

Mr M Higgins
Chairman
Channel Islands Competition and Regulatory Authorities
Jersey Competition Regulatory Authority
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30 September 2016

Dear Mr Higgins

Ref: 160808L/LR

Thank you for your letter of 19th September. Flybe takes all matters highlighted in your letter very seriously.

We note your letter states that concerns have been expressed, from a number of sources, about aspects of Flybe's services to and from the Channel Islands – in particular on its inter-island service. As such, we would welcome your clarification of the concerns (especially, those related to competition law), which of them relate to Flybe, and also which legislation these matters relate to so that we can respond accordingly.

Further, we understand that you have legislative powers and duty to investigate potential and actual anti-competitive behaviour with respect to the Channel Islands. However, we are unsure how and where an open letter sits within these legislative provisions.

Flybe and Blue Islands

As you know Flybe and Blue Islands entered into a franchise agreement on 6 June 2016 (the "Franchise Agreement"). The Franchise Agreement not only gives Blue Islands access to the Flybe brand, but it also gives its customers access to the wider world thanks to a greater choice of UK and European connections. One of the important elements of the Flybe franchise is that all capacity and pricing decisions are the responsibility of the individual operating airline. Flybe operates two routes which Blue Islands and Flybe both serve. These are Jersey-Guernsey and Jersey-Southampton. So, the two airlines compete on the basis of schedule, operational reliability, capacity and price, whilst consumers benefit by having access to the full range of frequencies from both airlines and the broader connecting network of both carriers together. As we are separate businesses, where Flybe and Blue Islands capacity overlaps on the inter-island route and on the Jersey-Southampton route, we continue to compete. Customers can still choose either a Flybe or a Blue Islands flight when they make a booking. Therefore, we still feel the routes that are part of the franchise arrangement are competitive.

We note that historically Aurigny used to operate a route between Jersey and Guernsey. However, for whatever reason they chose to withdraw from this route some time ago. Separately, they



entered into an arrangement with Blue Islands on this route, but this was also cancelled in due course. We understand that Aurigny still has a licence to operate this route, and yet they have chosen not to do so. Indeed, other airline operators could also apply to operate the route should the States of Jersey and Guernsey be minded to allow additional slots at peak travel times.

As you will appreciate Flybe and Blue Islands are separate entities. Moreover, neither company has given the other any authorisation to speak on its behalf. Consequently, we wish to clarify that Flybe has not historically been involved in any discussions with CICRA about its franchise operations. We ask that your records are updated accordingly. Also, for the purposes of this response we will be commenting in respect of Flybe matters only.

Consumer matters

Our success as a business relies on our ability to listen to our customers and stakeholders and to ensure that we provide high quality regional connectivity that meets the needs of our regional communities. We provide a virtual lifeline, critical to the provision of health and medical services, business, sporting and cultural links and connecting people to their families and friends. As a business that began its life as “Jersey European”, we understand the importance and sensitivity of island markets better than most airlines.

As mentioned, in your letter you raise four main points relating to consumer matters in respect of Flybe flights to and from the Channel Islands. We consider these to be primarily customer service matters rather than competition law concerns and have answered them accordingly.

1. ‘Passengers will benefit from seamless connections’

Flybe believes its Channel Islands customers are already seeing benefits from the connections they have access to via the Flybe branded network. They are connected to the world and can purchase connecting itineraries to many destinations using services operated by Flybe as well as by its franchise partners: Blue Islands; Loganair; and Stobart. On these routes, passengers are able to make the purchase for the entire journey in one transaction, check-in once for the entire journey, and have baggage checked all the way to their final destination.

Since the Franchise Agreement became operational, Blue Islands customers have also gained access to Flybe’s network. Blue Islands, therefore, can now offer itineraries on 166 routes via: Flybe.com; Blue Island’s call centre; and GDS. Previously, its customers could only book to travel to destinations served by its own network of routes operated by its 5 aircraft fleet. During July and August this year, 3,688 passengers flew on itineraries that included both Flybe and Blue Islands sectors. They covered 51 different routes across the UK and Europe. As a customer driven organisation, Flybe sees this level of customer take-up as a positive endorsement of this product proposition. It also seems to confirm the hope that Rob Veron of Blue Islands had when he talked about ‘seamless connections’ in relation to the Franchise Agreement on 15 April 2016 *“Flybe’s extensive marketing bandwidth spanning a wide range of sales distribution channels will enable Guernsey and Jersey to enjoy*



increased exposure to potential new visitors, boosting the economies of both islands. Travel from the islands will also become easier with 'through tickets' allowing seamless connections to UK and European destinations throughout the Flybe network including Aberdeen, Dublin, Edinburgh, Belfast, and Amsterdam as well as summer destinations such as Faro and Malaga." We believe this is the quote you have used to formulate the questions in your open letter.

