability of the whole Scilly travel market, and so in turn the well-being of our Islands' community in the future. And we have grave concerns about how it could undermine the ability of the transport system to make large future investments that we know will be needed, including a replacement Scillonian ferry which carries more than half of all passengers to Scilly. If either air operation fails the consequences for Scilly would be disastrous after the recent progress in rebuilding the market following the withdrawal of the former helicopter service. Scilly can survive without a new heliport in Penzance, and even without helicopters but not without the security of a Scillonian IV ferry and viable fixed-wing services to multiple mainland destinations.

### But helicopters operated before from their own heliport, so what has changed?

Scilly's visitor market has changed significantly over the last two decades. Since 2014 it has been growing again which followed 10 years of steady decline during which helicopters operated in competition with fixed-wing services. This evidence shows it is not true and is over-simplistic to imply that helicopters are a sure bet to drive sustained future market growth. The air market peak was back in 2002 and there were lots of reasons for the sharp decline until 2013. These included the growth of low-cost airlines to other destinations, changing visitor habits and profiles and of course economic recession. There is also a much greater proportion of self-catering rather than serviced accommodation, so people stay longer on average. That means fewer bums on seats for transport. It may be an inconvenient truth for some but 70% of the large decline in air traffic happened when the helicopters were still operating (i.e. between 2002-2012) – see Table 1. Thereafter it took the Steamship Company time to replace increase seat capacity and pick up the pieces of the helicopter withdrawal. Scilly as a whole has not yet decided what level of market growth it seeks in the future, what level would be economically and socially sustainable and what compromises need to be made to accommodate the ultimate desired outcome. Transport is just one of the many facilitators of whatever strategy emerges and the Island Partnership's forthcoming strategic Destination Management Process provides an ideal opportunity to make these choices.

Table 1 Trends on the Mainland-Scilly Air Passenger Market 1992-2016

**70% of the market decline in the air market from its peak happened BEFORE the withdrawal of the helicopter service.**



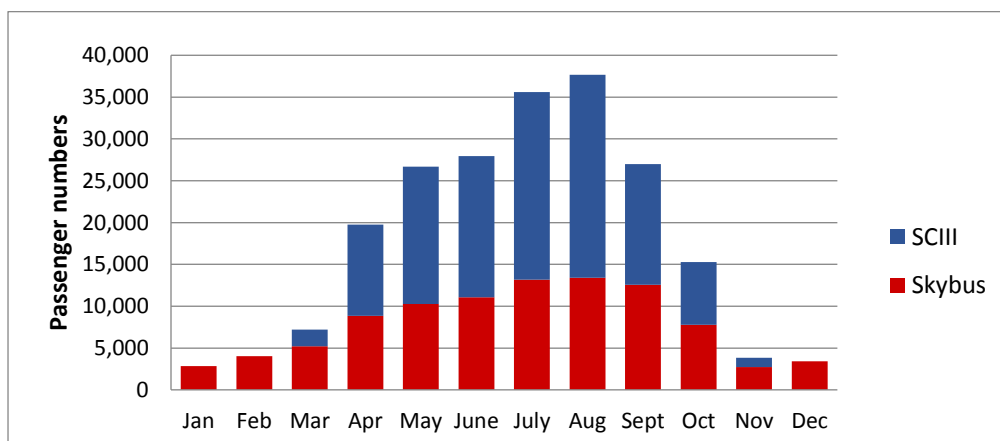
## But the helicopter backers say they will attract only new passengers and not take yours. That’s good for everyone isn’t it?

This simply isn’t true and they have carefully avoided this issue to present an “all upside” position from the outset. The Steamship Company has several times considered starting its own helicopter service, and so we have studied the economics in detail. For the helicopter operation to attempt to break even it will need a minimum of 35,000-40,000 passengers, which is over a third of the current air market to Scilly. Yes, there may be some market stimulation but nothing of the magnitude that would avoid damage to existing services, assuming the high price point for helicopters isn’t a deterrent. We accept this outcome as a normal consequence of competition but Tresco have not told anyone which existing lifeline air or sea services, or jobs they suggest should be cut to help to make way for their new operation from Penzance whilst the market tries to adjust to the sudden and huge amount of additional seats. We can’t both fly empty aircraft for large parts of the year. Scilly also does not have the short-term prospect of being able to deliver the scale of new accommodation, infrastructure, workforce and housing that would be required to achieve such a scale of market growth.