As part of this first issue, you also asked the question - *how is Flybe/Blue Islands ensuring this when one in every four flights is delayed by more than 15 minutes?*

According to the UK Civil Aviation Authority data, Flybe has the best on time performance of any UK airline (CAA data for 2015) and was recently recognised as one of the top 20 airlines for on time performance globally. In fact, Flybe is one of only two UK airlines in the top 20 list.

We also note that you referred to CAA figures in your letter. However, these figures relate to March 2016, a period before the arrangements under the Franchise Agreement came into effect. Also, they do not state the reasons for delays. We are, therefore, concerned that they could have misled the public about our service. As you will no doubt have seen from those statistics, numerous other airlines who operate flights out of Jersey Airport experienced similar or worse delays. The great news for customers is, that since the commencement of the Franchise Agreement, and the CAA figures for April and May (published on their website) show an improvement on these timings. Also, our figures show that by the end of August 80% of Flybe flights arrived within 15 minutes averaged across Jersey and Guernsey airports.

In addition to these on-time improvements, it is also worth noting that Flybe plans to maintain 4 spare aircraft during peak periods for its 50 Bombardier Q400 operating fleet. That is a ratio of 1 spare to each 12.5 operating aircraft. We also understand that Blue Islands is planning a ratio of 1 spare to each 4 operating aircraft. With such a small fleet, having a spare aircraft is particularly notable. This is well above airline industry norms and is a significant investment in providing a high quality service to the Channel Islands community.



2. Lowest possible fare options

As described above, Flybe offers a number of routes to and from the Channel Islands. As such Flybe customers have access to attractive pricing deals to numerous destinations.

Airline pricing is based on five main factors:

1. airport costs;
2. fuel costs;
3. the length of the sector (the shorter the length of the sector, the higher the price per kilometre, especially as most fuel is used in the take-off and landing phases of the journey);
4. the number of seats sold; and
5. the size of aircraft

As such, there will be a base cost at which an airline needs to sell the seat in order to cover these costs. Typically, when airlines run special offers with discounted prices they run these at a loss. If the loss continues they may consider withdrawing from the route altogether as it may no longer be financially viable. This is something Flybe wants to avoid having to do in the Channel Islands.

Standard business practice amongst airlines and other travel operators is that when the demand for a route grows, the price per seat rises. Therefore, you often find that peak travel times have higher fares, whereas those in the middle of the day which are less popular tend to be cheaper.

Flybe would welcome CICRA's involvement to seek to reduce the airport costs at Guernsey and Jersey, and to reduce the high into plane fuel prices if it is able to. Both of these factors significantly increase the costs of our operations which are ultimately partially passed on to passengers.

Further in terms of the capacity on the routes which Blue Islands and Flybe separately serve, in respect of the Jersey-Guernsey flights:

- there is no change in the number of seats available on inter-island routes that Flybe offers;
- Blue Islands has a much higher capacity and broader range of schedule times than Flybe;
- Flybe understands that there is no change in the number of seats Blue Islands offers on its inter-island routes since commencement of the Franchise Agreement.

For the Jersey-Southampton route which Flybe and Blue Islands separately offer:

- prior to the commencement of the Franchise Agreement Flybe operated 5 frequencies per day ;
- post-Franchise Agreement, Blue Islands entered the Jersey-Southampton route with four daily frequencies.

Overall, the Franchise Agreement has resulted in an increase to six frequencies per day, increasing the availability of services to Channel Island customers.



On this issue, you also asked the question *'how is this consistent with pricing on the inter-island route and other Channel Island routes where Flybe/Blue Islands is the only operator and has removed the frequent traveller reward scheme?'*

As above we have set out the factors which influence Flybe's pricing. We have also clarified how Flybe and Blue Islands offer their separate flights on the inter islands routes. In addition to Flybe's service and Blue Islands flights, there is of course also the airline Aurigny who offer flights from Guernsey to Alderney.

In terms of the reward schemes which are available to passengers, the great news for customers of Flybe and any of Flybe's franchisee passengers is that they can become Avios members. Avios is a multi-industry and multi-partner loyalty scheme that allows its members to accumulate points which they can later redeem on products and services of a number of partners, including using them to book Flybe flights. The Avios scheme has been offered to Flybe customers since 2014. We took the decision to offer our customers this reward scheme because it gives our customers the ability to use points they collect for numerous products and services, and not solely for our own flights. As such, it offers them much wider benefits.