## Is it true that a helicopter service would boost traffic in the shoulder season periods?

It is fanciful to suggest that a large part of the market demand for helicopters can be stimulated during the winter or weaker shoulder seasons when there is insufficient demand even for profitable current operations – see Table 2. Winter services are heavily loss-making and therefore summer profitability is essential to underpin the viability of the air market. The Scilly passenger market has always been extremely seasonal, with and without helicopters and this profile has remained remarkably stable when the market has either declined or increased in overall size. In fact the proportion of annual air traffic carried from June-August has varied by only 2% since 2002 and was at its highest before the helicopter withdrew.

Table 2 The Extreme Seasonality of the Mainland-Scilly Transport Market



## Why can’t you stimulate the market by flying from other mainland airports?

We have operated various routes to Scilly in the past (Southampton and Bristol) and there is demand from these airports. If we reintroduce these routes there may be some market stimulation but many passengers would simply be switching from the West Cornwall routes and the helicopter, as in the past. We continue to look at these routes carefully as part of our own growth plans and certainly haven’t ruled out reinstating them. However, these long routes can be difficult and costly with the small aircraft that can land at St Mary’s Airport, especially when Scilly has poor weather. The economic viability of future fixed-wing services will need to be underpinned by a sufficient quantity of year-round, successful short-sector flights from Land’s End Airport

## So what’s the alternative?

Sustaining the viability of competing helicopter and fixed-wing operations won’t be easy in such a niche and extremely seasonal market as Scilly. We have looked at operating helicopters ourselves in great detail and the economics are extremely challenging. It speaks volumes that it is extremely hard to find comparable examples of scheduled helicopter services for conventional civilian passengers across the world. Helicopters are very expensive to own, operate and maintain and it’s no coincidence that

they are normally operated by the military, offshore sector, emergency services, utility companies and high net worth individuals.

However, if there is going to be an attempt to reinstate a new helicopter service we believe it would be beneficial to operate it from Land's End Airport, rather than a new heliport in Penzance. Sharing facilities would strengthen, not weaken the whole transport system. It would be far more efficient, reduce operating costs and preserve more funds to reinvest in the overall transport system. Helicopter passengers would not have to share the burden of having to meet the building and operating costs of a new heliport, and that should save all of the Islands' customers' money.

### **Are you suggesting this because you own Land's End Airport?**

No. It just makes sound economic sense, and we've even offered Tresco the possibility of investing in Land's End Airport to share in its ownership. Using Land's End would avoid costly duplication of airports that would be just eight miles apart. It would de-risk the new helicopter venture and give it a greater chance of success by significantly reducing its start-up costs. These were always unrealistic at £2 million and have already risen significantly what is now understood to be between £3 million and £4 million. Ultimately the customer will have to pay for this infrastructure and the ongoing running costs.

### **But doesn't a heliport site near Penzance have an advantage over Land's End because it's near sea level?**

There is obviously an altitude difference but its actual impact on day-to-day operations has been greatly overstated relative to the complex factors that will determine what can be flown under ever-tighter CAA regulations. Since the helicopters stopped in 2012 millions of pounds has been invested at Land's End Airport to make it more resilient in bad weather, including hardened runways, landing lights and drainage. Land's End and St Mary's Airports will soon have new state-of-the-art GPS landing systems (EGNOS) that will enhance performance. There can be no certainty regarding what CAA operating limitations will be placed on a new aerodrome at Penzance near to roads, buildings and hills and when a similar GPS landing system will be approved. Therefore it is misleading for former helicopter pilots to speculate regarding an unknown quantity at Penzance Heliport versus Land's End before these regulations are fully understood and the full benefits of EGNOS are introduced. Flying from Penzance would also be impacted by fog on Scilly and the availability of mainland diversion airports for emergencies (which are all at similar altitude to Land's End), so it's much more complicated than has been made out. In reality, we believe the percentage of days on a whole year basis when helicopters could fly from Penzance Heliport and not from Land's End Airport will not be materially different and Land's End Airport is closer, therefore cheaper, and already there.

### **But didn't helicopters try Land's End in the 1960s and then moved to Penzance so why would it be different now?**

This story is an attempt to portray Land's End in a poor light versus Penzance. The initial helicopter service only used Land's End as a temporary measure whilst the original heliport was being constructed. It is completely inappropriate to compare the primitive grass strip Land's End airfield in the 1960s with the modern and pleasant commercial airport of today. Land's End Airport is now frequently used by a range of helicopter operators including Trinity House, search and rescue, military and private users. Over £4.5 million of investments have been made in recent years at Land's End Airport to construct its terminal building, air traffic tower, hard runways, aprons, drainage plus its new state-of-the-art fire truck. The operational benefits of EGNOS instrument landing systems at Land's End and St Mary's Airports will also make a major difference versus recent years, let alone half a century ago.