Flybe understands that Blue Islands has decided to cancel their previously offered frequent traveller reward scheme. That is a decision they took as a business and it would be more appropriate for them to explain why they did so. Obviously, the good news now is that Blue Islands customers can also benefit from the Avios scheme.

3. **Ticket customisation**

Flybe is thrilled to offer customers on the inter-island routes special ticket customisation in respect of baggage and flight changes. It is the only route in our network where there is no charge for changing flights and where baggage is included as standard. The tickets can also be used on any Flybe, or Blue Islands, operated flight. This level of flexibility has been introduced to ensure that the product offered matches what customers demand in response to the product offered by our competitor, Blue Islands. The high level of demand for Flybe's capacity on this route suggests that the price and product combination is meeting the needs of the market.

You also asked the question *'how is this an additional benefit when the only customisation available on inter-island flights is the ability to reserve a seat? There are no non-changeable, hand baggage only fares.'* We believe this is again a misleading statement.

Further customisation options do exist. Flybe passengers are offered options to: purchase insurance; purchase car hire, check-in automatically online to simplify departure, add additional hold luggage; and select a seat.

Moreover, Flybe is also working on additional customisation options as part of a planned enhancement of its website, which is expected to go live in 2018. We strongly believe that this will add further customer benefits.



4. Time-saving business travel

Flybe believes that its business customers are offered time saving business travel. In respect of journeys to and from the Channel Islands this includes the ability to:

- travel by air rather than by ferries which are much slower, and then road or rail links at the destination;
- travel to key business hubs via our network including London, Edinburgh, Belfast, Birmingham, Liverpool, Manchester, Paris, Stuttgart and Milan amongst others;
- book flights online with credit cards;
- quickly search for flights we offer or our franchisee Blue Islands offers;
- add different options on ticket customisation including selecting a seat;
- check-in online;
- check baggage through to the final destination (both on Flybe network and franchisee flights), etc.

We believe that business travellers as well as leisure travellers do have a great Flybe service offering for travel to and from the Channel Islands.

You also asked 'how is this consistent with the punctuality statistics quoted above and other reductions in service for business travellers such as the removal of credit accounts so each flight has to be booked and paid for as a separate transaction?'

We have discussed the fact that the figures above relate to a time before the franchise was in operation. Therefore, this statement also does not reflect the facts correctly. As noted above, for the week at the end of August Flybe has improved its punctuality statistics. Furthermore, there are a number of reasons why a flight may be delayed and these were not addressed in the data. Some of these reasons are beyond Flybe's control. For instance, adverse weather conditions would have a negative effect on Flybe's as well as other transport providers' service levels.

In respect of your query about the removal of credit accounts, Flybe does not, and has not historically offered credit accounts for business travel. If you have queries about Blue Islands' payment terms, we request that you please address these questions to Blue Islands. Flybe tries to simplify the booking process for its customers as much as possible. Flybe customers are given the option to establish an account online. If they do this, their specific booking details are stored on the system so that they do not need to enter them each time. This includes contact details, payment method and passenger information fields. Flybe accepts online credit card payments too. As an alternative to self-booking, many businesses who use Flybe services choose to use travel agencies to take care of their needs. The travel agencies can make multiple bookings via GDS (a centralised booking system). As such, use of these booking methods reduces Flybe's base costs to help it to allow the provision of lower fares, and in turn helps to ensure the sustainability of air transport for the Channel Islands market.



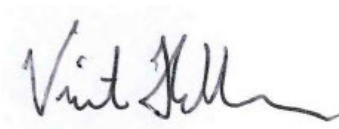
Conclusion

As a customer focused business we have set out our responses to your consumer related queries above. We await clarification from you about any specific competition law concerns you may have in relation to our service and/or our franchise with Blue Islands and we will be happy to assist you with those as and when they are set out.

Flybe is concerned that your letter could mislead and cause undue concern to customers, because of its key factual inaccuracies, which we are at pains to correct. In future – and to prevent further such problems- it would be helpful if CICRA would first engage with Flybe to confirm its understanding of the facts.

We hope that through our responses to this letter you can see our desire to be transparent with CICRA as the competition regulator, and also with our customers and other stakeholders in the islands. We will continue to work to improve the quality of our products and services and we will be more than happy to engage with CICRA to provide any further information regarding competition law matters as required.

Yours sincerely

A handwritten signature in black ink, appearing to read "Vincent Hodder".

Vincent Hodder
Chief Revenue Officer