### **Doesn't Penzance have other advantages over Land's End?**

We have already commented on the exaggerated altitude advantages of Penzance but there are others that have also been overplayed in our view. For example, Penzance Heliport is convenient for the railway station yet it will require a dedicated bus service or taxi ride from local accommodation given it is too far and awkward to walk with baggage. Land's End Airport already has a shuttle bus service taking around 15 minutes from the town centre or railway station so any saving is modest. The short extra journey distance to Land's End and time for Scilly-bound passengers from outside the South West region is already established and not a deterrent of any significance.

More significantly Land's End Airport has a range of its own operational advantages apart from already having all the required infrastructure, CAA licences, terminal and airfield facilities, skilled staff, state-of-the-art fire and rescue equipment and air traffic control. Land's End is the closest point to Scilly and flight times would be shorter, allowing up to four more helicopter round trip flights per day than could be operated from Penzance. The shorter flight time would mean lower operating costs, less fuel burn and lower emissions for the environment. Given that helicopters are extremely thirsty machines, this fuel saving would assist the economic viability of the service. Penzance will only offer two helicopter approach paths due to the local topography versus eight at Land's End giving pilots almost total freedom in windy conditions.

### **What efforts have you made to attract the helicopter operation to Land's End Airport?**

We have made a formal offer to Tresco for its helicopter service to use Land's End Airport in direct competition with Skybus. This includes significantly reduced fees compared to those currently charged to Skybus and a service level agreement, and the possibility of shared ownership to ensure that any helicopter operation would be treated completely fairly. We also offered to share ground handling resources at Land's End and on St Mary's to maximise efficiency and reduce potential costs. Unfortunately that offer has been rejected but it remains on the table as far as we are concerned.

### **What do you say to people who think your company is self-interested and just being greedy?**

That's not true, just look at our record. The Steamship Company has dedicated itself to fulfilling the transport needs of Scillonians for nearly a century. That is the reason it was founded by Islanders and that is why it continues to exist. We generate profits to reinvest in vital things that the islands need. In the last five years alone we have spent £12.5 million strengthening transport links, including numerous upgrades at Land's End Airport, additional aircraft and a replacement freight ship, the Mali Rose, which will enter service soon and offer enhanced capabilities versus the Gry Maritha. We sustain the lifeline off-island freight service at a considerable annual financial loss. Every year we give back over £1 million to the community in the form of travel discounts, off-island freight subsidies, marketing funds and good causes.

We are now planning for the biggest investment in the history of the Company, the replacement for the much-loved Scillonian III ferry. This will be the single most important transport investment for the well-being of the Islands' economy and a potential game-changer for the visitor market if we are able to do this well. However, this huge prize for Scilly can only be delivered through the ongoing sustainable profitability of the Company's existing transport services.

### **But isn't this all about protecting your monopoly and seeing off competition?**

No. We are not afraid of competition, and we have operated in competition for large parts of our history. And we do not operate a monopoly. Just because we are currently the sole provider does not stop anyone else entering the air or sea market to Scilly. But we do not believe it makes any economic sense to have a separate heliport at Penzance when Land's End Airport has all the modern facilities required. Inevitably competition, whether at Land's End or from Penzance, will involve varying degrees of market adjustment and the consequences for our services, future investment decisions and current benefits provided to the community are as yet unknown.

### **Why you have asked for a judicial review of the heliport planning permission?**

We have commenced this legal process because we consider that Cornwall Council's decision was flawed in its assessment of Penzance heliport in a number of important areas. We do not believe that Cornwall Council gave sufficient consideration to the Land's End Airport option or the wider economic impacts on the transport system and future investment when it approved the heliport at Penzance in February. We believe the information on which councillors were asked to make their decision was flawed or incomplete, and that a much wider debate needs to be had.

In truth, both Land's End Airport and the new Penzance heliport site have their own advantages and disadvantages. We are calling for this to be recognised, and for an independent, evidence based and rational discussion to weigh these up before it's too late. It is our contention that such a discussion has not yet taken place. We don't think this is an unreasonable position for us to take, not just on behalf of ISSG, but on behalf of our Islands' community too.

### **Have you been surprised by the reaction to you seeking a judicial review?**

We knew when we took the decision to apply for a judicial review that it would make us unpopular and that we would be criticised. It was not a decision we took lightly, but like all our decisions it has been motivated by what is in the islands' best long-term interests, and nothing more. Yes, we have been stung by some of the reactions, but greatly encouraged by the quiet messages of support and assistance we've received too. We are listening to everybody who is talking to us. We hope people realise that.

### **What happens now?**

We are waiting for the outcome of our application for judicial review of the heliport permission. In the meantime, our door remains open to further discussions about hosting the proposed helicopter operation at Land's End Airport.